*The Epix deal is an example of the innovative ways in which we’re partnering with major content providers to broaden the scope and freshness of choices available to our members to watch instantly over the internet.*

 *--Ted Sarandos, Chief Content Office, Netflix*

Netflix was founded in 1997 as a more conventional rental service with online offerings. The firm grew rapidly, particularly beginning in 1999 when it eliminated due dates to return rented products and the “late” fees associated with returning items after the due date. These actions were especially popular with customers who were disenchanted by the late fees they sometimes incurred when renting from firms such as Blockbuster.

 Fast-forward to late 2010 and we find that Netflix had 15 million subscribers. To serve these customers, Netflix shipped an average of over 2 million DVDs per day. The company had become the world’s largest subscription service streaming movies and TV episodes over the Internet and shipping DVDs by mail. Supporting the firm’s success and continued growth was its customer service core competence (we identify other capabilities and core competencies below). Evidence that customer service is a core competence for this firm is provided by the fact that in February 2010, “…the American Customer Satisfaction Index named Netflix the number one ecommerce company for customer satisfaction.” From an operational perspective, Netflix notes that 90 percent of its members say they are satisfied with the firm’s service and that they recommend the company to family and friends.

 Netflix’s success was in stark contrast to Blockbuster’s fortunes. This surprised some observers in that, in 2005, some took the position that Blockbuster was poised to outperform Netflix as a result of a decision to integrate online and in-store rentals. (Through this system, customers could rent online but return the product to a Blockbuster store and immediately select another rental.) However, Blockbuster never achieved the synergies it anticipated through the efforts to integrate “bricks” (i.e., the storefront locations) with “clicks” (i.e., online rentals). According to an analyst, “Blockbuster’s experience shows that executing a bricks-and-clicks strategy entails a high degree of difficulty, managing not just two very different kinds of businesses, with dissimilar domains of expertise, but also a third challenge: integrating two separate systems.” Rather than integrating two systems (bricks and clicks), Netflix’s strategy finds the firm concentrating solely on online and streaming opportunities. In light of its competitive difficulties and poor performance, Blockbuster filed for bankruptcy in September 2010, partly with the objective of overcoming nearly $1 billion in debt.

 Several capabilities stimulate and support Netflix’s success. Information technology is a capability and a core competence as well for this firm. Netflix allocates a significant amount of resources to build its own proprietary IT systems, which are the source of another capability—data management. By carefully analyzing rental patterns, Netflix provides a great deal of supportive information to its customers including recommendations for movies that are consistent with previous rentals. Vendor relationships are a capability and likely a core competence, too, in that the firm works tirelessly with content providers to gain access to their products and with distributors to find avenues for delivering the content it has available. In fact, as Chief Content Officer, Ted Sarandos’(quoted at the beginning of this mini-case) primary responsibility is to find additional ways for Netflix to gain access to content (such as the deal with Epix) that can be distributed through multiple channels. The deal with Epix, for example, gives Netflix exclusive rights to new releases and older films from Paramount, Lionsgate, and MGM “…on its site 90 days after Epix first debuts the films to its premium pay and on-demand subscribers.” In terms of distribution channels, by late 2010 customers were able to use multiple devices such as Sony’s PS3 and Nintendo’s Wii consoles and Internet TVs from LG, Sony, and VIZIO to view Netflix’s products.

 Although successful, Netflix is not without competitive challenges. Instead of competing against storefront operators such as Blockbuster, Netflix now finds itself facing well financed companies with impressive technologies. Apple, Amazon, and Google are examples of the competitors Netflix will now likely face in the battle to deliver innovative content to customers through a variety to channels.