

Hulu, and iTunes was that they were a cheaper alternative to paying monthly cable fees for premium movie channels like HBO, Starz, Cinemax, and Showtime.

Local movie rental stores were rapidly losing market ground and were desperately looking for ways to stave off further declines in rental revenues. Movie Gallery, the second-largest movie rental chain, was in the process of liquidating its entire movie rental business and closing all of its store locations; Blockbuster was shutting stores by the hundreds and teetering on the edge of filing for bankruptcy. Redbox had recently entered the movie rental business with a vending-machine-based strategy whereby Redbox self-service DVD kiosks were placed in leading supermarkets, drug-stores, mass merchants like Walmart, convenience stores, and fast-food restaurants like McDonald's; customers could rent new-release movie DVDs for \$1 per day. Retailers with Redbox kiosks were paid a percentage of the rental revenues. In mid-2010, Redbox had deployed more than 22,000 of its vending kiosks in all states in the continental United States, Puerto Rico, and Great Britain and was aggressively pursuing efforts to put Redbox vending machines in 7,000 to 8,000 additional locations by year-end 2010.

VOD—streaming movies directly to in-home devices—seemed on the verge of becoming the fastest-growing movie rental segment. In February 2010, Walmart announced its intention to distribute movies over the Internet and had acquired Vudu, a leading provider of digital technologies that enabled the delivery of entertainment content directly to Internet-connected TVs and Blu-ray players. With Vudu technology, households with broadband Internet access and an Internet-ready TV or Blu-ray player could rent or purchase movies, typically in high definition, without needing a connected computer or cable/satellite service. Vudu had licensing agreements with almost every major movie studio and dozens of independent and international film distributors to offer approximately 16,000 movies, including the largest high-definition library of VOD movies available anywhere.

Cable companies were also going on the offensive to grow their VOD revenues. In March 2010, the Cable and Telecommunications Association for Marketing Co-op—a group that included Comcast, Time Warner, other cable providers,

Sony Pictures, and Universal Pictures—announced plans to spend \$30 million on an advertising campaign to expand consumer awareness of renting movies on demand and illustrate how easy it was for digital cable customers to make a few clicks on their remotes and have movies instantly streamed to their homes. Both Time Warner and Comcast were in the process of creating an authentication system that enabled subscribers—and only subscribers—to access their TV shows and films online. As a defensive move, HBO (a subsidiary of Time Warner) had recently announced the launch of HBO Go, a video streaming service.

NETFLIX'S BUSINESS MODEL AND STRATEGY

Since launching the company's online movie rental service in 1999, Reed Hastings, founder and CEO of Netflix, had diligently striven to improve on the company's service offerings and better enable the company to outcompete its movie rental competitors. Hastings's goals for Netflix were simple: to build the world's best Internet movie service and to deliver a growing subscriber base and earnings per share every year. He had personally engineered the company's creative but simple subscription-based business model and strategy that had catapulted Netflix into becoming the world's largest online entertainment subscription service and revolutionized the way that many people rented movies.

Netflix's Subscription-Based Business Model

Netflix employed a subscription-based business model. Members could choose from eight "unlimited" subscription plans:

- An \$8.99 per month plan that entailed unlimited DVDs each month, one title out at a time, plus unlimited streaming.
- A \$13.99 per month plan that entailed unlimited DVDs each month, two titles out at a time, plus unlimited streaming.
- A \$16.99 per month plan that entailed unlimited DVDs each month, three titles out at a time, plus unlimited streaming.