

BUSINESS & COMPANY RESOURCE CENTER CURRICULUM SUPPORT DEMONSTRATION

ABOUT THIS DOCUMENT:



The following is a simulation of an assignment given to students at a PAC10 school's graduate school of business program. The research to complete the project was conducted by Thomson Gale using the *Business & Company Resource Center*, a comprehensive business information database that meets core curriculum requirements for undergraduate and graduate case study work in finance, economics and marketing.

The goal of this research paper is to demonstrate the depth and breadth of *Business & Company Resource Center* as a potential single source of business information. This is a simulation of the research available to the student as part of completing the project or assignment for a competitive strategy course, requiring the student to analyze a strategic decision of an organization in the information goods market.

Additional research projects available for viewing were completed using the *Business & Company Resource Center* include other simulations of coursework at various colleges and universities throughout the country in the areas of International Operations Management, Information Systems for Product Management, Marketing Planning, and SWOT Analysis.

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Background:

For the project, your group should select a firm competing in an information goods market that faces one or more of the strategic issues that we address in the class. This could be a for-profit firm or a non-profit organization. You should choose a single organization for the project of your analysis so that you can develop specific recommendations from its standpoint. Of course, you will need to assess the positions of actual, or potential, competitors in performing your assessment.

Issues Discussed in Class:

- Building a standard.
- How to defend standards.
- What is the role of complementors?
- Versioning; meeting the needs of different types of customers.
- Bundling.
- Moving from free to pay for services.
- Introducing new goods.
- Industry Transformation.
- Scenario Analysis.
- Real options (when appropriate/when not).
- Managing intellectual property.
- How open to make proprietary information.
- Managing the privacy of customers.

Your project should clearly define the issue(s) facing the organization of interest, analyze the situation using the concepts and tools of the course, and develop a specific plan of action for the organization.

Company:

Netflix, Inc.

Brief Description:

Founded in 1997, Netflix is the world's leading DVD (Digital Video Disk) rent-by-mail company. The firm has more than 1.1 million subscribers who typically pay a monthly fee of \$19.95 for unlimited rentals, provided they have no more than three discs out at one time. The company offers more than 15 000 titles and maintains an inventory of more than 5 million discs. To speed delivery, Netflix has opened more than twenty regional shipping centers around the United States, and most DVD's are received by customers a day or two after ordering them on the company's website.¹

Video Tape Rental and Retail Industry Overview:

The video tape rental and retail industry can be divided into two main groups: exclusive video rental shops/video specialty shops (ex. Blockbuster; Hollywood Video), and video rental shops of supermarkets and general retailers (ex. Kroger, Wal-Mart). In 2003 this industry reached over \$22 billion, more than half of which was comprised from videos and DVDs. Current industry leaders include Blockbuster, Hollywood Entertainment, and Netflix, Inc.²

Building a Standard:

Inadequate international copyright protection is a perennial problem plaguing the video tape rental and retail industry. Pirated videocassettes make up a large part of some markets in Latin America, and piracy also undercuts the video rental industries in East Asia, the United States, and Western Europe. Piracy in China is officially banned by the government, but fines are low for video counterfeiters and the financial rewards have been worth the risk for the unscrupulous. Such copyright infractions have strained relationships between video manufacturers and producers and government agencies of various countries. In the late 1990s, the U.S. industry lost about \$250 million to worldwide video piracy.

¹ Business & Company Resource Center: History/Chronology Display Page, Netflix, Inc.

² Business & Company Resource Center: Industry Overview Display Page: Video Tape Rental and Retail, (NAICS 532230).

What is the role of complementors?

Complementary have played a key role in the success of Netflix in the past and continue to do so in the present. In 1998, approximately one month after Netflix opened its virtual doors, it pronounced a promotional venture with Toshiba America to offer three free DVD rentals to purchasers of New Toshiba DVD players; they also struck similar deals with Pioneer DVD, Hewlett Packard, and Apple computers. In promoting the purchase of new DVD players, they were actively engaging in increasing the market base of potential customers.

In December 1998, Netflix announced that it was going to stop selling DVD's, and focus solely on renting; in a deal with Amazon.com, Netflix offered to refer sales requests to this company in exchange for advertising space on its highly-trafficked site.

In December 2000, Netflix achieved a major accomplishment when it reached revenue sharing agreements with Warner Home Video and Columbia Tri-Star; in exchange for s percentage of rental receipts, the movie studios gave Netflix better prices on large quantities of DVDs, which the firm needed to have on hand to fulfill requests for new releases. A number of other studios, including DreamWorks and Artisan were soon to follow in engaging in such negotiations.³

In December 2005, Netflix inked a deal with Wal-Mart, whereby both would promote the others' movie business on their respective websites. Wal-Mart, who two years earlier cancelled its DVD rental service.

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^{3 3} Business & Company Resource Center: History/Chronology Display Page, Netflix, Inc.