Analysis of Netflix and Blockbuster’s Strrategy

By

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1. **Introduction**

Business strategy plays a critical role in defining the success or failure of a business. An effective strategy promotes increased organizational efficiency, improved effectiveness, productivity, and performance. The implementation of such strategy causes quality improvement, enhances proficiency in the in the production and delivery of products and services, and boosts profit efficiency of a company. As Johnson, et al. (2015) asserts, implementing an effective corporate strategy enhances an organization’s competitiveness by improving its competitive edge. To achieve the competitive advantage over competitors, different companies employ differing strategies, which guarantee an improvement of their market share and subsequently, an increased profitability. The development of an efficient corporate strategy demands a clear understanding of the industry, definitive planning, a consideration of the various macro and micro-environmental factors that influence business directly or indirectly. The different strategies applied by Netflix ad Blockbuster in the past years have influenced and shaped the growth and development of the companies significantly. This study analyses the strategies of the companies, outlines and links the success of Netflix over Blockbuster to an effective and efficient strategy.

**2. Institutional Background**

**2.1 A Brief History of Blockbuster**

Blockbuster LLC was an international provider of video games and home movie rental services founded in October 19, 1985 by David Cook. The Company achieved significant global success following the minimal competition in the industry at the time. It offered the services through DVD-by-Mail, video rental shops, video on demand, cinema theatre, and streaming. It was American-based with its headquarters based in Englewood, Colorado. Initially called the Blockbuster Video Entertainment, it changed its name to Blockbuster LLC (Alderson, 2004). In the height of its success, the Blockbuster implemented various strategies including mergers and acquisitions, licencing, franchising, and entered new foreign markets enabling its significant international growth. For instance, the Company bought its mid-Atlantic rival in 1990, which had over 250 stores. Additionally, in 1992 and 1993 Blockbuster acquired Sound Warehouse, Music Plus, and Spelling Entertainment Group respectively and merged with Viacom (1994) leading to a considerable development of its market share and growing global dominance. A series of acquisitions and consequent expansion of the Blockbuster Entertainment Corporation gave rise to the Blockbuster Entertainment Inc., which focused on further differentiation of its services through the DEJ Productions (Elberse, 2014).

The continued development of competition in the industry and ineffective strategies caused the declining profitability of the Company. Even when it continued to acquire or merge with various companies such as Xtra-vision, First Look Studios, the Movie Trading Company, and Gamestation among others in the early 2000s, the company continued to experience direr financial situations. The situation was worsened by conflicts between financiers and the management. However, the Company focused on improving its profit efficiency but achieved insignificant improvement thus filing for bankruptcy in 2010. The Company has operated minimally since (Elberse, 2014).

**2.2. A brief History of Netflix**

Netflix is world’s leading internet TV, movies and Series streaming services provider. The Company was founded in August 29, 1997 by Reed Hastings and Marc Randolph. Initially, the Company offered DVD-by-mail services in the US and expanded and differentiated its services to include Internet TV, movies and series streaming services, and games among others. Its dominance in the US led to its expansion into Canada in 2010 and later into various countries. In 2016, Netflix announced its expansion to 130 new countries increasing the number to 190 countries around the globe. According to Mkhwanazi (2016), the Company used the pay-per-rental model before switching to the monthly subscription concept in September 1999 before dropping the single-rental model in 2000. The Company then focused on the development of a model that allowed flat-free unlimited rentals that ensured that customers enjoyed the services without worrying about due dates, late fees, per title fees or even shipping and handling fees. The strategic change of its pricing influenced its significant growth in the early 2000s. The management offered the Company for acquisition by Blockbuster in 2000 for $50 million but Blockbuster declined the acquisition offer. It recorded losses in 2002 but improved its profitability by 2003 and continued to record improved profit efficiency. It integrated innovation in its operations and moved its focus from its previous model of mailing DVDs to Internet streaming, which allowed the integration of the personalized video recommendation system and the provision of videos on demand (Netflix, 2016).

The adoption and implementation of the new and efficient strategies allowed a consistent growth of the Company even as DVD sales dropped from 2006 to 2011. Further, Netflix licenced and distributed films and implemented various strategies that prompted increased development. Following the success of the streaming service, the Company rebranded and restructured its DVD rental service as Qwikster, an independent subsidiary. The Company has recorded increasing profitability since 2011 and has forged relationships with Companies such as BBC, HBO, and CBS and other online service providers including social networking sites. These relationships allow the use of applications for accessing Netflix content (Netflix, 2016). The Company continues to penetrate new markets around the globe while focusing on the enhancement of its global market share through the diversification of its products and services. The market penetration and development strategies have led to its significant growth and development, even achieving the title of the leading company in the industry.

**3. How Netflix beat Blockbuster**

**3.1 Changing Technology**

The technological advancement experienced in the last two decades influenced businesses significantly. Companies that adopted and integrated new and effective technologies in the strategy improved their services delivery greatly, shaping their growth and development. This made all the difference in the case of Blockbuster LLC and the Netflix Company. Netflix adopted and integrated newer technologies into its operations and thus tapped into new markets, enhanced its efficiency in the delivery of its services, and improved its market share and profitability immensely. On the other hand, Blockbuster LLC failed to take full advantage of the new platforms of services delivery thus the declining profitability. Netflix continues to acknowledge and use new technologies to ensure that it remains effective and efficient in the delivery of services and products. For instance, the Company shifted from the DVD-by-mail model to an online streaming model. Further, it applies other simple but essentially critical technologies such as Internet TV apps allowing the effective delivery of services to viewers. Using apps such as the CBS All Access, the HBO Now, and BBC iPlayer among others enables catch-up and binge viewing (Netflix, 2016). Tapping into the new opportunities guarantees further profitability of its operations as Internet is getting faster, more reliable, and widely used around the world. Additionally, the technology allows the viewers to watch content on any screen.

Additionally, another major technology that made Netflix beat Blockbuster was the development and use of the personalized video-recommendation system, which enabled customers to watch videos on demand. The technology personalized customers’ individual tastes rather than offering the same content to all the customers. The Company continues to invest in marketing using the technology to ensure that individual customers receive products of their preference. The Company’s user interface learns and makes recommendations based on the taste of the user (Liu, 2014). Customers who prefer watching documentaries, sci-fi, zombie shows, soap operas, or thriller movies among others receive relevant titles and other interesting titles in accordance with their tastes and preferences in their homepage. The implementation of this strategy boosted Netflix’s competitive advantage over Blockbuster LLC making its services almost irrelevant. Further, the Company focused on customer satisfaction thus attracting and retaining more viewers (Gerstner, 2015).

**3.2 Retail Outlets versus Operating Online**

The shift towards online services influenced the continued development of the Netflix Company and the declining sales of Blockbuster LLC. While Netflix concentrate mainly on shifting to online services delivery such as streaming, Internet TV, and online games, Blockbuster showed limited integration of the move into its operations. Blockbuster continued to depend majorly on retail operations. Even when it operated an online-renting platform through its website to complement its retail operations, it promoted poorly implemented the strategy with insufficient marketing and promotion of its online services in comparison with the Netflix Company. The success of Netflix was considerably influenced by its total shift towards online operations (McCord, 2014). Its acknowledgment of the opportunity the Internet presented led to its full commitment towards online operations. The company maintained minimal retail operations and struck a deal with the Warner Bros, Universal Studios, and 20th Century Fox for retail release of their products, mainly physical media. The Company continues to dedicate huge inputs towards online operations for marketing and ensuring the provision of quality products and services which guarantee customer satisfaction. For instance, Netflix has set aside $1 billion to market its online products and services. This continually improves its market share and enhances its dominance, profitability, and growth. As such, the shift towards online operations from the retails operations played a significant role in advancing its competitiveness over Blockbuster LLC (Elberse, 2014; Marzec, 2014).

**3.3 Pricing Strategies**

The pricing strategy of Netflix played a significant role in enabling it beat Blockbuster LLC. The Company has devised an effective and customer-friendly pricing strategy that attracts and retains its customers. While many players in the industry such as Blockbuster and Spotify among others offer the pay per view or free but ad-supported content, Netflix uses an efficient flat-free pricing strategy (Netflix, 2016). The strategy offers the customers unlimited viewing of commercial-free content of their preference without the interruption of advertisements. The strategy allows customers to access all content and enjoy binge-streaming and watching of all content. Customers enjoy unlimited movie and series streaming and viewing (Netflix, 2016). The pricing strategy allowed the Company to compete effectively and beat Blockbuster which mainly allowed its customers to only view what they paid for. According to McCord (2014), Netflix has managed to acquire a larger market share by offering more appealing worth and value for the viewers’ time and money as compared to pay-per-view content, DVD watching, linear networks, video gaming, and Internet networks among others.

**3.4 Netflix’s Innovations**

Every organization strives to support and implement innovative ideas for the development of efficient processes, systems, products, and services. Innovations boosts the efficiency of service providing organizations causing improved customer satisfaction and thus improved profit efficiency. The Netflix Company supports innovation and relentlessly focuses on the development of innovations that boost its effectiveness and efficiency in the delivery of products and services. The major goal is ensuring that customers are satisfied and loyal. For instance, the Company implements innovative ideas such as the integration of the Internet TV applications in services delivery (Gerstner, 2015). Additionally, the development of a software that personalizes products allowing customers to watch the content on demand depicts the high levels of innovation used by the Company in the advancement of its efficiency in the development and delivery of its services (Netflix, 2016). Moreover, on entry in foreign countries, the Netflix Company customizes its websites to use their national languages and promote local content to attract a large market share. Further, the Company allows the use of international languages and access to international content in accordance with the tastes and preferences of the specific consumers. While this is the case, Blockbuster showed limited application of innovation in its operations. For instance, while the Internet offered an opportunity for growth and development the Company continued to depend of inefficient and old marketing and selling platforms. The Company has also shown limited use of innovative ideas such as mobile applications. While Netflix seems to have recognized the opportunity the extensive use of smartphones and the Internet offer, Blockbuster seemed to place little emphasis on utilizing the opportunity for the development of the Company and the society (Elberse, 2014; Netflix, 2016).

**4. Will Netflix Remain the Dominant Provider of Online Video Streaming?**

The various strategies and measures undertaken by the Netflix Company to boosts its profitability and organizational development show the possibility of the continued development of the Company. In the recent past, the Company has dominated the video-streaming industry remaining the leading provider of movies and series streaming services. It continued growth and global dominance is inevitable. The Company has in 2016 embarked on expanding globally and delivering its products and services to as many consumers as possible. This will ultimately increase it global market share considerably and make it even impossible to overtake. As a leading global company, the Company has various strengths that will enable it explore and benefit wholly from the opportunities available in the industry while managing its weaknesses and available threats efficiently. Moreover, its strengths such as sufficient financing, efficient operations systems, solid and effective marketing, and innovation and creativity among others will continue to offer or maintain its competitive advantage over emerging competitors and existing ones such as Blockbuster. Its ability to rebuild after the demise of Qwikster shows its ability to deal with concerns quickly and efficiently.

**4.1 Netflix stumbles: The Demise of Qwikster**

Restructuring Netflix to form Qwikster as a subsidiary for promoting and selling DVD was an inefficient move by the Company’s management. Most customers complained about having to use to different websites, logins, and billings for purchasing DVDs and streaming online content. The move, according to Keating (2013), focused on solving a problem that did not concern the customers and eventually ended up creating a critical issue of concern that had it not been corrected in a timely manner, would have had a devastating impact on Netflix. While most customers were concerned about the double billing, the loyalty of others was greatly impacted by the totally different name, which caused confusion and broke the trust of many. Not only was the name difficult to spell but was also completely different from the name many customers were familiar with and which they had formed a close connection with. The management, however, moved in and rectified the problem by linking the companies together ensuring that customers only had one websites from which they would pay for the services they needed. The risk posed by the move threatened the dominance of the Company and revealed the possibility of it being overtaken by its competitors upon poor strategic decisions (Hitt, 2016; Keating, 2013).

**4.2 Netflix rebuilds: The Rise of Original Content**

The Netflix Company managed to rebuild its trust and customer loyalty after the reconsideration of its restructuring decision. The integration of Qwikster back into the Company played a critical role in reassuring its customers. This promoted its market dominance. However, what continues to play an even greater role in the promotion its development and improving market share is its focus on offering original content on demand. Since 2013, the Company has focused on the creation of original content while appreciating diversity and the different tastes and preferences of its customers. According to Netflix (2016), as the Company continues to focus on the economic creation of original content, it continues to achieve further scale and confidence. This guarantees extensive exploration of the idea of offering original content in the future. As such, Netflix will remain competitive and dominant in the market with its ability to produce and promote its products and services effectively. Further, the creation of originals continues to develop its brand and will play a critical role in improving its profitability in future and thus continued market dominance. Example of its exclusively Netflix programs include original series and movies such as the *House of Cards, The Square,* and *Orange is the New Black* among others. These originals have improved the customer base of Netflix significantly, showing its possibility of continued market dominance in the US.

**4.3 The Future of Netflix**

Netflix continues to invest in new and efficient technologies for the production, delivery of its products and services, and for marketing among other key operations. In the future, that the Company will achieve significant success in its operations is undeniable. The growth and expansion of the Company into 190 countries shows the possible success and dominance of the Internet streaming services (Netflix, 2016). A focus on succeeding in foreign markets will increase the market share of the Company greatly causing a global market dominance. Most importantly, however, the Company integrates innovative ideas and tools into its operations and thus will continue to record improved profit efficiency. For instance, the utilization of the opportunity offered by smartphones by using the mobile applications as a platform for delivering its services will continue to give it a competitive edge (Johnson, et al., 2008). Moreover, the Company’s effort to produce original content will play a critical part in improving its profitability in the future. All notwithstanding, the threat of competitors is significant in the constantly changing and technologically-influenced industry. The Company faces a possible threat from local providers of the services. Its entry of new markets may pose a threat to its profitability resulting to losses. For instance, markets such as South Korea are greatly dominated by local TV, movies and series streaming service providers and thus the Company may end up making insignificant profits after extensive input. However, the Company will remain dominant in areas where it has already established its services such as in the US and Canada.

**5. Conclusion**

Effective corporate strategy is critical for the development of any business entity. However, what is more important is the efficient implementation of such strategy. A business that implements an effective strategy efficiently improves its efficiency in production, delivery of products and services, marketing and, therefore, records a higher profitability. The acknowledgement of the important of efficient implementation of practical and well-developed organizational strategy leads many organizations in dedicating time and resources in the process. The video streaming industry demands the application of effective strategy. The implementation of such strategy has led Netflix Company into the achievement of significant growth and development, eventually beating the once global leader, Blockbuster. The Company’s ability of tapping into new technologies, its support for innovation and integration of such innovation into its operations, its efficient pricing strategy, and the shift to online operations have achieved it great success. The Company remains a global leader in the delivery of the services. Moreover, it will remain the dominant provider of the services in the future considering its efficient planning and implementation of strategy. However, that various factors such as competition and industry uncertainties pose a threat is undeniable.

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