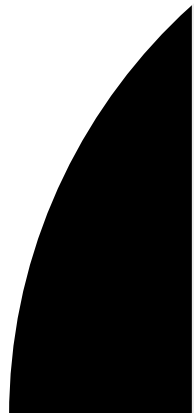




Netflix in 2011

ENTERPRISE MANAGEMENT AND ENTREPRENEURSHIP
2022



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Agenda

- Introduction to the case
- Netflix's business model for DVD-by-mail business
- Blockbuster's business model
- Key changes in Netflix's business model over time and their consequences
- Netflix's streaming business model
- Differences between DVD-by-mail model and streaming model
- Netflix's role
- Conclusion

NETFLIX'S DVD-BY-MAIL BUSINESS MODEL





BLOCKBUSTER'S STREAMING BUSINESS MODEL





Blockbusters Business Model vs Netflix's DVD-by-mail

- The **Late Fee** free experience;
- **Mailing Service**
- “Threshold Business Model.”, theory of **collective behavior**
- The creation of a **personalized recommendation algorithm** and more **exclusive content**

Key changes in Netflix business model over time and their consequences



1999 - Prepaid Subscription service with "unlimited" rentals

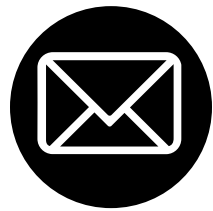
- Attracted customers that thought they paid too much on each movie on video stores.
- New group of fans that needed the option of holding movies for more than 2 days.



2000 - Transition to revenue-sharing agreements

- Further promotes lesser-known movies (previously promised business model).
- 20% increase in unit acquisition price.
- + More copies.
- + Way bigger customer satisfaction.

Key changes in Netflix business model over time and their consequences



2003 - Started to open new distribution centers

- Inexpensive investments (\$60k each)
- + Improved on its nationwide coverage
- + Reduced delivery time to its customers.
- + Lead to successful competition with retail video stores.



2006 - Red Envelope Entertainment

- A netflix subsidiary with the goal of producing independent movies
- Closed down 2 years later due to competition for rights
- Not a very successful initiative

Key changes in Netflix business model over time and their consequences



2006 - Introduction of the Recommendation System

- Recommended older, lesser-known movies according to the user's tastes.
- + Cut costs - newer movies were more expensive.
- + Stock aware filter to avoid customer frustration.
- + Resonated with clients due to the personalized experience and “established a relation with customers that was not matched by (...) a retail video store”.



2007 - Quality Of Life Unsubscription

- + Facilitated growing the business in the face of a high churn rate.

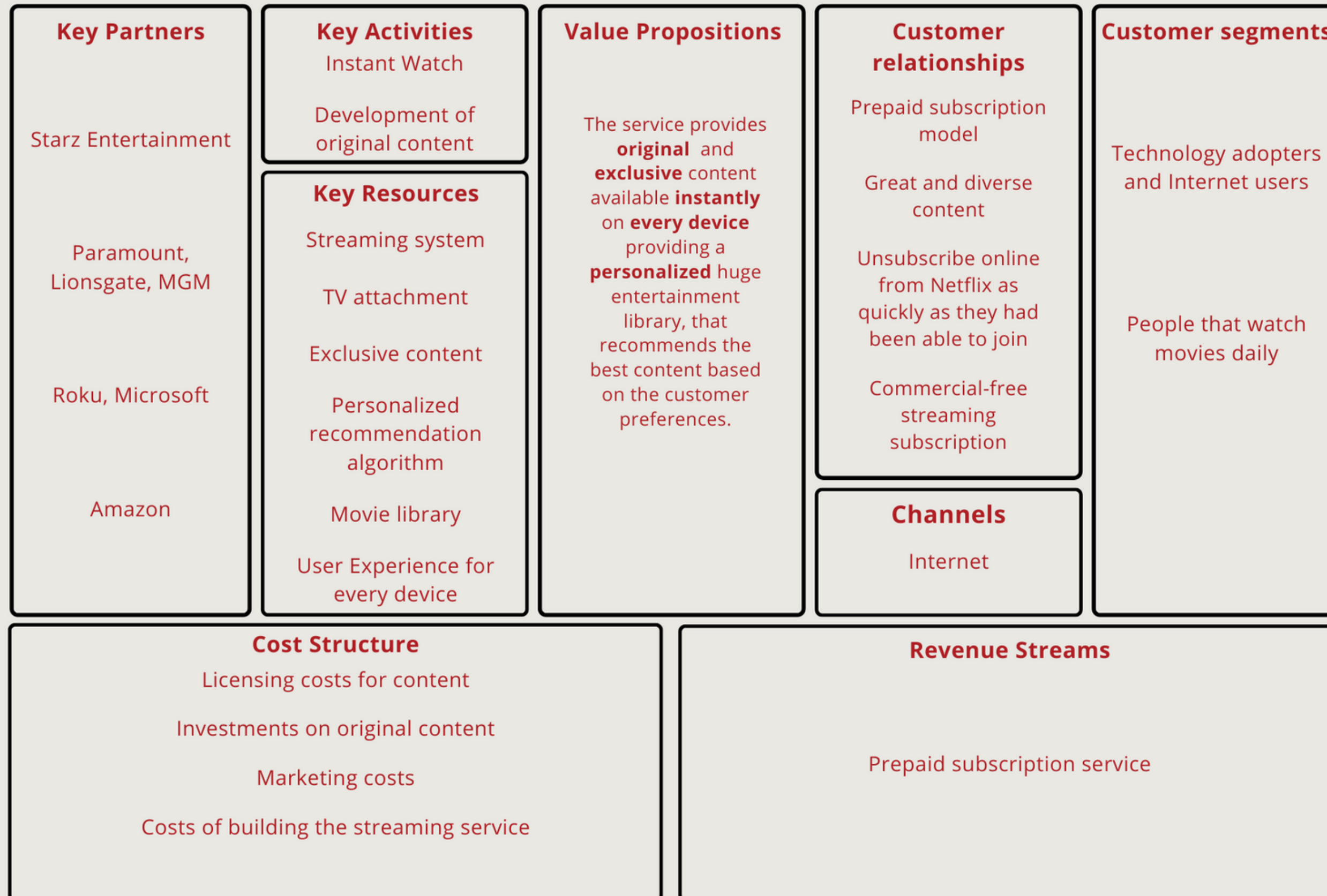
Key changes in Netflix business model over time and their consequences



2007 - Start Of The Transition to Video Streaming

- Use existing strengths - the brand itself, recommendation system and subscription base.
- Advantage over competitors with early huge streaming and device deals in 2008 and 2010.
- Increased licensing costs motivated original content development.
- ➕ Rapid growth over DVD-by-mail.
- ➖ Resulted in new challenges and public backlash.

NETFLIX'S STREAMING BUSINESS MODEL



Streaming Model vs DVD-by-mail Model



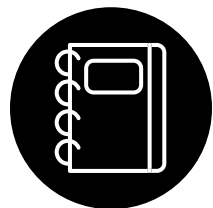
Partners

- Roku and Microsoft
- Amazon



Key Activities

- Instant watch
- Original content



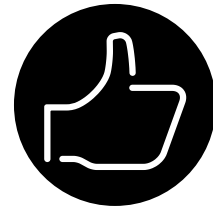
Key Resources

- TV attachment
- Exclusive content
- User experience



Channel

- Internet




Customer Relationship

- Comercial-free service



Cost Structure

- Investments on original content
- Marketing costs
- Maintence of the streaming service



"We expect we will be primarily a global streaming business... We believe delivery of entertainment video over Internet will be a very large global market opportunity"

Netflix in 2011

DVD-BY-MAIL service

*The service provides a more **convenient** and **affordable** way to see DVD movies without getting out of home's comfort by providing a **personalized huge movie library** that recommends the best film options to the customer and delivers them to the customer's home.*

Streaming Service

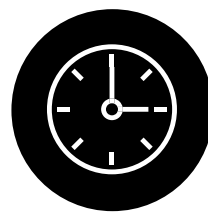
*The service provides **original** and **exclusive** content available **worldwide instantly on every device** providing a **personalized** huge entertainment library that recommends the best content based on the customer preferences.*

Separation of the DVD-by-mail business from the streaming business



The right move!

- DVDs are getting outdated.
- Streaming is growing fast.
- Each business model needs to be able to grow and operate independently.



What to do next?

- Focus on service quality.
- Expand worldwide.
- Partner with external content creators.