1. How would you characterize Netflix’s business model for DVD-by-mail business?

2. How would you characterize Blockbuster’s business model? And how would you characterize the differences between Blockbuster’s and Netflix’s DVD-by-mail business models?

Differences:

* Netflix operates through mail, while Blockbuster through physical stores
* Netflix offers a personalized recommendation system, while Blockbuster’s recommendations are given in store by the staff members
* Blockbuster’s revenue comes mostly from hit movies, while Netflix’s is more evenly distributed, also giving smaller movies their space

3. How would you identify and explain the key changes in Netflix business model over time? What were the consequences of those changes in the evolution of Netflix’s business?

* Changing to a prepaid subscription plan and removing late fees (1999)
  + Turned the disadvantage of the long delivery time into having movies at home all the time (in the beginning, maximum of 4 movies), which was a key advantage compared to the competitor companies.
* Adding distribution centers all across the country
  + Heavily reduced the time it took to ship, but mostly return DVDs
  + This improvement in the delivery service also contributed to the great increase in Netflix subscribers in 2002
* Making the recommendation system personalized
  + When creating a new account, customers took a short survey to identify their favorite movie genres and rate specific movie titles from one to five. Then, the algorithm used these survey results and the respective ratings of millions of similar customers to recommend personalized choices for each user.
  + This new recommendation system also filters the recommendations shown, so it doesn’t suggest movies that are out of stock to not frustrate a customer by recommending a title that was not immediately available.
  + That system increased the utilization of movies already acquired and in stock, rather than requiring the purchase of more copies of newer films.
* Streaming on-demand
  + This new service provided great content and personalization to the users. Furthermore, customers could also view Netflix’s content on their TV, instead of just on the computer.
  + Customers started shifting from DVDs to online streaming (in 2010, more people would watch shows and films through the streaming service than through DVDs)

4. How different would you say Netflix’s DVD-by-mail and streaming business models are? Does Netflix’s role change in streaming compared to DVD-by-mail?

The business models are similar in premise but different in the operation side of things. In both of the cases the client pays a subscription in order to be able to watch movies at home.

The difference comes in the way the client has access to the movies. In DVD-by-mail the client only has access to 3 movies at a time and has to wait for the movie to come in the mail. In streaming, the client has instant access to all the movies available on the platform.

The DVD-by-mail service requires a big physical infrastructure, including distribution centers and warehouses. On the other hand, the streaming service doesn’t require such a big physical infrastructure, but needs a huge cloud backend.

Another difference is the type of employees needed by each service. While the DVD-by-mail requires mostly employees to package and ship the DVDs, the streaming service requires mostly employees to work on developing Netflix’s online platforms. Therefore, on average, the streaming service requires employees with higher qualifications than the DVD-by-mail service.

The role doesn't change in streaming compared to DVD-by-mail because Netflix continues to be a distributor. But Netflix gains one more role in streaming, it is also a creator of content.

5. Did Reed Hastings make the right move in trying to separate the DVD-by-mail business from the streaming business? How do you think he should proceed now?

Yes, Reed Hastings made the right move. Splitting the company into two allows both services to run independently, each with its own structure.

Reed Hastings should continue looking for new deals with entertainment companies in order to increase the streaming platform’s content database. He should also invest in the development/improvement of the online platform. Finally, Netflix should invest in making more original content since that is a great way of increasing its exclusive content, which probably will bring more subscribers to Netflix’s streaming service.

Regarding the DVD-by-mail business, Hastings should continue investing in the area since it is where almost all of his profit and the customers come. When he starts to see a decline in the DVD-by-mail business, he should start slowly transfering the investments into streaming.