

- A \$23.99 per month plan that entailed unlimited DVDs each month, four titles out at a time, plus unlimited streaming.
- A \$29.99 per month plan that entailed unlimited DVDs each month, five titles out at a time, plus unlimited streaming.
- A \$35.99 per month plan that entailed unlimited DVDs each month, six titles out at a time, plus unlimited streaming.
- A \$41.99 per month plan that entailed unlimited DVDs each month, seven titles out at a time, plus unlimited streaming.
- A \$47.99 per month plan that entailed unlimited DVDs each month, eight titles out at a time, plus unlimited streaming.

The company also offered a “limited” plan for \$4.99 that entailed a maximum of two DVDs per month with up to two hours of video streaming to a PC or Apple Mac (this plan did not allow members to stream movies to their TV via a Netflix-ready device—as was the case with the eight unlimited plans). All new subscribers were automatically enrolled for a free one-month trial that provided full access to Netflix’s whole library of 120,000 movie titles and unlimited streaming to PCs, Apple Macs, or TVs via an Internet-connected Netflix-ready device. At the end of the free trial period, members were automatically enrolled as paying subscribers, unless they canceled their subscription. All paying subscribers were billed monthly in advance. Payments were made by credit card or debit card.

The most popular plans were the \$8.99, \$13.99, and \$16.99 plans with unlimited streaming. Subscribers could cancel at any time. Average monthly revenue per paying subscriber was \$14.95 in 2007, \$13.75 in 2008, and \$13.30 in 2009.

Streaming content was enabled by Netflix-controlled software that could run on a variety of Netflix-ready devices, including Netflix-capable Blu-ray players, increasing numbers of Internet-connected TV models and home theater systems that were Netflix-ready, TiVo DVRs, Nintendo’s Wii, Microsoft’s Xbox 360, Sony’s PlayStation 3, and several other electronics manufacturers. However, Netflix subscribers could enjoy Netflix streaming without the need to buy additional hardware; they could use any Windows PC (XP/Vista/7) or Intel-based Apple Mac with decent video capabilities

to access Netflix streaming directly through a Web browser and then connect a TV to the computer’s video output. In mid-2010, Netflix had about 20,000 movie titles available for streaming. Streaming was highly attractive and economical because subscribers got unlimited access to thousands of hours of on-demand programming with no pay-per-view fees (beyond the chosen monthly subscription fee).

Subscribers who opted to receive movie and TV episode DVDs by mail went to Netflix’s website, selected one or more movies from its DVD library, and received the movie DVDs by first-class mail generally within one business day—more than 97 percent of Netflix’s subscribers lived within one-day delivery of the company 50 distribution centers (plus 50 other shipping points) located throughout the United States. Subscribers could keep a DVD for as long as they wished, with no due dates, no late fees, no shipping fees, and no pay-per-view fees. Subscribers returned DVDs via the U.S. Postal Service in a prepaid return envelope that came with each movie order.

New subscribers were drawn to try Netflix’s online movie rental service because of (1) the wide selection; (2) the extensive information Netflix provided about each movie in its rental library (including critic reviews, member reviews, online trailers, and subscriber ratings); (3) the ease with which they could find and order movies; (4) Netflix’s policies of no late fees and no due dates (which eliminated the hassle of getting DVDs back to local rental stores by the designated due date); (5) the convenience of being provided a postage-paid return envelope for mailing DVDs back to Netflix; and (6) the convenience of ordering and instantly watching movies streamed to their TVs or computers with no additional pay-per-view charge. Netflix had been highly rated in online retail customer satisfaction by Nielsen Online and ForeSee/FGI Research. Over 90 percent of surveyed subscribers said that they would recommend the Netflix service to a friend.

Management believed that Netflix’s subscriber base consisted of three types of customers: those who liked the convenience of home delivery, bargain hunters who were enthused about being able to watch many movies for an economical monthly price, and movie buffs who wanted access to a very wide selection of films.