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

Key Partners

Manufacturers and sellers of DVD players

USPS

Movie studios

Key Activities

Mail-order process

Distribution centers

Key Resources

Search engine

Movies queue

Personalized recommendation algorithm

Movie library

Acquisition of the distribution rights to certain independent films

Value Propositions

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

Customer relationships

Prepaid subscription model

Unlimited rentals

Unsubscribe online from Netflix as quickly as they had been able to join

Delivery times reduced

Channels

Mailing system

Customer segments

Technology adopters who had recently purchased DVD players

People that watch movies daily

Cost Structure

Expenses of acquiring movies

Inexpensive postal delivery

High cost of building a movie library

Inexpensive distributed centers

Customer acquisition costs

Revenue Streams

Prepaid subscription service

BLOCKBUSTER®

BLOCKBUSTER'S STREAMING BUSINESS MODEL

Key Partners

Movies Studios

DISH Network

Key Activities

Renting Movies
Selling Movies
Provide a large number of movies

Key Resources

Movies Hits

Large Movie library

Physical-Stores

Employees

Value Propositions

The service brings the possibility to the consumer to watch all kinds of movies in the comfort of their homes, with a delivery network with stores strategically located. They also provide the possibility to have the DVD's handy with the condition of having a DVD-supported device.

Customer relationships

Hospitality

Great and diverse content

Automated Services

Channels

In-Stores
Via web

Customer segments

People that watch movies monthly

People that watches movies weekly

People that want the top sellers

Anyone from children to adult

Cost Structure

Movies Rights

Employees

Store Rentals

Movie Copies

Revenue Streams

Late Fees

Movies Rent

DVD Sells

Subscription Fee

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

Key Partners

Starz Entertainment

Paramount, Lionsgate, MGM

Roku, Microsoft

Amazon

Key Activities

Instant Watch

Development of original content

Key Resources

Streaming system

TV attachment

Exclusive content

Personalized recommendation algorithm

Movie library

User Experience for every device

Value Propositions

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

Customer relationships

Prepaid subscription model

Great and diverse content

Unsubscribe online from Netflix as quickly as they had been able to join

Commercial-free streaming subscription

Channels

Internet

Customer segments

Technology adopters and Internet users

People that watch movies daily

Cost Structure

Licensing costs for content

Investments on original content

Marketing costs

Costs of building the streaming service

Revenue Streams

Prepaid subscription service

Streming 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 servoce

"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.