



ISDS 415

Decision Support & Business Intelligence Systems

Netflix Case Analysis

By

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- 1. In its competition with Netflix, where did Blockbuster go wrong? How was the use of customer data a key differentiator? How might Blockbuster have better positioned itself against Netflix?**

Sol: Blockbuster was doing good until the entry of Netflix in the video rental business. Blockbuster charged a late fee to its customer if the rental was not returned on time. Even by introducing the “No Late Fees” program Blockbuster didn’t achieve a lot of recognition and the “Total Access Program” was not incorporated very well as the customers had to maintain separate accounts for the web-based system and the in-store system. These stores were franchise based and the website was maintained by the company which created operational issues. In addition to this, Blockbuster had to invest more in the supply chain to deliver DVDs when ordered online.

Use of customer data helped Netflix to understand the taste of people and what kind of movies they liked to watch such as action, comedy, drama, romance etc. The use of customer data through Cinematch by which Netflix could understand what kind of movies to suggest to any individual was a key differentiator. Blockbuster had no knowledge about its customers preferences and behaviors and lacked an appropriate CRM system.

Blockbuster could have achieved what has been achieved by Netflix today, even before Netflix started if only the company would have focused on understanding customer behavior. Netflix’s success is determined by use of its software and to show suggestions to individuals accordingly. Also, since Blockbuster was already doing good with in-store rentals, by starting online rentals simultaneously the company could have positioned itself better against Netflix. Blockbuster should target people who like collecting DVDs as

well as focus on vending machines as the growth can be seen in exhibit 1 from \$198 millions in 2007 to \$377 millions in 2008.

2. What are the core competencies of Netflix's current business model (primarily DVD-by-mail with an online component)? Assess the value of Netflix's business as described in the case.

Sol: The major focus of Netflix was on Customer Convenience and by being flexible Netflix achieved this i.e. The subscription model with no late fees was the USP and people could rent and watch movies as per their own schedule without worrying about returning the rentals on time as customers could keep the DVDs as long as they wanted with the exception of subscribing monthly for Netflix Services. Netflix has a central warehouse from where the company delivers to its customers door with a wide variety of selection of movies, shows, tv series etc. in various genres. Also, the convenience of door to door delivery without driving to a brick-&-mortar store and the queuing system on website allowed customers to have continuous flow of movies.

The software used by Netflix Cinematch whose collaborative filtering algorithms aided the discovery process which led to better customer experience. In addition to this, the recommendation system and analytics allowed deeper understanding of customer trends which led Netflix to adapt better and more quickly. Another factor to assess the value of Netflix's business was promoting movies which were not played in theaters and instead in festivals or the movies which did not reach the audience very well due to budget, recognition etc. These movies were recommended by Cinematch which contributed towards their popularity. Net income of Netflix was \$49,082 millions in 2006

which increased to \$66,952 millions in 2007 to \$83,026 millions in 2008 a significant increase of \$33,944 millions in two years with a growth rate of 36% and 24%.

3. What effects will the rise of the VOD market likely have on Netflix's business model? How does VOD threaten Netflix's business? What opportunities does it present?

Sol: VOD can have a very heavy impact on the Netflix business model as it can bring a drastic change in the current video rental market. Any individual will prefer to watch through on demand live streaming and with continuous technological innovations the live streaming speed will increase. Netflix should therefore focus on live streaming instead of DVD by mail as with time a consumer's expectation will increase.

Netflix has several opportunities i.e. to license its platform, be the benchmark in movie streaming and higher impact of Netflix's existing CRM system. Shift its focus from operations and focus more on technological excellence by investing in owning a platform to provide the service. Use its strong brand image and customer loyalty using the same method of unlimited rentals for one price per month as well as providing wide variety of movie titles, shows etc.

The number of threats are not less, for instance, the current distribution process will become a liability and brands like Apple which has a huge customer database and customer loyalty will dominate the market as Apple has the know-how to sell online. VOD can be the biggest threat to Netflix because other companies are gaining momentum in live streaming.

4. Which of Netflix's current competencies can it best leverage as a competitive advantage in VOD? Which might be liabilities? (For this question, refer to the "Comparing Value Drivers in the Video Rental Market" section.)

Sol: The current competencies which Netflix can best leverage as a competitive advantage are the wide selection of movie titles provided (12000 titles) than any other company can provide and the system of paying once a month and unlimited usage. The company's brand image and customer loyalty play a major role as VOD has just started gaining recognition. Also, the use of Cinematch and similar tools which suggest people to watch as per their taste can really make Netflix stand out in the competition.

The biggest weakness is the warehouse and facilities and employee overhead which will threaten Netflix in term of cost since Netflix will rely heavily on technology.

5. What kind of partnerships should Netflix prioritize: partnerships with content providers or with hardware/device manufacturers?

Sol: Netflix's main goal is customer convenience and give the best service and not producing hardware or different devices so Netflix should prioritize partnerships with content providers. It should not compete where the company stands equal to its competitors but should focus where Netflix has advantages. For example, it should stop collaboration with Roku and use the resources available equally. Netflix should make its top priority of becoming the service provider and content recommender on all cable platforms. Assume that whatever movies, shows etc. are introduced will be distributed through Netflix in future.