

CASE 2 Streaming Video

Remember the old brick-and-mortar movie rental services? You drove to the physical location, scanned shelves for your movie of choice (too frequently, it wasn't in), paid the clerk, and left. The flick was due back in 24 hours (or, at most, three to five days later), or you were billed a hefty late fee. In some cases, forgetful customers answered the door to find a police officer asking why they hadn't returned a rental movie.

Movie rental stores still exist, but in quickly dwindling numbers. Many alternatives have spawned, beginning with Netflix, the first and now the world's largest online movie service. Though originally started as a mail-order DVD rental service, Netflix has rapidly embraced the streaming video market. As of December 2013, Netflix offers its 40 million subscribers tens of thousands of movie and television titles, and is responsible for 34 percent of all downstream Web traffic during prime-time hours. Though Netflix continues to battle rising costs as movie and TV studios raise their licensing fees, the company continues to dominate in the streaming market.

Other competitors have entered the market as well. Amazon's Prime subscription service, in addition to providing discounts on fast shipping for all products, provides subscribers access to a vast library of movie and TV content. This content is available to users via Amazon's mobile devices, like the Kindle Fire, as well as the recently released

Amazon FireTV, a US\$99 set-top box that also supports gaming.

Apple and Google also compete in this space, though currently with a slightly different approach. iTunes has long been the leader in digital music distribution, and Apple moved seamlessly to movie and TV distribution as those became popular. The distinction from the Netflix and Amazon models is that iTunes provides a rental and purchasing marketplace, where customers can pay for temporary rights to a movie (rental), or may pay a higher price to purchase the movie for indefinite ownership. The Google Play store uses a similar rental/purchase model. The advantage of this model is that movie and TV studios are much more willing to participate in this type of distribution (which mirrors physical movie and TV distribution and the accompanying revenues). As a result, these marketplaces typically provide the latest, most popular movies. In contrast, a drawback of Netflix and Amazon's streaming services is their limited selection of popular or recent titles; their streaming libraries are dependent on content deals they have made with individual studios.

One of the major advantages to these digital video distribution services is their ability to personalize a customer's experience to a degree previously not possible. These personalized services learn about a user's preferences according to the movies they frequently watch. From this information, the company

creates a profile of each customer and a list of recommended movies. If, for example, a customer liked the movie *Prometheus*, he or she may also like the 1979 sci-fi classic *Alien*, and that movie will be included in a list of suggested movies. Customers can refine the recommendations by rating titles according to their preferences. These systems allow customers to tap large databases of movies, many of which they may not have been aware of at all.

Consider how fast things are changing. Just a few years ago, the only way to watch a movie other than paying to purchase it was to drive to a movie rental store like Blockbuster or Hollywood Video and pay to borrow a DVD for a few days. Today, that same entertainment can be obtained via any computer or mobile device, or through an increasing number of "connected" TVs, Blu-ray players, or small video-streaming devices like the Amazon FireTV, AppleTV, or Google's Chromecast. These services and devices have completely disrupted the movie rental business. Hollywood Video, once a major competitor to Blockbuster Video with stores all over the country, declared bankruptcy in 2010 and closed all of its stores. Blockbuster Video slowly bled customers until it too declared bankruptcy in 2010. Some stores remained open for a few years, but by the end of 2013, the company announced that it would be closing its remaining 300 stores.

Questions

- 2-45. In what ways has technology enabled the transformation and destruction of the traditional video rental industry?
- 2-46. Paid programming from cable companies still largely follows the model it has been following for the past few decades. How will technology and the public's appetite for on-demand, streaming video change the cable television industry in the coming years?
- 2-47. Discuss whether and how Netflix or Amazon can continue to grow their business and revenues in the streaming video market.

Based on:

Atkinson, C. (2014, May 14). Netflix is a prime-time bandwidth hog. *The New York Post*. Retrieved May 16, 2014, from <http://nypost.com/2014/05/14/netflix-is-a-prime-time-bandwidth-hog>

Blockbuster LLC. (2014, May 16). In *Wikipedia, The Free Encyclopedia*. Retrieved May 16, 2014, from http://en.wikipedia.org/w/index.php?title=Blockbuster_LLC&oldid=608850633.

Netflix. (2014, May 12). In *Wikipedia, The Free Encyclopedia*. Retrieved May 16, 2014, from <http://en.wikipedia.org/w/index.php?title=Netflix&oldid=608180091>.

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- 2-48. List and describe five general types of organizational strategy.
- 2-49. What is a business model and what are its primary components?