“Netflix Business Model”

**Netflix - BUSINESS MODEL:**
Netflix represents a classical service business model in the video-on-demand industry where users of the service and payers are the same entity. Netflix was the pioneer who used this business model to offer entertainment content using video streaming technology in exchange for subscription fee.

**HISTORY – The exemplar firm and others:**
Netflix video on demand originated from DVD rental business in 2007. The company still operates it along with its VoD streaming business. Netflix is the largest online movie and TV show streaming provider with more than 40 million streaming members as of 2013; Netflix streaming accounted for 89% of shows streamed in Q1 2013. The company also produces original content. Video on demand industry is a crowded one, with multiple players and business models. Players in the industry compete on price, exclusivity and range of content, user experience in terms of personalization and compatibility with different devices. Some of the large competitors include Hulu, which uses a hybrid business model partly based on advertising revenues, and Amazon's Prime offering as a complementary to their retail business.

**CUSTOMERS - who are they:**
Companies at the core of the industry, like Netflix and LoveFilm grew out of DVD rental businesses operate a one-sided business model, where user of the service is the one who pays for it and is the primary customer at the same time.

**ENGAGEMENT – value creation proposition (including network effects):**
The main value propositions to streaming consumers are the legal access to the rich movie database (20 000+ episodes) and the personalized service expressed in the personal suggestion of movies for each customer without interruption of advertising. The customers' ratings serve as the basis for the recommendations and not a film's popularity at the box office. The rating algorithm makes better use of movies available on the website tailored to his/her taste to watch. Netflix also creates value by having one of the widest supported devices ranges, including game consoles, tablets, PCs, and internet TVs. Finally, Netflix offers original and exclusive content to its subscribers. New and exclusive series are being released as full season, getting Netflix users hooked. Users do not have to wait week by week for episodes to be released is being released.

**DELIVERY - the value chain:**
Netflix licenses content from broadcast network, cable network providers, but also directly from movie and film and television studios, as well as develops original content. As an early entrant Netflix was able to build a huge database of movies benefitting from the willingness of both TV studios and media companies to license their content. They hoped that the user would have a chance to catch up on previous series of TV shows and, as a result, would be more willing to pay for their services. As time passed, Netflix was viewed as being a substitute rather than a complementary good to traditional content distributors. It acquires movies customers want to watch and it uses the recommendation engine to make the service personalized and appealing. This significantly increases customers' willingness to pay for the service as they have a wider choice and easy use.
Netflix also produces original content based on the customer data. By analysing behavioural propensities of its paying customers, Netflix determined that a political drama starring Kevin Spacey and produced by David Fincher would appeal to a large cross-section of its existing subscriber base, resulting in highly successful (14 Emmy nominations) political drama “House of Cards”. A possible next step for Netflix is licensing its original content to other distribution channels.
Netflix delivers its streamed media through Microsoft's SilverLight platform, which is a platform that permits programmers to develop complex web applications. The Silver Light player that Netflix uses allows streaming service to PC's only. In 2010 Netflix switched to Amazon's cloud services and started using some features of the HTML5 technology to extend the range of devices that could...
stream video through Netflix to numerous web browsers, consoles, and other devices including tablets and iOS systems since they do not work with Flash. Due to the fact that HTML5 platform is not yet implemented officially Netflix engineers had to work to integrate and innovate the way they deliver video in order to use the technology. The way Netflix integrates HTML5 enables a wider range of devices able to stream media, uses less battery than other platforms. The supreme rating algorithm CineMatch, which recommends customers movies matched to their tastes, makes for a distinct personalized service.

**MONETIZATION – value capture**

Netflix's major source of revenue are the subscription fees of 7.99$ per month for an unlimited TV shows and movies streamed over the internet to their TVs computers and mobile devices. Currently Netflix does not use price discrimination for its customers. A popular critique of video streaming service Netflix is that the company cannot bring in enough revenue from customers alone to keep up with the need to continue purchasing new content for their service: "Netflix needs advertisements to bring in more money." Netflix's response has always been a solid "No." Instead, the company is planning to increase their fees, while still protecting the original add-free value proposition.