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NETFLIX INC.: THE DISRUPTOR FACES DISRUPTION[[1]](#endnote-1)

Chris F. Kemerer and Brian K. Dunn wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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THE TABLES ARE TURNED ON NETFLIX

Reed Hastings, chief executive officer of Netflix Inc. (Netflix), was faced with another round of skeptical business press as he attempted to grow his firm in 2017. His 1990s start-up business plan, which had introduced the market to the convenience of home delivery of DVDs through the mail, had eviscerated the prior market leader, Blockbuster LLC (Blockbuster), forcing it to divest itself of thousands of brick-and-mortar video rental stores before finally falling into bankruptcy. Hastings was so successful that *Fortune* magazine named him its 2010 “Businessperson of the Year.”[[2]](#endnote-2) This meteoric rise, however, seemed a distant memory as Netflix focused on its transition to the digital delivery of video content. Digital delivery required mastering new technologies and created the need to acquire or create popular content. Numerous competitors, including both established mainstream content producers and digital upstarts, were making it difficult for Netflix to recreate its earlier dominant success. The business press had become critical of Netflix’s slowing acquisition of subscribers and its accelerating levels of debt, which had reached US$3.4 billion[[3]](#endnote-3) by March 2017.

Netflix was faced with the challenge of determining where and how quickly it would invest its capital in order to continue its growth. Though the company had had early success in creating new, exclusive content (e.g., television series *House of Cards* and *Orange Is the New Black*), this apparent invincibility appeared to be fading as more recent shows (e.g., *The Get Down*, *Iron Fist*) had been panned by the critics. As Netflix faced increasing competition to acquire exclusive content, some of which came from companies with a long history of success in content development, both the cost and the risk of failure seemed to be rising. In addition, former content suppliers that had previously licensed content to Netflix now viewed Netflix more warily, given its growth and apparent ambition to become more than just a delivery platform.[[4]](#endnote-4) Future deals would undoubtedly be more expensive, if agreement could even be reached at all. Should Netflix continue to try to be a content producer, competing with Hollywood’s industry leaders? Should it form a partnership with another media company or companies to align everyone’s incentives? Should it consider moving into other media content areas outside of traditional entertainment? Further, there remained the question of how to treat its legacy DVD-by-mail business, a former cash cow that had been the subject of controversy both in the market and internally at Netflix. Would the best choice be to sell the franchise and cash out? Netflix needed to decide where, when, and how to invest so as to ensure its future, lest it suffer the same fate as Blockbuster.

BACKGROUND: VIDEO RENTAL STORES AND THE RISE OF BLOCKBUSTER[[5]](#endnote-5)

To better understand Netflix’s situation, it is useful to understand the industry that existed before it entered the marketplace. Although Sony Corporation (Sony) developed its Betamax videocassette recorder (VCR) in 1976, for U.S. consumers the key development in the growth of home video entertainment was a 1984 U.S. Supreme Court 5–4 decision that found that the Betamax did not violate copyright laws.[[6]](#endnote-6) This was followed by Congress affirming the copyright law’s “first sale” doctrine and refusing to pass a law proposed by Hollywood studios that would have forbidden the renting or re-selling of movie videotapes. In short order, the focus of VCR users shifted from recording broadcast shows onto blank tapes to buying or renting pre-recorded media.[[7]](#endnote-7)

The video rental industry, in which VCR owners could rent tapes with video content (e.g., movies), was initially dominated by a variety of independent stores that had sprung up quickly in neighbourhoods everywhere. In 1985, David Cook opened the first Blockbuster store in Dallas, Texas. Blockbuster brought to the industry an aggressive strategy based on multiple stores and a central database that connected them. These data allowed Blockbuster to more accurately forecast demand for videos, and its emerging economies of scale kept its costs lower than that of its competition. By opening stores larger than those run by mom-and-pop operators, Blockbuster could offer customers more choices and more copies of popular movies. By 1993, Blockbuster had grown to over 3,400 stores, an accomplishment it achieved despite some hesitancy by the movie studios, which preferred the higher margins on individual consumer sales via outlets like Best Buy, rather than the smaller margins available from Blockbuster’s rentals.

NETFLIX’S DISRUPTIVE INNOVATION[[8]](#endnote-8)

Netflix Knocks Off Blockbuster

Netflix lore noted that Hastings’s desire to found Netflix started with a $40 Blockbuster late fee that he incurred in 1997.[[9]](#endnote-9) As motivating as that might have been, the shift from bulky VHS videotapes to slimmer, more durable DVDs was also necessary to make a mail-order model feasible. One limitation for Netflix in 1997 was that DVD players were new and expensive, and therefore had limited U.S. household adoption. Blockbuster continued its growth of brick-and-mortar stores, and also began integrating DVDs into its inventory. In 1999, Netflix hired Ted Sarandos from Blockbuster competitor West Coast Video, and he focused on the content side of the business. Rapid growth in U.S. DVD adoption helped both firms—half of all U.S. households owned a DVD player by 2003 and over 80 per cent of households adopted this technology within the first nine years of its introduction. This adoption rate was even faster than that for VCRs, which had taken 13 years to reach the same level.[[10]](#endnote-10)

Netflix’s pricing evolved from a traditional fee per rental, just as in video stores, to a monthly subscription model, at first limited to a fixed number of DVDs, then later evolving into a $20/month price for unlimited rentals. Significantly, Netflix had no late fees—customers could watch their rentals at their convenience, whereas late fees were Blockbuster’s primary revenue source. Netflix also touted the convenience of shopping by mail, eliminating both the trip to the store to rent a title and the trip to return it.

However, Netflix found it challenging to provide an adequate number of high-demand titles to its customers.[[11]](#endnote-11) Its solution was to be an early developer and exploiter of database personalization, using a customer’s past rental history to suggest other titles they might like. Though keyed from past rental history, the recommendation system was also biased towards titles that Netflix actually had in stock, and therefore allowed Netflix to fulfill a greater percentage of orders. In addition, its relatively centralized inventory permitted it to stock a greater variety of titles, which Blockbuster, with its inventory scattered across thousands of individual retail locations, could not easily support. Netflix developed good relationships with DVD suppliers, who saw it as another outlet for their product, and as a hedge against the growing near-monopsonist Blockbuster. Netflix also worked closely on advanced integration with the U.S. Postal Service, becoming one of its biggest customers.

In 2000, Netflix, with its 300,000 subscribers, was still not profitable. Meanwhile, DVD-player adoption had helped fuel Blockbuster’s growth to some 7,700 stores. Hastings, who earlier in his career had started but later sold the company Pure Software, had reported that in 2000 he engaged in negotiations with Blockbuster to sell it interest in Netflix for $50 million: “We offered to sell a 49-per-cent stake and take the name Blockbuster.com,” he said, but Blockbuster was not interested.[[12]](#endnote-12)

Blockbuster would attempt to copy Netflix with an online service in 2004, hoping to leverage the availability of its brick-and-mortar stores with the mail-order option and keep the operations integrated. It was ultimately unsuccessful with its online offering, however, as were other contemporaneous imitators such as Wal-Mart.

Netflix grew from 4.2 million subscribers in 2005 to 15 million in 2010 (see Exhibit 2). Although Blockbuster still had 47 million registered customers, its eventual demise seemed apparent. Netflix had more than doubled to 32 million subscribers by November of 2013—the month that Blockbuster announced it was going out of business.

NETFLIX FACES DIGITAL DELIVERY

What Is Digital Delivery?

Information goods (i.e., any good that could be represented digitally) could be delivered over a communication network such as the Internet. Initially, early Internet content was limited to lower-volume content, such as text, and then later, images and music. Video content, with its relatively large file sizes, tended to be limited to physical media, such as film, videotape, and discs. However, with advances in both network speeds and compression algorithms to deliver content with greater fidelity using less data, other options emerged.

Traditionally, the first step in digital delivery was via downloaded content, such as Apple iPod users downloading the complete file of any music they purchased from the iTunes online store. These files were stored on the user’s device, and could be played repeatedly, thus mimicking physical media, such as vinyl records, audio tapes, and music compact discs, which consumers were used to purchasing and owning.

Streaming content, on the other hand, was content that was played on the consumer’s device but stored on a different device—typically a server operated by the content owner or licensee. Streaming required a network connection between the two devices in order to play the content. In this way, it more closely resembled listening to music on the radio, where the listener needed to have a connection to the content (similar to radio frequency reception), as opposed to owning local copies.

Because video typically required much more data than music, streaming video required a faster network connection in order to provide a reasonable viewing experience. As a consequence, some content owners developed lower-resolution versions of their files in order to reduce their size, which then allowed them to stream the content. This also avoided the problem of allowing consumers to possess a digital copy of their content, which could potentially be shared or resold. Furthermore, the very large file sizes of full movies acted as a partial deterrent to digital piracy (as did law enforcement efforts, such as the 2012 closure of the popular website Megaupload).[[13]](#endnote-13)

Netflix initially thought the future of digital video delivery would be downloading, not streaming.[[14]](#endnote-14) It created a dedicated device (that later was sold and became the Roku box) for this purpose, but eventually developed a standalone streaming service, which was released as “Watch Instantly” in 2008.[[15]](#endnote-15) Early attempts at streaming were low quality, and in any event, most potential customers did not have the required Internet bandwidth.

However, seeing the potential of streaming, in 2011 Netflix made what would be seen as an ill-fated, too-early commitment to the digital delivery model when it announced a decision to split itself between its traditional DVD business (to be re-named “Qwikster”) and an uncoupled streaming business, which required separate customer logins. As it was to be operated as two separate companies with no bundled discounts for those seeking both DVD rentals and streaming availability, the new pricing model would mean a 60 per cent effective price hike for existing subscribers who wanted to continue both service types. Predictably, the announcement was met with a loss of 800,000 subscribers, and Netflix’s stock price fell 77 per cent.[[16]](#endnote-16) Although Netflix reversed the decision a month later, considerable damage had been done.

This public relations disaster fed into a variety of contemporaneous pessimistic predictions about Netflix’s future. One noted that Netflix shares were in “free fall” after the third-quarter mishaps, and projected future losses.[[17]](#endnote-17) Another said “customers wasted little time in jumping ship.”[[18]](#endnote-18)

Despite these misgivings, Netflix recovered and continued to grow after 2011, increasing its subscriber count from 23.5 million to over 93 million by the end of 2016, a compound annual growth rate of 32 per cent.

REED HASTINGS’S DECISION POINTS

Digital Delivery Challenges

Regardless of the mode or degree of digital delivery adoption, digital delivery presented Netflix with significant challenges in terms of streaming content acquisition. This was not a problem in the DVD-by-mail delivery model, as DVDs could be acquired from distributors and then rented. However, acquiring streaming content was both riskier and more expensive.

First, licensing content was subject to the terms dictated by the content owner. Netflix learned this lesson early on, when its original streaming contract with the Starz network expired. Starz would not renew the contract on terms acceptable to Netflix, leaving Netflix with a hole in its available inventory.[[19]](#endnote-19)

Second, the home entertainment market was a very crowded one, with 12 streaming competitors to Netflix that had each surpassed 1 million subscribers.[[20]](#endnote-20) One significant competitor was Hulu, founded by The National Broadcasting Company (NBC) and 21st Century Fox (Fox) in 2007, and later joined by the Disney–ABC Television Group and Time Warner Inc. It operated on a subscription model, but also offered advertisement-supported options. Fox streamed content 24 hours a day through Hulu, in some cases even bypassing its local affiliates.[[21]](#endnote-21) As of July 2017, Hulu had the greatest viewer engagement of all streaming services, measured at 2.9 hours per day (versus Netflix’s 2.2 hours per day),[[22]](#endnote-22) and its content included the shows *Casual* and *The Handmaid’s Tale*. Another streaming competitor was Amazon Prime Video. Amazon initially offered its Amazon Prime Video service as a bonus for subscribers to its fee-based Prime membership service. Doing so provided the video streaming service a large number of subscribers at launch. Further, the service benefited from Amazon’s financial power and multiple lines of business (e.g., Amazon Web Services). Amazon spent more than $100 million on content in the third quarter of 2014 alone, and its portfolio included the television series *Transparent* and *The Man in the High Castle.* In addition, its Fire TV platform grew with each device it sold (see Exhibit 3 for additional details).

Traditional web giants that competed with Netflix included both Google LLC/YouTube LLC (YouTube), and Facebook Inc. (Facebook). While 75 per cent of U.S. Wi-Fi households had a Netflix subscription, YouTube had quickly grown into second place in 2017 with 53 per cent penetration, and reached more of the coveted 18–34-year-old demographic than any cable network.[[23]](#endnote-23) Its content included the series *Escape the Night.* Facebook, late to the sector, had also announced plans to offer new proprietary content, and tried to make up for its late start by offering Hollywood studios better terms for their content, including sharing advertising revenue and data on viewership, the latter of which was an important asset that had distinguished the success of digital platforms such as Netflix.[[24]](#endnote-24)

Of course, Netflix also competed with traditional home entertainment outlets, including Home Box Office (HBO) and Sling TV, Dish’s live TV service. HBO had an extensive library of shows to watch on demand via cable, and it had an app (HBO Go). It had a large number of subscribers and a strong, extended track record of developing very popular original content, such as television series *The Sopranos* and *Game of Thrones*. Sling TV, although it had fewer subscribers than Netflix in 2017, had viewers who were more engaged, averaging 47 viewing hours per month, versus Netflix’s 28 hours per month.[[25]](#endnote-25)

Many of these competitors fell into the category of “coopetition” to Netflix, a term that suggests co-operation between competing companies. Netflix licensed content from some of the same companies that formed Hulu, but at the same time provided a competing service. Further, it relied on companies like Sony, which had its own streaming service, to carry the Netflix app on Sony’s PlayStation videogame consoles. Lastly, Netflix relied on the availability of bandwidth from cable companies to provide its services to customers; many of these same cable companies (e.g., Comcast, Time Warner Inc.) were also content producers with an interest in streaming services, and with which Netflix competed.

Major news outlets, such as *The* *New York Times* and *The* *Wall Street Journal*, reported that Netflix was seen as a rival to firms from which it had previously licensed content, and that therefore deals were being cut back.[[26]](#endnote-26) *The* *Wall Street Journal* wrote, “[Netflix] must keep things cordial with Hollywood’s traditional studios . . . [and] prevent them from turning to its main competitors, Amazon and Hulu.” [[27]](#endnote-27) It only had the one source of revenue, but in its new market, it was competing with firms that had much more diverse portfolios and revenue streams.

For example, if Netflix wanted to acquire some popular new show, it most likely would have to borrow money from the bank; if Amazon wanted to acquire it, it could borrow money from the Amazon Web Services division (of which, somewhat ironically, Netflix was a customer).[[28]](#endnote-28) Apple Inc., another financially powerful competitor with $260 billion in cash in 2017,[[29]](#endnote-29) was also investing in content creation, most recently poaching two senior executives from Sony TV.[[30]](#endnote-30)

As an alternative to licensing third-party content, in 2013 Netflix ventured into developing its own original content. It started out with a “home run” when it acquired *House of Cards*, starring Kevin Spacey, which went on to win three Emmys.[[31]](#endnote-31) Given its lack of a track record at the time, Netflix needed to commit to buying the entire season of the show without the option of declining after a pilot episode, as traditional media outlets usually required. It also did well with *Orange Is the New Black*,a popular series based on a book, as well as the 1980s-style adventure series *Stranger Things*. However, and to illustrate the risks, a more recent effort, *Crouching Tiger, Hidden Dragon: Sword of Destiny*, was widely regarded as a flop, and Netflix found itself increasingly cancelling original series that did not produce sufficient returns, such as *Sense8* and *The Get Down*.[[32]](#endnote-32)

In addition, there were significant sums at risk in these ventures. Netflix budgeted $6 billion in 2017 for content—more than twice its total revenue. This level of spending resulted in $3.4 billion in long-term debt.[[33]](#endnote-33) Critics said that its debt was such that it must continue to add more subscribers just to feed the business model, or everything could come crashing down.[[34]](#endnote-34) Whereas Netflix’s streaming content obligations were approximately equal to its revenue in 2011, by 2017 a significant gap had emerged.[[35]](#endnote-35)

In-House Competition; the Challenge of Incumbency

One consistent challenge confronted by all successful organizations facing significant technological change was the allure of their existing incumbent line of business. This took several forms, including financial investment in the existing capital infrastructure, organizational investment in skills and routines, and the risk associated with moving away from a consistent, well-understood source of cash flow.

Author Joshua Gans[[36]](#endnote-36) termed this challenge “supply side disruption,” about which, drawing on the academic research of Rebecca Henderson,[[37]](#endnote-37) he said,

Demand side disruption involves an established firm missing a certain kind of technological opportunity, but supply side disruption arises when an established firm becomes incapable of taking advantage of a technological opportunity. Specifically, when a new competing innovation involves a distinct set of architectural knowledge, established firms that have focus on being “best in breed” in terms of component innovation may find it difficult to integrate and build on the new architecture.[[38]](#endnote-38)

At Netflix, those responsible for the legacy business had successfully argued for its re-investment. The finely tuned industrial-engineered manual process of opening and stuffing the trademark red mailing envelopes was replaced by special-purpose robots that could process 3,400 envelopes per hour versus the 680 per hour processed the prior, labour-intensive way.[[39]](#endnote-39) This enabled Netflix to reduce the number of distribution centres from 50 to 33. These efficiencies resulted in cutting 75 per cent of its labour costs while retaining a high degree of customer service—92 per cent of its customers received next-day delivery service. Competitors also continued to see promise in the DVD format, as Redbox, with its trademark automated kiosk vending machines, grew from about 100 locations in 2004 to 34,000 by 2012.[[40]](#endnote-40)

One argument for continued investment in the legacy business was that, as recently as August 2015, fewer than half of all U.S. homes had high-speed broadband service, and it could be expected that the currently un-served lower-population-density areas might be without this service for the foreseeable future. This lack of connectivity contributed to the continued success of brick-and-mortar video rental stores in these areas.[[41]](#endnote-41) This primarily rural phenomenon in the United States could presage markets in international locations with limited broadband that might also continue to support the DVD format.[[42]](#endnote-42) And, when it temporarily split off its DVD business in 2011, Netflix lost a number of its own senior managers.[[43]](#endnote-43)

On the other hand, Netflix did not face the sort of business cannibalization challenges often faced by traditional media businesses with the advent of a disruptive technology. Netflix, for example, did not face the loss of advertising revenue as a result of a shift to streaming delivery, a potentially significant problem for some of its competitors.[[44]](#endnote-44) Further, despite its increased internal efficiencies, its traditional DVD-based business faced other costs, such as its dependence on the U.S. Postal Service, which had recently resulted in a $100-million increase in mailing rates.[[45]](#endnote-45)

Uncertain Future Public Policies—“Net Neutrality” and Its Variants

In 2003, Columbia University media law professor Tim Wu coined the term “net neutrality” to describe a government regulatory principle that Internet service providers (ISPs) should enable access to all content and applications regardless of the source, without favouring or blocking particular products or websites. It gained in visibility as Internet traffic became more and more concentrated over time, with *Wired* magazine reporting in 2014 that half of all Internet traffic originated from just 30 organizations, including Google LLC, Facebook, and Netflix.[[46]](#endnote-46) The policy required that ISPs not discriminate (e.g., “throttling back” throughput speeds) or charge differentially by user, content, website, platform, application, type of attached equipment, or mode of communication. This controversial policy tended to find favour with Internet firms, especially those that generated a lot of traffic, like Netflix. It tended to be opposed by ISPs, such as Comcast and Verizon, which argued that by limiting their decision rights, the effect of the regulation would be to reduce investment in broadband network services and, therefore, to stifle innovation. In 2015, the Democratic Party administration in the United States enacted the rules into law, effectively making broadband firms “common carriers,” like the telephone network. In 2017, the Republican Party administration scaled back the regulation.[[47]](#endnote-47)

Netflix, similar to other Internet firms, originally lobbied for net neutrality, as streaming video required significant amounts of bandwidth, and limiting ISPs’ ability to differentially charge for this service effectively subsidized the Internet firms’ activities. By 2017, at least publicly, Hastings argued that it was no longer especially important.[[48]](#endnote-48) However, the uncertainty about the regulation and its future added risk to any decision-making in the digital delivery market.

In addition, as the telecommunications sector of the economy grew and prospered, it became an attractive area for lawmakers to target for new taxes. In 2017, Canadian legislators proposed, but did not pass, a 5 per cent tax on broadband charges, dubbed by the press the “Netflix tax.”[[49]](#endnote-49) These monies would have been redistributed to traditional communications firms, like newspapers, that were adversely affected by the rise of the Internet. Traditional media firms lost revenue due to the Internet—particularly classified advertising, but also subscription revenue—as some of their customers shifted use to their Internet equivalents. If broadband revenue would be ultimately subject to additional taxes, this could decrease demand for it and thereby hamper the growth of Netflix-like streaming services.

HASTINGS’S DECISIONS

Hastings faced a significant number of business decisions, and, despite Netflix’s successes, he was self-critical, and was often quoted as admitting to having made a number of, at least in hindsight, poor decisions in relation to the technology and home entertainment industries. These included online advertisements on the website, starting an independent film production company, and buying DVDs out of the Sundance Film Festival (which turned out to offer limited profitability), in addition to the 2011 Qwikster gaffe.[[50]](#endnote-50) In addition, he had initially believed that the future would be digital downloading rather than digital streaming, and in 2009 Hastings said that there would still be DVDs in 2030, a prediction that looked increasingly unlikely.[[51]](#endnote-51)

However, despite some of these missteps, Netflix was positioned to compete with some of the biggest firms in both entertainment and consumer technology. Hastings himself noted that, historically, firms facing disruption, such as AOL Inc. and the Eastman Kodak Company, failed because they were too cautious.[[52]](#endnote-52) But which non-cautious path should Netflix take? Should it continue to create its own content, or revert back to being a neutral platform? Should it look to form exclusive contracts with content providers and/or hardware manufacturers to “lock in” its customers? Did it need to acquire competitors and/or upstream or downstream partners? What was the appropriate role for the legacy DVD division—should it continue to be operated as a cash cow for as long as it was economically viable, or should it be sold off so as to reinvest the funds in current operations? Or, was it finally time, as suggested by analysts who argued the firm was over-valued, to sell the company and cash out while it had a high market capitalization?

Exhibit 1: CHRISTENSEN’S DISRUPTIVE INNOVATION CONCEPT

Harvard Business School’s Clayton Christensen has authored a number of books and articles defining and illustrating what he terms “disruptive innovations,” which are new products or services that re-make whole industries, generally at the expense of the incumbent firm. This occurs because the incumbent firm does not recognize the threat posed by the innovation due to two main reasons. First, the disruptive innovation possesses a different package of performance attributes, not all of which are valued by existing customers; therefore, the incumbent’s current customers do not initially find it attractive. Second, the performance attributes of the innovation that existing customers *do* value, which are often weak in the innovation, improve at such a rapid rate that the new entrant can later move up and capture the incumbent’s existing customers.

Disruptive innovators typically either enter at the low end of the market, or create entirely new markets. Both of these scenarios are characterized as markets not well served by current solutions. Incumbents, therefore, have a tendency not to take serious notice of the innovation, because either they are not losing current customers to it, or, when they are, they are customers who buy low-margin products. Losing such customers has the paradoxical effect of increasing the incumbent’s average margin, thus improving its bottom line. As such, the financial signals that incumbents receive create Christensen’s “dilemma,” whereby incumbent firms often do not recognize the threat.

In addition, incumbents often have difficulty adopting disruptive innovations themselves because, as these innovations initially serve the existing customers poorly, to adopt them could mean the loss of existing revenues through cannibalization. Conversely, new entrants have no current customers to lose, removing any hesitation to invest in the innovation.

Source: Clayton Christensen, *The Innovator’s Dilemma* (New York, NY: Harper Business, 2001).

Exhibit 2: Netflix Subscriber Growth (millions) Over Time

Source: “Netflix Subscribers from 2001 to 2011 (in 1,000),” Statista, accessed November 12, 2017, https://www.statista.com/statistics/272551/subscribers-of-netflix-since-2001/; Jeff Dunn, “Here’s How Huge Netflix Has Gotten in the Past Decade,” *Business Insider*, January 19, 2017, accessed July 2017, www.businessinsider.com/netflix-subscribers-chart-2017-1.

Exhibit 3: Netflix and its Competitors, 2017

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Founded** | **Subscription Price** | **Revenue Sources** | **Content** | **Subscription Content Amount1** | **Ownership** | **Subscribers** |
| Netflix | Aug. 1997 | $8.00/month | Subscription | On-demand TV (past seasons), on-demand movies, exclusive content | 36,000 hours (April 2016);2 4,235 movies, 971 TV shows (June 2017) | Netflix | 99 million worldwide (April 2017),3 50.9 million in the United States (March 2017)4 |
| Amazon Prime Video | Sep. 2006 | $79.00/year | Subscription, purchase, rental, ad-supported (limited content) | On-demand TV, on-demand movies, exclusive content, video-on-demand (VOD) content (additional fee) | 36,000 hours (April 2016);5 7,430 movies, 513 TV shows (June 2017) | Amazon | 80 million in the United States (April 2017)6 |
| Apple TV | Apr. 2003 (iTunes) | n/a | Purchase, rental | VOD content | n/a | Apple | n/a |
| CBS All Access | Oct. 2014 | $5.99/month | Subscription | Live and on-demand CBS programming, some original content, classic CBS content | 70 TV shows (June 2017) | CBS | 1.5 million (February 2017)7 |
| DirecTV Now | Nov. 2016 | $35.00/month  (100+ channels) | Subscription | Live TV channels | n/a | AT&T | 400,000 (March 2017)8 |
| HBO Now | Apr. 2015 | $14.99/month | Subscription | HBO content, including current season | 681 movies, 90 TV shows (June 2017) | Time Warner | 2 million (February 2017)9 |
| Hulu | Oct. 2007 | $7.99/month | Subscription (with or without ads) | On-demand network programming (except current season of CBS programming) | 1,108 movies, 1,132 TV shows (June 2017) | Joint venture of Disney, Fox, Comcast/NBC Universal, and Time Warner | 12 million (November 2016)10 |
| PlayStation Vue | Mar. 2015 | $30.00/month  (45+ channels) | Subscription, purchase, rental | Live TV channels, VOD | n/a | Sony/Columbia | 400,000 (March 2017)11 |
| Showtime | Jun. 2015 (streaming service) | $10.99/month | Subscription | Showtime content, including current season | 331 movies, 34 TV shows (June 2017) | CBS | 1.5 million (February 2017)12 |
| Sling TV | Jan. 2015 | $20.00/month  (20+ channels) | Subscription | Live TV channels (limited major networks) | n/a | Dish Network | 1.3 million (April 2017)13 |

Exhibit 3 (continued)

Note: n/a = not available

1 “Movie/TV Show Counts,” JustWatch, accessed July 1, 2017, www.justwatch.com.

2 Mark Fahey,“Netflix vs Amazon: Estimating the Better Deal,”*CNBC*, April 22, 2016, accessed July 2017, www.cnbc.com/2016/04/22/netflix-vs-amazon-estimating-the-better-deal.html.

3 Seth Fiegerman, “Netflix Nears 100 Million Subscribers,” *CNN*, April 17, 2017, accessed July 2017, http://money.cnn.com/2017/04/17/technology/netflix-subscribers/index.html.

4 “Number of Netflix Streaming Subscribers in the United States from 3rd Quarter 2011 to 2nd Quarter 2017 (in Millions),” Statista, accessed July 2017, https://www.statista.com/statistics/250937/quarterly-number-of-netflix-streaming-subscribers-in-the-us.

5 Mark Fahey,“Netflix vs Amazon: Estimating the Better Deal,”*CNBC*, April 22, 2016, accessed July 2017, www.cnbc.com/2016/04/22/netflix-vs-amazon-estimating-the-better-deal.html.

6 Stephanie Pandolph and Jonathan Camhi, “Amazon Prime Subscribers Hit 80 Million,” *Business Insider*, April 27, 2017, accessed July 2017, www.businessinsider.com/amazon-prime-subscribers-hit-80-million-2017-4. The figure is for Amazon Prime subscribers, a service that includes Amazon Prime Video.

7 Todd Spangler, “Showtime Hits 1.5 Million Streaming Subscribers, CBS All Access Nears Same Mark,” *Variety*, February 13, 2017, accessed July 2017, http://variety.com/2017/digital/news/showtime-cbs-all-access-streaming-1-5-million-subscribers-1201986844.

8 Artie Beaty, “Discovery CEO: DIRECTV Now & Vue Have 400,000 Subscribers,” *Streaming Observer*, March 29, 2017, accessed July 2017, https://www.streamingobserver.com/discovery-ceo-directv-now-vue-400000-subscribers.

9 Cynthia Littleton, “HBO Now Grows to More Than 2 Million Domestic Subscribers,”*Variety*, February 8, 2017, accessed July 2017, http://variety.com/2017/tv/news/hbo-now-2-million-subscribers-time-warner-1201981371.

10 Craig Smith, “18 Interesting Hulu Statistics (July 2017),” DMR, July 28, 2017, accessed July 2017, http://expandedramblings.com/index.php/hulu-statistics.

11 Artie Beaty, op. cit.

12 Todd Spangler, op. cit.

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Endnotes

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