

NETFLIX.COM: It's Better Than Driving To The Video Store

by Lev Ginsburg

For better or worse, the rising prices of movie theatre tickets, when taken in conjunction with both the increasing difficulty of physically enjoying publicly-exhibited films (driving, parking, waiting in line(s), and enduring the insufferably poor manners of other moviegoers), and the decreasing prices and increasing quality of home theater systems both render the home film viewing experience a viable alternative to the communal movie palaces of yesteryear. As it stands, the domestic video rental industry is worth an estimated \$18.5 billion dollars annually.

The Gimmick

Growing communities of techno-savvy consumers await reliable and reasonably-priced video-on-demand ("VOD") networks through which they will one day access all forms of media content (including "television" series, long-form motion pictures, music, and audiovisual recordings of "live" events) at the touch of a button, and in exchange for reasonable subscription or single-use fees. It is into today's liminal environment that Netflix has arrived offering home film viewers its valuable service. In a nutshell, Netflix users sign onto one of several plans whereby they pay Netflix between \$12 and \$40 monthly. For this fee, users can have all the DVDs they can watch delivered to their door in small reusable packages that include postage-paid return envelopes. There are no return dates, no late fees, and no corner drop-off depots (as popularized by one-time

competitor Kozmo.com). The plan price range reflects how many DVDs a user may have checked out at any particular time. Netflix charges \$12 per month for allowing 2 DVDs out at any one time, and offers varying rates and DVD allowances through its premiere \$40 per month plan that allows 8 DVDs to be checked out at any one time. The more you spend, the more you increase your likelihood of always having at least one movie lying around your house that you have not yet watched.

The Good

Though occasionally suffering from the now-ubiquitous plague of visual and textual clutter that infects almost every popular media content and B2C website, the Netflix site is intuitively organized and easy to use. Along with rental functionality, the Netflix website includes information about films currently in theatres as well as those that have been released on DVD. Users can click on the name of an actor, director, or writer, for example, and will instantly be linked within the website to a listing of other works by that individual. Nevertheless, Netflix is not and does not purport to be a film information portal. Ample employment of simple text and reduced use of graphics and other bandwidth-intensive encoded content renders the Netflix website accessible to the vast majority of users who do not have access to broadband data delivery. The Netflix website functions acceptably with even a 28.8bps modem.

The most impressive feature of the site, however, is its customizable film recommendations engine. Netflix offers a comprehensive catalog of what is probably every "Region 1" encoded DVD that is currently commercially available. Under the name of each film is an active graphic of five stars. When a registered user places the

mouse cursor over the star that represents that user's approximate enjoyment of the film and clicks the mouse, a Netflix server will store that user's star rating of that film. When a user has rated at least 20 films, the engine will create a unique profile that is then able to begin recommending films to that user based on his/her stated ratings of previously-viewed content.

The recommendation engine is reputedly able to make "smarter" recommendations to users who are able to polarize a larger portion of their ratings within the "1-star" or "5-star" options. This functionality could probably be improved to reflect a more nuanced appreciation of some films over others in the 2-4 star range. Additionally, the recommendation engine might also be improved by programming metrics that offer willing users the option of noting certain aspects of a film that were particularly well-executed, preferred, or dreadful, such as a film's editing, music, story, and actor performances. In these ways, the already brainy recommendation engine might be improved by giving users the opportunity to share more information about their preferences with the search engine. Users could elect to trade valuable taste information and a certain degree of privacy for value-added services and reduced monthly subscription fees.

After rating 132 films, I found that the recommendation engine was able to more or less reliably suggest films that either (1) I had already seen and really enjoyed (which I would then instruct the engine to reflect as an excellent choice by assigning it a high star rating), or (2) I had not already seen and was skeptical about, but then upon renting, discovered were thoroughly to my liking. In short, the recommendation engine worked!

The Bad

Though after almost 6 months of use I have found the Netflix service to be prompt, reliable and easy to use, the only real complaint I have is with the availability of new releases. Because Netflix has seen its subscriber base grow exponentially since its inception, and because newly released films are very popular with Netflix subscribers, new releases are sometimes reflected in my rental queue as "Out of Stock" for several weeks following their release on DVD. Because of the extreme demand fall-off rate for film rentals within a month or two of their release to the secondary VHS/DVD rental market, it is only cost-effective for rental houses like Netflix to purchase a threshold number of copies from the studios/distributors. As a result, certain high-demand releases are placed on user rental queues long before they are actually released by users who want to ensure that they will be the first person on their block to watch the latest blockbuster in their home theaters. Accordingly, many titles are rendered Out-Of-Stock almost instantaneously upon their commercial release. Depending on their relative position in an individual user's queue, as well as their date of entry into that queue, newly released films can remain "Out-Of-Stock" on many queues for quite some time. In the opinion of this author, however, the ease of access to an almost inexhaustible reserve of other DVD titles more than compensates Netflix users for this inconvenience in the realm of new releases. Moreover, my communication with Netflix customer service indicates that these thresholds will be improved and more finely-tuned in the near future to more carefully correspond with projected user demand.

The Noteworthy

Speaking of the rental queue, the queue is fairly elemental from a programming perspective, and it is a nice feature that contributes to Netflix's ability to tabulate demographic data and to cross-reference such data with viewer preference information. Users can store dozens of films in their rental queues so that as soon as a Netflix receiving facility receives a returned DVD from a user, Netflix automatically prepares the DVD that is then at the user queue's "number one" position for immediate shipping to that user. If that DVD is unavailable, the fulfillment engine will proceed down the queue until an available DVD is found. Users are able to reorganize and update their queues "on-the-fly" by prioritizing what movies they want to see first. Netflix is able to tabulate this data and presumably can use it to cross-reference DVD request patterns in co-matrices with date, time of day, user location, and other user information to provide Netflix (and its licensees) with valuable demographic and preference data that is actively updated by users themselves. The queue may be particularly useful when a user pre-rents a DVD that has not yet been released (so that Netflix can project user demand as it relates to a user's physical location), as well as when a DVD appears to be Out-Of-Stock for some time (so that such a user can reorganize his/her queue's order to get another DVD right away).

For viewers who are not sure that they trust the recommendation search engine, Netflix also offers exclusive film reviews by both Leonard Maltin and by Netflix's own "Mr. DVD." Both critics pick several films and review them in detail. While I cannot suggest that this is a website feature that I would ever take the time to use and consider, some users may derive benefit from the reviewer perspectives. Moreover, the

reviews tend to be well-written and concise. By capitalizing on the brand recognizability of Mr. Maltin, Netflix is able to incorporate a known film review icon into the user experience to enhance rentals and website "stickiness."

The Business Upshot

Because users can queue films for check-out long before their actual commercial release dates, such data can be used by Netflix's internal fulfillment departments to more efficiently allocate physical media to particular servicing depots around the country in which demand for specific content may be higher. As a result, such demand might be more rewardingly met with both better supply and faster service as a result of the detailed advance warning provided by the user queues.

As each day passes, Netflix amasses a growing volume of data about its users. The preferences, rental habits, website usage, and demographic information of Netflix users should prove to be valuable to early participants in the VOD marketplace because Netflix service approaches the VOD to the extent that today's technology will allow. Should Netflix decide to venture into the VOD market as an early niche player, its growing database of user demographics and rental habits can be developed through forged platforming and marketing alliances with hardware and other digital media delivery solutions providers as a valuable resource to create and maintain sustainable advantage in what the VOD world will ultimately become.

Netflix's service alters the consumer's conception of intellectual property ownership. Accordingly, Netflix (and its users) may be well-positioned to take advantage of coming advances in broadband media delivery technologies that ascribe greater

value to the ease of one's access to the content and virtually no value to one's ability to physically own tangible media in which such content is embodied.

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