

were displayed to a subscriber and in what order. The recommendations helped subscribers quickly create a list of DVD titles they wanted to receive by mail and/or a list indicating the titles they wished to have streamed; subscribers used these lists to specify the order in which movies would be mailed out or streamed and could alter the lists at any time. They could also reserve a copy of upcoming releases. Netflix management saw the movie recommendation tool as a quick and personalized means of helping subscribers identify titles they were likely to enjoy.

Netflix also used subscriber ratings to determine which titles to feature most prominently on the company's website, to generate lists of similar titles, and to select the promotional trailers that a subscriber would see when using the Previews feature. Netflix management believed that over 50 percent of the titles selected by subscribers came from the recommendations generated by its proprietary software. The software algorithms were thought to be particularly effective in promoting selections of lesser-known, high-quality films to subscribers who otherwise might not have discovered them in the company's massive and ever-changing collection. On average, about 85 percent of the titles in the Netflix library were rented each quarter, an indication of the effectiveness of the company's recommendation software in steering subscribers to movies of interest and achieving broader utilization of the company's entire library of titles. About 70 percent of the DVDs that Netflix shipped to subscribers during 2009 were titles that had been released to movie rental enterprises and available to subscribers for three months or longer.

A Choice of Mail Delivery versus Streaming

Until 2007–2008, when streaming technology had advanced to the point that made providing VOD a viable option, Netflix concentrated its efforts on speeding the time it took to deliver subscriber orders via mail delivery. The strategy was to establish a nationwide network of distribution centers and shipping points with the capability to deliver DVDs ordered by subscribers within one business day. To achieve quick delivery and return capability, Netflix created sophisticated software to track the location of each DVD title in inventory and determine the fastest way of getting the DVD orders to subscribers. When

a subscriber placed an order for a specific DVD, the system first looked for that DVD at the shipping center closest to the customer. If that center didn't have the DVD in stock, the system then checked for availability at the next closest center. The search continued until the DVD was found, at which point the regional distribution center with the ordered DVD in inventory was provided with the information needed to initiate the order fulfillment and shipping process. If the DVD was unavailable anywhere in the system, it was wait-listed. The software system then moved to the customer's next choice and the process started over. And no matter where the DVD was sent from, the system knew to print the return label on the prepaid envelope to send the DVDs to the shipping center closest to the customer to reduce return mail times and permit more efficient use of Netflix's DVD inventory. No subscriber orders were shipped on holidays or weekends.

By early 2007, Netflix had 50 regional distribution centers and another 50 shipping points scattered across the United States, giving it one-business-day delivery capability for 95 percent of its subscribers and, in most cases, also enabling one-day return times. As of 2010, additional improvements in Netflix's distribution and shipping network had resulted in one-business-day delivery capability for 98 percent of Netflix's subscribers.

In 2007, when entertainment studios became more willing to allow Internet delivery of their content (since recent technological advances prevented streamed movies from being pirated), Netflix moved quickly to better compete with the growing numbers of VOD providers by adding the feature of unlimited streaming to its regular monthly subscription plans. The market for Internet delivery of media content consisted of three segments: the rental of Internet-delivered content, the download-to-own segment, and the advertising-supported online delivery segment (mainly YouTube and Hulu). Netflix's objective was to be the clear leader in the rental segment via its Watch Instantly feature.

Giving subscribers the option of watching DVDs delivered by mail or instantly watching movies streamed to subscribers' computers or TVs had considerable strategic appeal to Netflix in two respects. First, giving subscribers the option to order and instantly watch streamed