

# Netflix and blockbuster battle for market leadership marketing essay



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Movie retail industry includes such companies that rent DVDs, Blu-ray discs and even video games which are usable on home-based electronic equipment (Espedido Julian, 2010). Many companies are participants in this lucrative business and they include such companies as Wal-Mart, Netflix, Blockbuster, Intelliflix, Redbox and GameZnFlix among others. Both Netflix and Blockbuster companies are presently the leaders in the rental movie industry and therefore the major rivals in the rental movie industry. As to Blockbuster, it has a quite lengthy convention in the business. The Blockbuster has existed since the year 1985, even as Netflix entered its 12th anniversary this year. This gives Blockbuster an edge of existence over its close competitor Netflix. This paper intends to critically provide an in depth analysis for Arthur Thompson's case study entitled " Competition in the Movie Rental Industry in 2008: Netflix and Blockbuster Battle for Market Leadership." It will comb thoroughly issues like the trends which affect either negatively or positively the movie rental industry with utmost reference to Netflix and Blockbuster in respect to their fight for the market headship, scrutinize in detail the competitive movie rental industry environment, and by extension give detailed discussion on the use of both the SWOT as well as reasonable scorecard to evaluate Netflix's battle strategy for market leadership on the whole.

Dominant Business and Economic Characteristics of Movie Rental Industry:

The video rental industry (formally known as home entertainment or leisure) is actually an economic segment duly involved with the development, marketing and sale of movie as well as other computer games. It includes such video games as consoles, game software, mobile games, handheld

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devices as well as online games. In recent years, the movie industry of has been experiencing exponential growth. The growth has been such that it is expected even to further leap-frog in the near and far future (Espedido Julian, 2010).

According to Espedido Julian (2010), the industry's dominant economic features include 1) Market bulk and growth pace - More than \$35 billion was spent on video games consoles, game software etc. Industry is expected to have more than \$51 billion sale by 2010. 2) Numbers of rivals - The two main contenders are Netflix and Blockbuster. 3) The extent of competitive challenge - Global presence with regional focus is required for company's competitive long term success. 4) Numbers of buyers - around 250 to 300 million people globally did watch movies and nearly the same number did play video games in the year 2007. There is for instance, an estimated average age of those actively involved in the video games. The estimated age has actually jumped to 33 years in 2005, and about 25 percent of video gamers were in excess of age 50. 5) The extent of product discrimination - The bigger the extent of differentiation, the further the competitive advantage. 6) Product innovation - merchandise innovation plays noteworthy role in capturing the market share and to take competitive advantage in the market. And finally, pace of technological advancement - Newly sophisticated technology advancement does plays a crucial role in entertainment industry particularly with due regard to movie rental industry. The emergence for instance of internet services have made it quite easier for Netflix's founder, Reed Hastings who did become aware of the demand for online renting of movies way back in the year 1997. Without hesitation, he

began the vibrant online movie rental business indeed to a large scale.

Netflix became successful, and it did not take long before he began to bring in the reimbursements of someone else's idea.

#### Competition:

In the movie rental industry, there has been an intense competition between two major business rivals; Netflix and Blockbuster. The competition in the movie rental industry has been so frighteningly fierce for the precedent few years that it has been termed by many opinion leaders as unhealthy business wise. Netflix and Blockbuster are actually the current leaders in the booming rental movie industry and by extension and to that effect the major rivals. The Blockbuster has been in the business for long, in fact, since 1985 on the other hand, Netflix only entered its 12th existence year this year. Actually the founder, Reed Hastings did establish Netflix in the year 1997. Nevertheless, at the moment, Netflix appears to lead the market in terms of market acquisition. Netflix which is largely viewed as a newcomer does have around 9.6 million online customers who have subscribed to their services. In comparison, Blockbuster has just slightly more than 3 million online subscribers despite its longer years of existence. In the United States of America, there are other online movie rental companies which include companies such as Intelliflix, Redbox and GameZnFlix. However, GameZnFlix and Redbox do not serve the locals most of the time. Instead they more often than not target Asian markets. Additionally, Wal-Mart also did attempt to spawn profits in the movie rental industry but sooner was outrun in the business by Netflix. These days Wal-Mart merely possesses an advertising contract with Netflix in the industry.

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## **Online Service General Idea:**

**Both the Netflix and Blockbuster entire right of entry are online movie rental services. This implies that one can look through their records and place movies or even a favorite program in one's queue. A customer or a member is permitted to maintain a DVD so long as she/he so wants and there also exist no outstanding dates or even late charges. The operation is such that once a movie had been seen it is wrapped in an envelope and immediately sent back to either Netflix or Blockbuster. So responsive are the movie rental companies such that as soon as a movie sent back is received, the next movie to be sent in the stand in line will duly be sent to the customer or member. Indeed, Both Netflix and Blockbuster do have many different strategies from which to choose. The possible options are two-fold and they include limited rentals and unlimited rentals. In its infinite DVD rental option, Netflix does offer eight (8) strategies. The costs normally vary from about \$10 for a movie at a particular time to around \$50 for 8 movies. On the other hand, Blockbuster has four (4) different schemes which fall between \$10 and \$24. As regards limited rentals, Netflix normally offer two (2) DVDs per month for about \$6 or four (4) DVDs for a period of one month for about \$12. however, with reference to limited rentals, a Blockbuster member is able to get two (2) DVDs for the equivalent value as their market challenger's or four (4) DVDs for about \$8 only. Netflix has more continuous entertainment flow merits. Netflix utilizes technological advancement than no other company. For example if an individual is a member of Netflix, it is highly possible movies are watched from the individual's website at the same time as the person is waiting to obtain the subsequent movies from the list. This benefit is only to be had to Netflix customers. Nonetheless,**

**Blockbuster also has certain incentives to their customers. It normally let a rental customer to turn back a watched movie physically. On further advancement to outdo each other, Netflix more often than not sends a new show within a day, whereas it takes Blockbuster around two to three days to deliver a new movie. Netflix is really sophisticated in this business. It does offer a wider assortment of movies as compared to its biggest competitors and even a rare expediency of watching shows online. Further still, they are also faster on matters shipping. With regard to technological use, Blockbuster only lets a member arrange and order movies online. Their movies are also largely obtainable in their stores. As a result, they lack online movie watching services. However, Blockbuster does give a rare chance to its customers to acquire as much as double shows given that their in store rental services is free with a Total Access Pass.**

The Forces Driving Movie Rental Industry:

Several forces do propel the movie rental industry especially with regard to the performance of one of the market leaders, the Netflix, and they include such forces as i) Market Features-The industry was in actual market maturity stage previous to the application and utilization of the Internet technology as a medium of distribution. Netflix did capitalize and subsequently utilized the Internet sophistication to gain huge market share by offering customers and members with direct movie download accessibility and undeviating shipments to their home. As earlier stated, Netflix was and for that matter still remain a market leader that realized the first potential of the market which did exist for Internet movie rentals. According to Espedido Julian (2010) they did make the product less complex for the consumer to acquire

by eliminating unnecessary hassle that existed before and in lieu provided accelerated delivery. ii) Profit Margins of the Industry- the gross profit of Netflix did shoot up from \$8 million in the year 2000 to around \$419.6 million in the year 2007. it was an indication that Netflix was proficient and capable of capitalizing on the existing market trends which affect the entire movie rental industry. Netflix market entrance was quite successful and this contributed to their fast growth and expansive market share acquisition. iii) Competition Intensity- when Netflix was entering movie retail industry, the industry then was operating as an oligopoly as Blockbuster did control a major market share. Netflix was amazingly able to compete against the then well established Blockbuster by effectively and efficiently using the Internet technology and the policy of one day delivery distribution channels were its central competitive advantage over Blockbuster and other allied companies in the market that was largely oligopoly. iv) Variations in Demand-Movie demand appears to be somewhat consistent. Nevertheless, more and more customers seem to be too conventional. They are reminiscent of the idea of requesting for the DVDs off the Internet. v) Capital and Technological Requirements- A huge amount of initial capital is duly required to start the business of movie rentals and in turn obtain any momentous share of the market since fees that must be paid is quite exorbitant.

Compare Netflix and Blockbuster's competitive strategies:



**Both Netflix and Blockbuster have employed diverse strategies, plans and schemes to gain more market share as well as revenues as they can. They have before engaged in business tussles. Both the companies have actually been involved in price battle, each lowering its operation cost compared to the cost charged by their rival (Thompson, et al. 2010). This strategy however, popular with many competing companies does work advantageously to consumers since the consumers get the same kind of services for a smaller amount of money they pay. The CEO of Netflix, Reed Hastings' strategies is to reach about 20 million customers by the year 2012. Netflix therefore puts a great deal of anxiety on Blockbuster compelling them to change something in their strategy and future plans. In fact, up till about two years ago, Blockbuster was charging for their services late fees for failure to return on time DVDs back (Thompson, et al. 2010). The company henceforth changed their strategy and no longer charge late fees any more. Netflix has very aggressive strategies. They have been purchasing privileges to autonomous films. This plan will permit Netflix to rent or even sell DVDs or movies in the theatres. In so doing, Netflix gambles and attempts to make more cash on movies which Hollywood never considers. It duly works in their favor since only 30 percent of Netflix's rentals are new releases (Thompson, et al. 2010).**

### **Advantages/Disadvantages of Two Rivals**

#### **Advantages of Netflix:**

**Netflix provides more advantages to its customers. According to Roth, Daniel (2009) their customers do watch more than 7000 movies online as a member. Their website also makes recommendations based on your previous ratings. Further, their website keeps track of movies rented. Moreover, they have a large selection of special interest DVDs. Finally, they avail to their customers a 2 week free trial.**

Disadvantages of Netflix:

Netflix have numerous merits. However, they also have few demerits. For instance, they show poor customer service. Their services subject customers into a long wait for new releases.

Advantages of Blockbuster Total Access:

Blockbuster as a market rival to Netflix has merits too. They offer 2 free video/game in store monthly rentals to their members. Their members also enjoy privilege to return online order to any local Blockbuster store and this is very convenient to customers (Roth, Daniel, 2009). In addition, their customers pay a paltry \$9.99 for the first month of subscription.

Disadvantages of Blockbuster Total Access:

Nevertheless, Blockbuster also has disadvantages. For that case, their customers are barred from returning rented Movies by mail. Finally, their consumers are conditioned to have 2 separate accounts in order to rent in store and online (Blockbuster, 2008).

A Complete SWOT for Netflix:

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**The founders of Netflix were Reed Hastings and Marc Randolph. This was way back in the year 1997. They both viewed the business as a blend of customary video store as well as a subscription or payment cable TV services. Since April 1998, Netflix has been offering DVD owners an expedient as well as a cost effectual alternative to rent movies. Netflix has been operating as an internet based rental movie subscription services provider particularly for formatted movies of digital video disc (DVD). Its website provided its members to not only surf its catalogue of shows without difficulties, but also offered clips of movies which customers could afford to rent. Its prime mission is to offer versatile services which can help its members pick and obtain rental movies with an absolute gratification.**

**Netflix's founders were very intelligent. They were able to foresee the positive potential of technological trend of the digital video disc player market jointly with the fast growth of internet access. Netflix as a result placed itself immediately in the internet DVD rental business. Their main focus was on those Americans who love movies, can access the internet, owns a DVD player or possess PCs or have DVD-ROM. Unsatisfied customers with the rule of the game of the other local movie rental companies preferred the online stores which was offered principally by Netflix. The online stores did cover scores of demographics.**

### **Summary**

From the point of view of the user, there is bound to occur varied preferences towards one service. It mostly relies on individual needs of a service member. For instance, versed with technological advancement will more likely favor Netflix, whilst a family living at home and is close to a

Blockbuster store would prefer its services. Relying on the observation above, it is adequate to say that Netflix is more than able to be steps ahead of Blockbuster because they do not incur overbearing overhead cost of possessing its stores as well as storing all DVDs.