Pergunta 1:

A business model describes the rationale of how an organization creates, delivers, and captures value. The **Customer Segments, Value Propositions, Channels, Customer Relationships, Revenue Streams, Key Resources, Key Activities, Key Partners, and Cost Structure** can describe a business model.

We intend to characterize Netflix's business model for the DVD-by-mail business on that business model that we created based on the information from the case study.

Regarding the **Key Partners**, which are the fundamental partners and suppliers needed to make the business model work, we identify essential relations with:

- The manufacturers and sellers of DVD players;
- The USPS (United States Postal Service);
- The movie studios. This relationship comes up later, lowering the acquisition costs for new releases and increasing the movie selection offered.

For the **Key Activities**, the essential activities to make the business model work are:

- The mail-order process allows the DVD delivery to the customer's home and the respective return;
- The distribution centers that the company creates. That improves its nationwide coverage and reduces delivery time to its customers.

Concerning the **Key Resources,** the most important assets to make the business model work are:

- The search engine that allowed the customers to sort through selections by title, actor, director, and genre;
- The movies queue allows Netflix to send movies to its subscribers based on the order of titles in the queue. So as soon as the customer returns the previous films, he receives the new ones;
- Initially, Netflix provided the same recommendations to all subscribers. Then it develops a personalized recommendation algorithm that shows a list of titles ranking how closely they match the customer's preferences, leading to the promotion of lesser-known movies. As customers rated each film, Netflix's software refined its understanding of customers' preferences and recommended movies that would appeal to each customer more accurately;
- The movie library. Netflix used a national inventory that allowed to satisfy the diverse demands of movie watchers;
- The acquisition of the distribution rights to certain independent films allows movie exclusivity.

About **Customer Segments**, Netflix starts by targeting early technology adopters who had recently purchased DVD players because it was a recent technology. Then the target expands also to people that watch movies daily.

Over time the **Customer Relationships** improved.
Initially, providing coupons in a box, offering its recommendation system to everyone, including non-subscribers, and practicing a no-late-fee subscription model contribute to

creating a good relationship with the clients.
Then a prepaid subscription model that allowed customers to have four movies in their possession at once and receive up to four new films each month was an incredible improvement.
Netflix continued to promote relationships with its customers, introducing unlimited rentals that allow subscribers to keep three movies at a time and exchange them frequently as they like.
Moreover, the customers could unsubscribe online from Netflix as quickly as they had been able to join.
Ultimately, Netflix did everything to reduce the delivery times for customer satisfaction to be better.

Relative to **Channels**, the product gets to customers by a mailing system where the DVDs go inside an envelope.

On **Revenue Streams**, the company initially profits using a pricing model similar to traditional video stores. Here the customers paid a specific value for each movie plus a value for shipping and handling charges and were expected to return films by a particular date or be charged extended rental fees. Then the company moved on to a completely different approach by starting to use a prepaid subscription service.

Related to **Cost Structure**, the costs to operate the business model are:

- Initially, the expense of acquiring movies for rent;
- Inexpensive postal delivery;
- High cost of building a movie library;
- Inexpensive distributed centers;
- Customer acquisition costs.

So taking all into account, the **Value Proposition** of the Netflix's business model for DVD-by-mail business could be:

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

Pergunta 2:

To Blockbuster, the ability to quickly obtain the newest release was a priority, representing 70% of total rentals.

They have grown with the strategy to get new locations, geographically coverage and to increase penetration and share in existing markets. The location was chosen based on customer concentration and proximity to competition.

Blockbuster’s business model depends on maximizing the days that a movie was out for rent.

Setting up the retail stores $300K, producing $900K sales per year and an operating profit of $162K.

Blockbuster leveraged exclusive agreements with publishers in order to pass on cost savings to customers. Customers paid a monthly fee for video rental. In addition to benefiting from a lower initial price, Blockbuster also capitalized on the fact that movies were generally not available for purchase at affordable price points during initial release periods. Thus, customers had a choice to rent, wait, or buy the film on tape at the much higher manufacturer's suggested retail price targeted at other rental chains and film enthusiasts, which at that time ranged between $70–$100 per title.

Revenues:

- Late fees (10% of the revenues)
- Rent for each film. (4$)
- Sell the DVD (8$)
- Subscription Fee

Costs:

- Films costs 15-18 dollars
- Employees
- Store Rentals
- Each copy (5$)

Netflix Difference

- Netflix could completely change the dynamic of the business profile of Blockbuster by offering a late fee free experience, if they returned movies on time all the time, there would be no real way for the company to make money.
- "Threshold Business Model.", theory of collective behavior. As more people experienced Netflix, they enjoyed it, told their friends, and eventually the word of mouth created new subscriptions. People still held onto Blockbuster, but the peer pressure of everyone going to Netflix and liking creates a threshold that eventually allows one business to dominate and the other to file for bankruptcy.

The opinion about Blockbuster's Business Model

The idea of penalizing customers to make money is a bad business model. A business should be creating a positive income source rather than a negative income source. The Redbox business model is an example of this. Instead of charging late fees, they charge customers a daily rental fee up until a certain point and then the movie becomes theirs. Instead of late fees, people choose to pay extra rental fees instead. Redbox puts the choices in the hands of the consumers instead

Final comments:

- It is important to focus on the positive attributes of an interaction with a customer instead of the negative attributes.
- Fines and penalties work for libraries because they receive public funding. It didn't work for Blockbuster because eventually their customers got tired of being penalized.
- The writing was on the wall, but it was ignored. Observe all trends, be proactive, and that will lessen the risk of a business today suffering from a similar fate.

Key Partners

<u>Movies studio:</u>

Blockbuster and movie studios had an important relationship for the success of the company. They made a purchase model in which it would pay the studios 15-18 dollars per film and then rent it 9 to 10 times for 4$ per rental and resell it for 8$, sharing about 30% of the revenues with the studios and that way both would gain.

<u>Dish Networking</u>

Key Activities

- <u>Renting Movies;</u>
- <u>Selling Movies;</u>
- <u>Providing a large number of movies;</u>

Value Proposition

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 Segments

- people that watch movies weekly
- people that watch movies monthly
- people that want to have the movie's hits and top-sellers.

Key Resources

Concerning the **Key Resources,** the most important assets to make the business model work are:

- The large movie library: BlockBuster had an large library of movies that satisfied the diverse demands of movie watchers;
- Employees: The Employees are an important resource, they have to create a perfect relationship with the customers and this way makes them want to come back.
- Movies Hits: This is one of the most important resources to this business model because with these hits they caught the majority of their customers.
- The Stores;

Pergunta 3: Key changes in Netflix's business model and their consequences

1. (1999) Moving to a Prepaid Subscription Service with "unlimited" rentals
    a. Attracted customers that though they paid too much on each movie on video stores.
    b. Attracted a new group of fans that needed the option of holding movies for more than 2 days
2. (2000) Transition to revenue-sharing agreements
    a. Further promotes lesser-known movies (business model promise).
    b. With a 20% increase in unit acquisition price, Netflix got more copies and way bigger customer satisfaction.
3. (2003) Started to open new distribution centers
    a. New pricing and cost structure reached profitability for the first time in 2003
    b. After which Netflix start to invest on more centers to "improve on its nationwide coverage and reduce delivery time to its customers".
    c. Somewhat inexpensive investments ($60k each) allowed for successful competition with retail video stores.
4. (2006) Introduction of the Recommendation System
    a. With this proprietary algorithm, Netflix was able to recommend lesser known movies according to the user's tastes while managing inventory. Recommending older cut costs because newer releases were the most expensive to acquire.
    b. Recommendations were instantly rented out.
    c. This system could filter out movies that were low in stock to avoid customer frustration
    d. Resonated with clients due to the personalized experience and "established a relation with customers that was not matched by (...) a retail video store".

5. (2006) Red Envelope Entertainment
    a. A netflix subsidiary with the goal of producing independent movies
    b. Although it produced over a 100 movies it had to be closed down 2 years later due to competition for rights
    c. Not a very successful initiative
6. QOL Unsubscribing
    a. Making it easier to unsubscribe and saving user data in case he ever returned made it easier to grow the business in the face of a high churn rate.
7. (2007-2012) Video Streaming Transition
    a. Could use existing strengths such as the brand itself, recommendation system and subscription base
    b. Advantage over competitors with huge streaming deal in 2008 that brought hit movies from Disney and Sony and another billion dollar deal in 2010 with Paramount
    c. Increased licensing costs motivated original content development, starting with *House of Cards* which was very successful.
    d. Striking more deals with more companies to reach more devices (e.g. Microsoft)
    e. Rapid growth over DVD-by-mail. By 2010, subscribers used streaming more than DVD's
    f. New challenges and public backlash due to the difficulties of the transition of business models and competition with already established competitors like Amazon.

Pergunta 4: How different would you say Netflix's DVD-by-mail and streaming business models are? Does Netflix's role change in streaming compared to DVD-by-mail?

Main differences are Key Partners, Key Activities, Key resources, channels of delivery and cost structure.

Key partners are still movie studios with whom Netflix negotiated licenses to provide their movies to the users. The main difference on this point is the relationship with Roku and Microsoft that allowed Netflix programs to be watched on TV. Since Netflix stores their application on Amazon Web Services so they system will be more fault tolerant, we consider Amazon is supplying a service to Netflix and, for that, is a key partner.

Relatively to the **key actvities** on the Streaming business model the main activities are no longer the mailing and distribution of the films, but are the instant watching and the original content Netflix is creating.

The search engine, the movie library and the personalized recommendation system for each user are important **resources** to success on both models. Netflix realized that the subscribers liked to watch the rented movies on TV so TV attachment was an important resource for the streaming service too. Since most competition target their streaming services to computers, with this feature Netflix stood out. Also, with the advance of technology, the urge of new devices and the interest of people in this, the user experience on every device was an important investment. Also, the deals with the greatest movie studios that brought content that everyone was looking for to watch, and exclusive content were key resources on the streaming model because it attracted new users and made them continue with the subscription.

The **cost structures** on this model are very different from the DVD-by-mail model too since now Netflix was investing on original content, adding massive marketing costs to sell their content and also had the costs of building and maintaining the streaming service that got higher with the increase of subscribers.

The **customer relationship** was very similar, adding commercial-free streaming. The movies got to users through the Internet and Netflix was now targeting Internet and more recent technology users instead of DVD users.
On the streaming model there were no physical objects and the users could watch a movie multiple times with no limit date defined.

Netflix was one of the pioneers in the Streaming Service in the sense that it invested in its content and in their users' satisfaction. Netflix always tried to follow their users interest and with more people having access to the Internet and investing on new technology devices, the company expected to be the primarily global streaming service, believing that delivery of entertainment video over the Internet would be a large market opportunity. So, Netflix's plan was never to stick to the DVD-by-mail business but to innovate.

Netflix's role on both models is to distribute entertainment content, allowing for the best home video viewing for its customers. But the focus of the two services is different. While in a model the distribution was physical and only delivered in the USA, in streaming the distribution of content is digital, instantaneous and became available worldwide.
DVD-by-mail users had to think about the movie they wanted to see and plan a date depending on the movie delivery time. The role of Netflix comparing the two models is slightly different, since the DVD-by-mail business model was to provide the user a fast, affordable, personalized and large delivery of content. While, on the streaming service, the role is to provide the user a good experience and to provide great and exclusive content on every device, on every part of the planet(as long as there is an internet connection) just through a distance of a click.

Pergunta 5: Did Reed Hastings make the right move in trying to separate the DVD-by-mail business from the streaming business? How do you think he should proceed now?

Although there are some similarities between both businesses, many things need to be done differently.

Differences in the business models:
- key partners

- key activities
- key resources
- channels
- cost structure

The only similarities are related to the group of customers.

So we believe this is the right move!

What to do next?

As the competition in streaming is growing, Netflix needs to focus on service quality, grow their number of users, by expanding globally, and, finally, partner with external content creators in order to provide exclusive content to its users.