RUNNING HEAD: How Netflix beat Blockbuster Video

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# Executive Summary

Blockbuster ruled over the entertainment provider industry for over two decades since the start of company. At that time, before the launch of Netflix, Blockbuster was able to be the industry leader due to many successful strategies. Netflix has become one of the greatest brand names in the current age. This is due to the many features that it provides to the customers. This study focuses on the strategies that Netflix adopted that helped it beat Blockbuster and become the market leader. Netflix had to go through a major failure of one of its products but still managed to overcome it. This study also discusses how Netflix managed to overcome the failure. The findings of analysis and discussion are that Blockbuster could not succeed in the presence of Netflix due to its inability to adopt innovation that Netflix brought in the industry. Netflix provided the product that conformed to the demands of the market.

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# Introduction

Blockbuster was one of the greatest video rental provider at its time. The store was distinguished from its competitors due to its ability to provide a very large collection of movies and video games. The company believed in forming a visible brand therefore, the outlets were very huge with large collections. Its success was unmatched at the time. This changed, however, when Netflix started bring changes and innovation in its provisions. The consumer market also played a part in it. As Netflix stated providing convenient facilities, consumers started to become more and more inclined towards the internet sources for entertainment. (Morgan, 2019)

Many believe that Netflix is the main reason why Blockbuster failed. While there are many other factors as well, this seems to be the major factor due to a number of reasons. Netflix introduced such features that made it stand out from the crowd. In the era of online services like Netflix, Hulu and HBO, the survival of retail stores is very difficult. Like other industries, consumers of entertainment industry also prefer viewing the content online instead of visiting the stores. Some of the major features that have allowed the company to gain success. One of the major features is that Netflix allows the viewers to instantly stream the content. There are no delays or browsing involved. Additional options that the service provides during watching content have also contributed to the success.

The aim of this report is to explore the reasons why Netflix might be the reason behind Blockbuster’s failure. The report also focuses on the strategies that allowed Netflix to gain success and the approaches that have helped it to gain competitive advantage. Technological diffusion has played a vital role in making Netflix a successful network.

# Literature Review

## Historical Context of Netflix & Blockbuster

Netflix is a US based entertainment company. Many of its provisions include streaming movies and TV shows online, online video-on-demand and mail service. The company reported in 2017 that the total number of people who had subscribed to the network all over the world were 103.95 million and in United States, there were 51.92 million subscribers. The company has adopted many different methods to increase its growth over the span of its operating years. It has applied different methods to gain customers and has also brought changes in its basic business model. The strategies that the company has adopted above time have been pro-active in the sense that whenever it faced any criticism, they were active in dealing it. Similarly, introducing different options and features on its channel due to the changing behaviors of consumers also show its ability to lead the market. The founders of Netflix are Marc Randolph and Reed Hastings. They formed the company in Scotts Valley, California in August, 1997. The basic service that the company provides is online streaming but it has also expanded towards production of television shows and movies, and online distribution. (Mandal, et al., 2017)

David Cook founded the company in 1985, when the first store was opened in Dallas, Texas. As Cook was a computer programmer, he programmed computers of the company that were able to track consumer preferences. Due to this ability the inventory could be provided to the stores according to the preferences. The company also opened a huge distribution facility in Dallas which helped in the success of company. In 2010, the company had total 3306 operating stores. These stores contained entertainment products along with movies and games which were offered on purchase and rent. Blockbuster had to file for bankruptcy because it could not survive in the competitive industry.

## Strategic Choices of Netflix & Blockbuster

Netflix has made some strategic choices due to which it has gained the position of market leader. The most important strategy was to integrate technology and innovation in its model. Netflix is not just an entertainment company but it is also a technology company in terms of its operations. In the modern world, companies have to be innovative in order to stay ahead of the competition. This age is defined as a digital and knowledge era. Only those companies can succeed who provide innovative products and services to the consumers as consumer patterns have also changed with advancements in technology. (Hana, 2013) Netflix started a small but personalized service that was convenient for the customers. The company started the service of order-by-mail. The company then worked towards its ultimate goal: streaming content. When this proved to be successful, subscriptions were provided that further hooked consumers to the network. Then the company started expanding into film and shows production. Netflix has produced some of the best content that is famous in the whole world.

Blockbuster started as a physical store that provided movies and games on rent. It also provided the service to rent DVDs through mail. In the beginning, this strategy worked for Blockbuster but as more competitors started entering the market, the company started to lose its position as a leader. The main mistake that Blockbuster made was that it could not adopt the technology that could have made it innovative and competitive in the market. There are many strategies that resulted in failure. With time, consumers stopped choosing to go to stores, instead they preferred to have access to products from home. This is the reason why Blockbuster failed to capture market.

## Analysis

As mentioned above, there are many reasons how Netflix contributed to the failure of Blockbuster. Some of the major reasons in the industry are:

### Changing Technology:

With the progression of digital age, companies are realizing the importance of technology in their operations and provisions. Consumers these days are very knowledge-able when it comes to choosing products. The survival of those organizations is ensured who are constantly adapting themselves to the latest technology. (M.Ortiz-Villajosa & Sotoca, 2018) Every age had a medium through which they could view entertainment content. These mediums include Radio, Televisions, VCR, VCD Players, DVD Players, etc. With the introduction of internet and gadgets, these mediums have gone almost obsolete. There is no demand for these mediums especially in the new generation. This generation prefers viewing entertainment content on laptops and mostly, mobile phones. Consumer market wants products and services that are easily accessible to them or ‘just a touch away’. This change in technology has helped flourish the businesses of online channels such as Netflix, Hulu, HBO, etc. Among these channels, Netflix is considered as a market leader. This position has been due to correctly identifying consumer behaviors. This is where Blockbuster lagged behind. It could not meet the changing trends in technology that are important for the businesses to survive.

Companies make use of technological methods through which the can easily and correctly determine what are the interests and behaviors of consumers. These analytical methods have allowed companies to process data in the form of Big Data which is then extracted to determine different factors. Internet of Things has also transformed different industries. Consumers have access to Netflix on Laptops, computers, mobile phones, tablets. Therefore, all these devices for every consumer are connected to each other. Companies make use of these connections to gather data about the consumer preferences that ultimately allows the apps to recommend the content an individual night be interested in.

Retail Outlets vs. Online Operations:

As mentioned earlier, consumers prefer the products or services that are within their reach, Retail outlets of entertainment providers have been going out of business because people like to view content online rather than renting or buying CDs or DVDs. Internet has content from all over the world available. It can be accessed anytime therefore there is no need for consumers to visit stores in order to buy or rent movies or shows. In almost every industry, online operations have resulted in success for the organization, considering other factors as well. Advantages of online operations for organizations are that more consumers are attracted towards online services due to additional benefits, and costs are comparatively less therefore more funds are available for technological advancements. This feature of online businesses has resulted in increased market share of the companies. Netflix thrives due to the online services it provides. For many industries such as fashion industry or manufacturing industry, consumers still prefer retail outlets. However in entertainment industry, consumers prefer the most accessible option which is online operations. Due to changes in technology, people don’t use mediums such as DVD players, TV, VCR’s, etc. These things are considered as things of the past. Therefore, consumers don’t need the components that are used in these devices. Everything is available and accessible on the internet. With the introduction of web platforms like Netflix, Hulu, HBO, amazon, etc. consumers switched to online services. (Chao, et al., 2016)

### Innovations & Pricing Strategies: Netflix:

Netflix introduced online streaming that was available for people where ever they had access to internet. This feature provided convenience and ease to consumers. People could have access to entertainment in the comfort of their homes. This feature grabbed the attention of consumers all over the world.

Innovative Features: As the world is moving towards more and more convenient means of services, Netflix has provided access on mobile phones as well through launching an application. Online media streaming is becoming very popular and one of the main contributors of this trend is the availability of media on mobile phones. In the past few years that saw a tremendous rise in technological advancement, consumers are moving towards online channels for streaming media content. Other means of entertainment are becoming obsolete. (Joshi, 2015) Netflix has a very well-known feature that recommends those movies and shows to the people that are according to their interests. This is due to the fact that Netflix believes in collecting data. Since its origin, the company has been focused on collecting data in order to predict the success of its content. This data is collected through analytical methods that gather data by different sources. During the pre-production phase of its original series, House of Cards, the company took 6 years to predict the success by analyzing the user data. For regular viewers, if anyone watches a movie of specific genre, the app or site suggests similar shows or movies. The company uses Big Data in its operations to predict trends in the watching behavior of consumers. This data is collected through the viewing patterns, searches, etc. of consumers.

Pricing Strategies: Netflix has been tactfully increasing its pricing as well. There was a time when Netflix increased prices but the subscribers still grew. This was because of the reason that the company increased prices around the time of release of its original dramas. Due to this, despite the increase in prices, subscriptions were not lost rather there was an increase in the number of subscribers. (Rodriguez, 2017) Netflix offers different packages to the people according to provisions that are offered. There are three packages: Basic, Standard and Premium. These packages are priced differently while the only main difference between the provisions is number of screens that can be watched on each package.

## Discussion

In the light of analysis done above, it can be said that strategies and innovation that Netflix brought to the online streaming industry has helped in success of the company.

### Netflix a Dominant Provider of Online Video Streaming:

There are many attributes of Netflix that have assured the dominance of the company in the industry. Although there are many established competitors who are also very well-known and with the passing days, they are gaining subscribers in huge numbers, Netflix is still enjoying its position as the market leader.

Content for Customers: Netflix has a library of entertainment content that features movies and TV shows from different producers. However, for the past few years Netflix has started to produce its own TV shows and movies. Some of the notable TV shows by Netflix are: When they see us, Black Mirror, 13 reasons why, Stranger Things, The Crown, Sacred Games, House of Cards, Orange is the New Black, You along with international TV series as well such as Dark (German), Money Heist (Spanish), etc. The network has also launched its original movies such as Outlaw King, Bird box, The King, etc. These series and movies have gained popularity all over the world. The content is selected on the basis of the trending topics or common interests.

Providing Features: The site offers many features that makes viewing the content very easy and convenient. As ads are not displayed during videos, uninterrupted streaming is offered. The website itself is very easy to use with interfaces for different accounts, etc. There is a feature in videos through which the next episode is played automatically has also allowed the service to attract more customers. It may seem as a small deal but due to this feature, convenience has increased. Users don’t have to change the episode themselves.

Interests of Consumers: Netflix produces content after analyzing the interests of consumers. These interests can be due to the social factors, awareness, etc. many shows and movies that were produced by Netflix in some way showed or mentioned the social issues. The content that is featured on the channel is also dependent on the interests of consumers. According to searches and watch content of the subscriber, Netflix produces suggestions. These abilities of the network have forced the people to be loyal, thus making it the dominant service provider in the industry. (Matrix, 2014)

### Recovery of Netflix after Failure of Qwikster:

Netflix introduced a service named Qwikster through which DVDs could be rented. As the company was already offering this service, it simply meant that the company was splitting already offered services. Under this offering, customers had to subscribe to two different accounts on different websites and pay for them separately. This increased the price of consumers. Secondly, there was a lot of confusion about the name of the service. Many people thought that it wasn’t appealing enough. As the prices rose, subscribers were furious. The reaction was almost same by majority of the users that said that they are being compelled to unsubscribe from the service because of this step. There was a drastic drop in the share price at the end of year 2011. The share price fell from $300/share to $60/share. The total number of subscribers also decreased drastically. (Hartung, 2013)

In the short-term, it was a huge failure on the part of company. However, Netflix immediately shut it down as it was losing subscribers and share price. It was a timely decision by CEO Hastings because if it was prolonged, it would have harmed or damaged the company. When the company cancelled the service, it recovered by the end of the following year, 2012. Netflix has two major advantages due to which it sustains in the industry. One advantage is that the industry is growing as there is a rise in trends of online streaming due to technological changes. This market is expected to grow in the future as well as the major portion of this market is Millennials who are very much into online services. Second advantage is that it is a widely known fact that leadership of the company is very strong and creative. Even this decision that almost cost the company, turned out be a success. DVD business has been going out of style for the past decades due to which retail renters such as Blockbuster could not survive. By splitting the two services, Netflix diverted the focus on the main business, online streaming. Netflix tried to build and expand the business branch that was promising than the one which would be obsolete in coming years. After this failure, Netflix made more innovative and creative strategies that allowed the company to attract more consumers. They introduced more features, more accessibility and more efficiency on the website.

## Future of Netflix

Despite being faced by competition from established competitors, Netflix has still managed to be on the top of the market. Main reason for this is that the strategy it has made is very consumer-focused. Consumers feel that their demands are being met through this service. The major market portion is comprised of millennial who are known to be very advanced, digitally. This generation demands products that are available to them easily. Netflix launches whole seasons at the same time which allows the consumers to watch full season whenever they want to rather than waiting for the next episode. This feature keeps users committed to the series, increasing viewership for the company. In this market, Netflix has become a common theme of friendship and a trend. There is a common term “Binge-Watching” which means that users watch episodes back to back.

The future of Netflix looks promising because the company is also at a very strong position due to the success it has achieved and also due to the different factors that have allowed it to sustain in the market. These factors include attributes of the major market along with the technological advancements that have brought a change in the behavior of consumers. Strategies of the company are designed in a way that make sure that it can survive in this dynamic market. (Sobral, 2019)

# Conclusion

Blockbuster was a successful company at its time as seen by the performance that it showed during its early years. It enjoyed success and was considered the market leader in the entertainment services industry. The only mistake that it made was that it didn’t adapt the changing market. Due to this reason, it lost to the innovative and adaptive competitors who made sure that the product they are offering is according to the demands of this dynamic market. Netflix is believed to the greatest contributor of Blockbuster’s demise. When Netflix introduced its online streaming, there were many competitors who were already doing it but the aspect that set it apart was the availability of content along with integrating technology to understand the consumer market better. Therefore, Netflix beat Blockbuster due to a number of reasons.

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