Netflix Marketing Plan

Industry Analysis

There have been many changes in the ways people view movies. Since the invention of the VCR, people have been going to a store to rent the latest movie release or view a classic. Now with the advent of the Internet, people have many different media to view a movie. They can download from a website, view in a video player, or stream the video from a vendor's website. This was made possible because of Netflix.

Netflix pioneered the way people rent movies. The company introduced low monthly rental fees instead of daily rental fees. There were no penalties for late movies because there were no stores to return the movies to. Instead, Netflix came up with the idea of allowing a customer to choose from a list of movies online, the movies are mailed to them within 1 business day, and could be returned the next day for another movie on the customer's list complete with a self-addressed envelope with the postage paid. The only thing the customer had to do was drop it in the mailbox. Then in 1-3 business days, another movie from the list was delivered. As long as your subscription to Netflix is current, a customer can enjoy as many movies in a month at the cost of one DVD.

This concept proved to be the death-knell for "mom-and-pop" video stores that require a customer to walk in and make a selection. It also caused traditional movie rental companies like Blockbuster to rethink its position within the industry as the leader. Netflix has no storefront, no employees to fill stores, no retail space to pay for. It could offer customers the ability to rent movies without the hassle of going to a store and do so with very little cost to the customer.

New technology has also made competition fierce within this market segment. "New technologies and products, including online video, DVR, VOD, broadband, and video subscription services have attracted consumer dollars" (US, 2009, para. 1). Cable companies like Time-Warner are offering their "On-Demand" service that allows viewers to purchase movies to watch before they are released to other vendors. Netflix currently offers customers the ability to stream movies right from their computers without downloading. Sears is joining Bestbuy and teaming up with Sonic Solutions to sell equipment that is capable of delivering streaming movies to your cell-phone, Blu-ray, and television through their RoxioNow software. “As part of the multi-year agreement, Sears has licensed the RoxioNow™ platform, which will power digital entertainment delivery services for both Sears and Kmart” (www.sonic.com).

Still other companies like Redbox are delivering new movie titles in places that traditional movie rental companies never thought possible. Redbox, which was a subsidiary of McDonalds Ventures LLC until Coinstar bought the company in 2009, first started out in McDonald’s fast-food chains and are looking to expand to grocery store chains. “It has placed the machines in 75 grocery stores, and has signed agreements for 400 more grocery locations, including Stop & Shop and Giant stores owned by Royal Ahold NV in the Northeast” (Freed, 2006, para. 8). Blockbuster intends to roll out its version of the Redbox vending machine. “Blockbuster has signed a deal to place DVD rental vending machines in Kwik Trip convenience stores. Blockbuster is planning to have 10,000 kiosks across the country by the middle of the year as it attempts to catch up to Redbox” (Associated Press, 2010).

Netflix was the catalyst that virtually changed the way customers rent movies. As newer technology becomes available, new media will follow. Already customers of Netflix can access movies from the Nintendo Wii and Playstation 3. Soon streaming movies will become available to handsets such as the iPhone and Droid. There will be no place a customer can’t access a movie at their fingertips. That is attributable to Netflix’s business model of delivering convenience and speed to an ever-changing society.

Market Analysis

Market trends in the film industry are constantly changing and evolving, which is caused by the continuing advancement of new media technically. There are several different ways to watch a movie, from going to the theatre, to clicking the T.V. remote without even getting up from the couch. With over $13 million members, Netflix has exploded onto the movie market, with so many different options for renting and watching films and television shows (www.netflix.com).

Netflix has taken advantage of the power that media technology and entertainment carries over society and culture. The company does an amazing job of allowing their members to access their service through different communication and technology mediums, significantly increasing the chances of gaining new, loyal and active customers. The company's service only costs $8.99 a month for unlimited rentals with no late fees, which is important when discussing the trends in the market since cost-friendly and convenient ways to rent movies is important. Members can access Netflix movies and T.V. shows through the mail, the internet, T.V., digital video players, Apple's new Ipad and several game consoles such as Nintendo's Wii, Sony's PS3, and Microsoft's Xbox 360 (www.netflix.com). This proves that one of the biggest trends in the market is exposing consumers to different ways to easily rent movies, and it furthers their advantage over competitors if the company can offer the service through multiple outlets.

Netflix has significantly changed their rental process to include several different ways to download and rent movies, but with the growing change in technology, the company will need to focus on the consumers and developing new ways to provide their service to maintain success. "Technologies such as high-definition pay-per-view, video on-demand, and DVR enhance people's options for home movie viewing and lessen the need to rent discs" (www.wink invest.com, pp.8). Market trends are consistently changing and new media innovations are making it difficult to keep up with new technologies, but Netflix has done an exceptional job at building partnerships with other media technology companies to advance their success. If Netflix can continue to provide their movie and television show rentals and downloads, while building their brand through business partnerships, they will outlive their competitors and remain the successful company they have become today.

Legislative Analysis

Among the most important laws that regulate Netflix are copyright laws, customer privacy policies, and false advertising laws.

Copyright Laws

Netflix's business model is built around the idea of being a distributor of copyrighted materials. Every single movie and TV show that Netflix sends out to their customers via mail and through the Internet has to respect their respective copyright holders. Netflix has to make contractual agreements, and pay the copyright owners of each of the movies and shows they rent in order to acquire permission to rent out these materials to their customers. Netflix pays for each disc that they rent out and for each movie that they stream online. Failure to respect these copyright rules could put Netflix immediately out of business, since they could get sued by production studios, and they could lose their established partnerships with copyright owners — the very owners of the products Netflix rents.

Customer Privacy

In order to get movies delivered by mail, Netflix customers have to create a personalized account online. In this account customers have plenty of sensitive information, such as their name, street address, email address, credit card number, and the list of movies that they would like to get delivered next. This is all information that Netflix promises to their customers that it will remain confidential, and will never be sold.

In 2006, however, Netflix launched a contest called "Netflix Prize", in which they made available the movie preferences of over 480,000 customers to the public (Winston & Strawn LLP, 2010). The idea of the contest was for participants to develop a new algorithm that would predict if a customer would like a certain movie or not, according to their past viewing preferences, and there would be a 1 million dollar grand prize for the winners of the contest (Netflix, n.d.). In order for researchers to determine these viewing preferences they made actual customer data available in a way that specific customer's viewing preferences and histories could be identified and linked to their owners. As a result, a class action lawsuit was raised, known as Doe v. Netflix (Singel, 2009). In this case the plaintiff accused Netflix of breaking the Video Privacy Protection Act, which was created in 1988, and prohibits businesses from releasing data about customer's audiovisual renting and buying history (Newman, 2009). This case has not yet been resolved.

False Advertising

Netflix has had long running campaigns that claim that customers can enjoy "unlimited DVD rentals," and that Netflix can do a "one day delivery" on their most of their movies (Fisher, 2005). This would imply that a customer with an "unlimited", 3 discs at a time plan, should be able to get 3 new movies every day, for 30 days, which would total 90 movies in a month. In practice though, a typical customer under such a plan may receive between 12 and 18 movies if they return all of the movies the same day that they watch them (Associated Press, 2006).

In September 2004, the case of Chavez v. Netflix was raised, accusing Netflix of false advertising. The case was settled outside of court when Netflix agreed to give their current subscribers that joined the lawsuit a free, one month, upgrade on their account, or a totally free month of service for former customers (Fisher, 2005).

Marketing Plan

Netflix's Chief Marketing Officer Leslie Kilgore believes that "success results when superior products and superior value are offered to the consumer" (Netflix.com). To Netflix, the superior product is a movie catalog unrivaled by any other company.

An article on TechCrunch.com, reporter MG Siegler analyzed a business report released by Netflix in June 2010. The PowerPoint presentation, which is embedded under the article, looks at the company's future business plan.

In the report, Netflix cites that with more than "100 million USA households already pay for TV, plus several times that globally," the company will position itself as a company that offers "consumer-paid streaming subscription of movies and TV shows." This is a move away from "a DVD-by-mail service to a streaming video service," and while pay-per-view and on-demand services tout same-day availability for newly released movies, Netflix is “focused on building the biggest back catalog of movies available for streaming” (Siegler, 1).

Netflix also is turning its attention to creating a superior experience for its consumers. Currently, Netflix can stream on 25 different platforms including Xbox360, Nintendo’s Wii, TiVo, and on PC’s and on Macs (Siegler, slide 18).

The attention to consumers has resulted in favorable ratings, including a four-year number one rating in customer satisfaction by independent researcher ACSI/Foresee (Siegler). Relying on their loyal customer base to tell friends and family (Netflix encourages them to do so through direct mail postcards), the company hopes to build its brand through word-of-mouth. As the report states, “if subscribers keep raving about Netflix, we will prosper” (Siegler, slide 38).

In addition to word-of-mouth, Netflix has employed marketing strategies including national television and print advertisements, as well as internet advertisements.

To help new customers adapt to the product, Netflix offers a trial period, allowing them to use the service for a two-week period cost-free. According to its Web site, the trail period has been quite successful, with “more than 90 percent of trial members convert to paying subscribers” (Netflix.com).

Netflix’ future goals are to grow their base of subscribers while being ubiquitous, to be everywhere and for every one.

“By 2020, if we can keep growing our subscriber base, we will be one of the world’s largest licensors of movies and TV shows” (Siegler, slide 16).

References

Fisher, Ken (2005, November 1). Netflix settles class action lawsuit. Arstechnica. Retrieved June 25, 2010, from http://arstechnica.com/old/content/2005/11/5515.ars

Freed, J. (2006, April 25). Redbox aims to bring a DVD rental machine to a lobby near you. Retrieved June 25, 2010, from Inside RedBox: http://www.insideredbox.com/redbox-dvd-rental-kiosks-take-over-the-world/

Liedtke, Michael (2006, February 10). Frequent Netflix renters sent to back of the line: The more you use, the slower the service, some customers realize. Associated Press. Retrieved June 25, 2010, from http://www.msnbc.msn.com/id/11262292/

None. (2010, June 25). On Demand. Retrieved June 25, 2010, from Time Warner Cable On Demand: http://www.twondemand.com/

None. (2010, June 22). Sonic. Retrieved June 25, 2010, from Sonic.com: http://www.sonic.com/about/press/news/2010/06/sears-chooses-sonic-solutions-to-deliver-movie-downloads.aspx

Netflix: Rent as many movies as you want for only $8.99 a month! Free Trial. (n.d.). *Netflix: Rent as many movies as you want for only $8.99 a month! Free Trial.* Retrieved June 24, 2010, from http://www.netflix.com/

Netflix (n.d.). Management. Netflix. Retrieved June 25, 2010, from http://www.netflixprize.com// http://www.netflix.com/MediaCenter?id=5380

Netflix. (n.d.). *Stock:Netflix* (NFLX). Retrieved June 24, 2010, from www.wikinvest.com/stock/Netflix_(NFLX)

Netflix (n.d.). The Netflix prize rules. Netflix. Retrieved June 25, 2010, from http://www.netflixprize.com//rules

Newman, Natalie (2009, December 17). Netflix Sued for "Largest Voluntary Privacy Breach To Date". Proskauer. Retrieved June 25, 2010, from http://privacylaw.proskauer.com/2009/12/articles/invasion-of-privacy/netflix-sued-for-largest-voluntary-privacy-breach-to-date/

Press, A. (2010, June 12). Blockbuster to add kiosks to Kwik Trip. Retrieved June 25, 2010, from Mintel: http://academic.mintel.com.

Siegler, MG (2010. June 3). The Future of Netflix's Business Laid Bare – By Netflix. *TechCrunch*.

Singel, Ryan (2009, December 17). Netflix Spilled Your Brokeback Mountain Secret, Lawsuit Claims. Wired. Retrieved June 25, 2010, from http://www.wired.com/threatlevel/2009/12/netflix-privacy-lawsuit/

Winston & Strawn LLP (2010, June 21). Netflix settles class action privacy lawsuit. Lexology. Retrieved June 25, 2010, from http://www.lexology.com/library/detail.aspx?g=a667d7a6-ca01-444b-b227-9d8bd0cab134