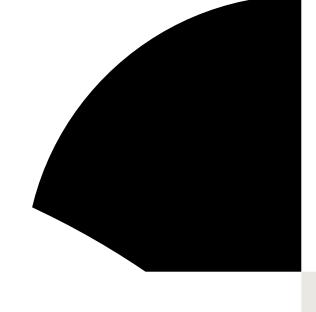
Netflix in 2011

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 DVDby-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

Customer segments

Technology adopters who had recently purchased DVD players

People that watch movies daily

Channels

Mailing system

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'S STREAMING BUSINESS MODEL

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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 DVDsupported device.

Customer relationships

Hospitality

Great and diverse content

Automated Services

Customer segments

People that watch movies monthly

People that watches movies weekly

People that want the top sellers

Anyone from children to adult

Channels

In-Stores Via web

Revenue Streams

Late Fees

Movies Rent

DVD Sells

Subscription Fee

Cost Structure

Movies Rights

Employees

Store Rentals

Movie Copies



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



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.
- Hore copies.
- Way bigger customer satisfaction.



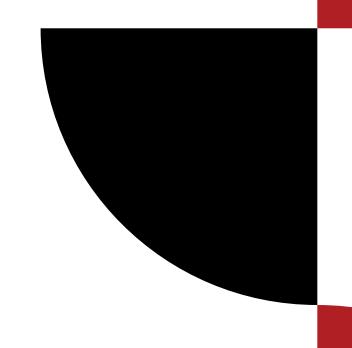
2003 - Started to open new distribution centers

- 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







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

Tacilitated growing the business in the face of a high churn rate.



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

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

Customer segments

Technology adopters and Internet users

People that watch movies daily

Channels

Internet

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

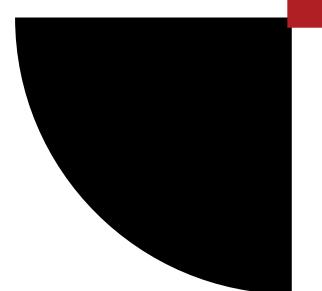
Comercial-free service



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.

