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ITWS 4310 - MITR
Due October 9, 2018

Netflix Business Case

Netflix is a true story of David vs Goliath. As a startup, it broke into an online DVD rental market that nobody had previously envisioned, and despite competitors attempting to create copycat services, Netflix prevailed. They were able to create sustainable competitive advantage through a large selection, large distribution network, and large customer base simply by making the first move in an elaborate game of entrepreneurial chess. Even if Reed Hastings believes he took Netflix public too early, hindsight is 20-20. Since nobody can predict the future, Netflix's success is largely attributed to making the right moves at the right time. Economies of scale favored Netflix over Blockbuster. Netflix's massive distribution network and proprietary algorithm, Cinematch, allowed them to deliver a rental DVD to a customer's door within a day. Blockbuster just could not keep up, and they went bankrupt shortly after.

But this is all in the past. In 2018, DVDs are *mostly* an afterthought, collecting dust on the shelves of media consumers who favor the alternative: a centralized, convenient, readily accessible streaming platform. The DVD by Mail (DBM) business that launched Netflix to the top now only has 3 million subscribers, which pales in comparison to its user base in 2010 at 19.5 million (Gallaughier). Despite its staggering decline in subscribers, DBM is still profitable: In the first quarter of 2018 alone, DBM took in \$99 million in revenue, of which \$56 million was pure profit. Clearly DVDs have their loyal fans, and even as the Internet continues to drastically alter the media landscape, Netflix has proven that it can still keep an old media outlet profitable.

But Netflix has another challenge: the distribution rights to digital media. There has been a significant pullback in production studios' willingness to license distribution rights to Netflix. Studios are realizing the power and potential of streaming movies and TV shows online. The digital landscape is a brutal one. Any one company can mimic Netflix's streaming platform, since all it really does is provide the content to the users. If Disney decided to pull Star Wars related content from Netflix, they can, and they are large enough that they can support their own streaming service. That is in fact what will be happening with the reboot of the animated series, *Star Wars: The Clone Wars*. Disney realized it does not need Netflix for content distribution and is instead tackling the challenge themselves (CNet).

After realizing Netflix cannot rely on studios to license content, Netflix has been producing its own "Netflix Originals" content, including *Stranger Things*, *Orange is the New Black*, and a variety of shows based off of Marvel Comics Universe content. These shows are major hits, and since they are produced by Netflix itself, they have full control over distribution and licensing. Gallagher writes, "The new Netflix looks less like an Amazon shipping center, and more like a must-watch content network" (Gallagher). Netflix is again shifting its focus, and instead of drilling down on being the largest distributor, they are turning inward and focusing on producing in-house content. This consoles investors who may have been concerned about the company's viability when it comes to streaming other studios' content. With the newfound focus on basically becoming an HBO rival, it makes Netflix a tantalizing option for consumers who prefer to watch content on a "premium network". In the last 5 years alone Netflix's stock price is up \$300, or more than 577% since the beginning of 2014 (Google). Given Netflix's new approach to media streaming, it is absolutely worthy of the praise which it is receiving.

Bibliography

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