

Slide #1: Intro

I. Blockbuster's plight

- A. "King Kong" Blockbuster has become a casualty as consumers turn to the 'Net
 - 1. other markets for video rental have emerged
- B. Arrogance
 - 1. studios have a contentious relationship with Blockbuster and its CEO John Antioco
 - a. because Blockbuster used to have all the leverage with studios as the major video rental player
 - b. studios are anxious to deal with other video rental agencies to loosen the tight grip of

Blockbuster

II. Online Revolution

- A. hundreds and thousands of individuals are signing up to rent movies online
 - 1. combining new technology, in the form of DVD, with a much older delivery system, the mail post
 - 2. Netflix has been the leader of the online DVD rental business
 - 3. lets subscribers order DVDs online, receive them by mail, and keep them for as long as they want without late fees

About Netflix

I. Netflix offers 4.9 million members DVD's from a selection of 60,000 titles

- A. They ship about 1.4 million DVDs per day and get 90 percent of members their new movies generally in one business-day
 - 1. They are able to do this with their 39 shipping centers located throughout the United States (and they are planning to open additional shipping centers)
- B. One of the features they take significant pride in is customized web pages for their members
 - 1. When looking for movies, members can see what other members have rated the movies
 - 2. Netflix customizes rental suggestions to what members have already rented.
 - a. customize different suggestions for different members of the family (including individually addressed envelopes)
 - b. adds a personal aspect to their service
 - 3. Netflix's power in the industry occasionally translates into exclusives and early availability
 - a. e.g. Netflix had "The Incredibles" in mailboxes on the very day it was released to DVD by Pixar.

Slide #2a:

Netflix difficulties and growth

I. Started in 1998

A. An online version of a more traditional pay-per-rental model (\$4 per rental plus \$2 in postage and late fees applied)

1. it did not introduce the monthly subscription concept until late 1999
2. it had many difficulties initially, such as scratched disks and very long delays

B. Since then it has built its reputation on its policies of having no due dates, late fees, shipping or handling fees, or per-title rental fees

II. Growth

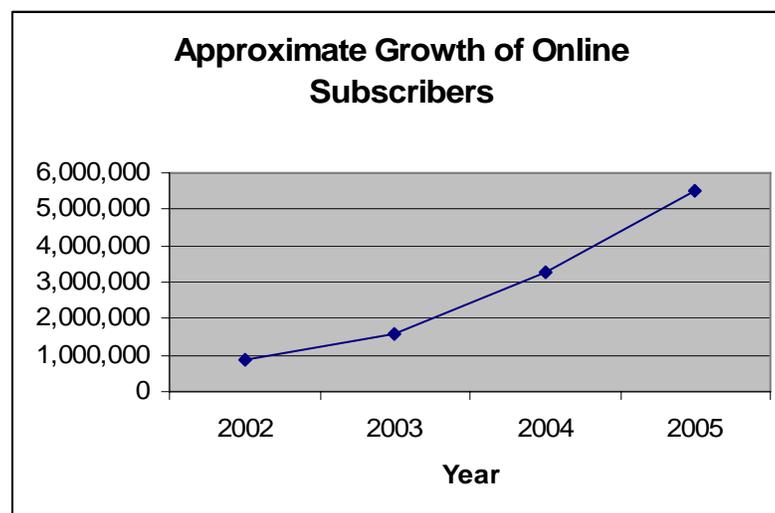
A. Subscribers have increased from one million by the fourth quarter of 2002, to almost five million at then of the first quarter of 2006

B. Growth has been fueled by the fast spread of DVD players in households

1. as of 2004, nearly two-thirds of U.S. homes have a DVD player
2. after incurring substantial losses during its first few years, Netflix posted its first profit during fiscal year 2003, earning \$6.5 million profit on revenues of \$272 million

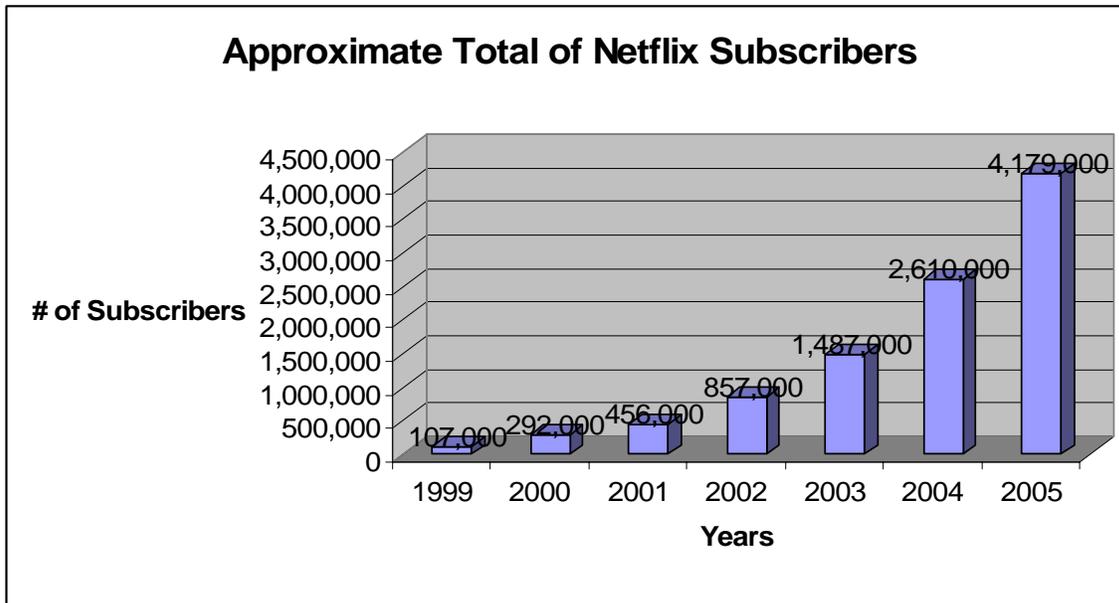
Approximate Growth of Online Subscribers

2002	900,000
2003	1,600,000
2004	3,300,000
2005	5,500,000



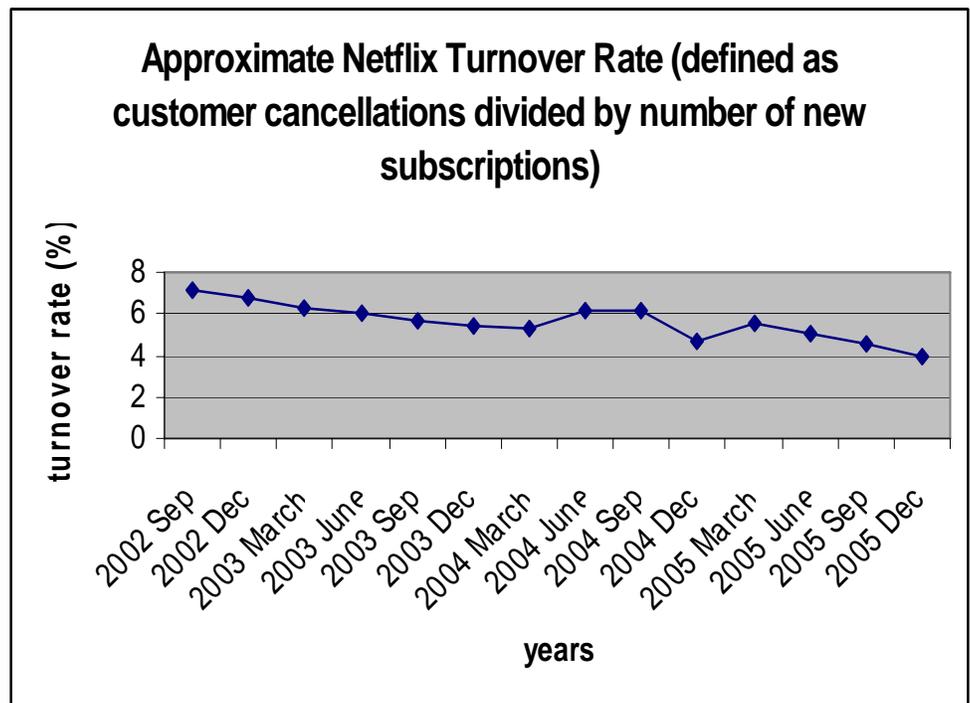
Slide #2b

Approximate Total of Netflix Subscribers



Approximate Netflix Turnover Rate (defined as customer cancellations divided by number of new subscriptions)

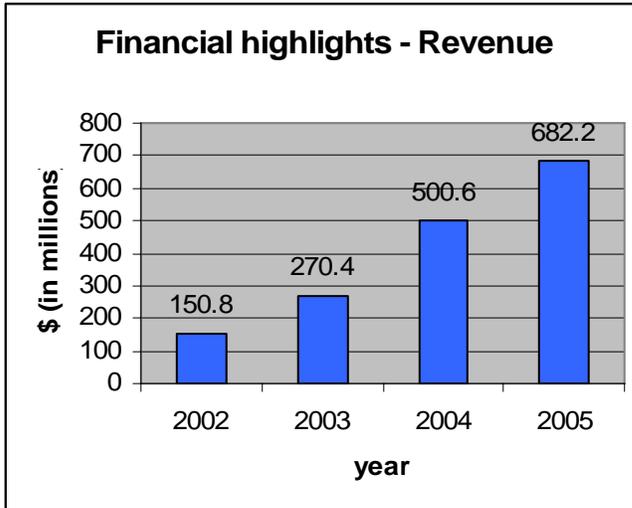
2002 Sep	7.2
2002 Dec	6.8
2003 March	6.3
2003 June	6
2003 Sep	5.7
2003 Dec	5.4
2004 March	5.25
2004 June	6.1
2004 Sep	6.2
2004 Dec	4.7
2005 March	5.5
2005 June	5.1
2005 Sep	4.6
2005 Dec	4



*note that in June and September of `04 the turnover rate was high, which is around the same time

Slide #2c

Blockbuster began their online DVD business.



Slide #3a:

Rivals Entering

I. Wal-Mart

A. Jumped into the business of offering DVD rentals delivered to your mailbox

1. ended up making a deal with NetFlix to take over their existing customers and have ceased operations

a. the agreement specifies that Wal-Mart will offer its existing online rental customers the opportunity to continue their subscriptions under Netflix at their current price for the next year and initiate promoting the Netflix service in its website

b. in turn, Netflix will remind its customers that they can purchase DVDs from Walmart.com

II. Blockbuster

A. The world's largest movie rental chain entered the fray in 2004

B. Blockbuster's subscriber base after one year was roughly a third of Netflix's size

1. Netflix founder Reed Hastings commented in a January 2005 interview that rival Blockbuster was the toughest competition

a. they threw "everything but the kitchen sink at us."

b. Blockbuster responded to Hastings' comments by literally sending him a kitchen sink

C. Blockbuster Online is holding strong

1. Q1 2006 results seem to suggest that something is working

a. \$1.9 million net loss was considerably smaller than the negative \$57.5 million reported last year Q1 2005

b. the company managed positive free cash flow of \$32.9 million for the first time since 2004

D. Not quite there yet

1. Blockbuster lost a total of \$588 million in 2005, while Netflix earned \$42 million

2. gains from "cost cutting"

a. revenues came in 7.7% lower for the quarter, thanks to the closing of 236 stores over the past year

Slide#3b

b. last quarter alone 114 US Blockbuster locations closed down

3. Blockbuster's total subscribers currently comes out to 1.3 million with 100,000 new subscribers this year which pales in comparison to Netflix's 687,000 added subscribers

a. Netflix has a total of 4.87 million subscribers currently

4. Netflix shows a market value of \$1.5 billion with no debt compared to Blockbuster's \$684 million worth with \$1.0 billion in debt

III. Netflix has also cited Amazon.com as a potential competitor

A. Amazon.com operates online rentals in the UK and Germany but has remained coy about any intentions for the U.S. market

B. Netflix had preliminary plans to expand to Canada and the UK in 2005 but these appear to have been postponed or cancelled as Netflix concentrates on the U.S. market

1. it is possible that this halt in expansion is due to the competitive undercutting which Blockbuster has done

IV. Intelliflix

A. Offers an online game rental business and a have a selection of adult-rated movies

1. flexibility NetFlix and Blockbuster have not yet matched

a. with or without a subscription plan, a customer can always rent every movie or game on a pay-as-you-go plan

b. pre-paid annual membership plan which gives you unlimited access to all their products for just \$8.25 per month during the 12 months of your membership (50% cheaper than NetFlix or BlockBuster Online)

Slide #4:

Side-by-side comparison of the two key corporations offering the rental business

	Blockbuster	Netflix
No late fees	Keep the DVDs as long as you want - no late fees	Keep the DVDs as long as you want - no late fees
Selections	Over 50,000 titles	Over 50,000 titles
Turn-around time	1 day	1 day
Unlimited DVD Rentals	Yes	Yes
Delivered to your mailbox	Yes	Yes
Free Shipping & postage	Free first-class postage both ways	Free first-class postage both ways
No return dates	Yes	Yes
Distribution centers	30 across the US - Will soon be using their 4,500 stores in coming year	35 across the US
Distinguishing Features	Online subscribers are entitled to one free in-store rental per week (four per month)--perfect for when you don't want to wait for the mail carrier.	Each account can have as many as five separate rental queues (with ratings-based parental controls), offering separate viewing choices to individual family members.
Special offers	\$9.99 for first month	2 week free trial
Cost	\$11.99 - 4 DVDs a month, 2 titles out \$17.99 - 3 titles out \$29.99 - 5 titles out \$37.49 - 8 titles out	\$11.99 - 4 DVDs a month, 2 titles out \$17.99 - 3 titles out \$29.99 - 5 titles out \$47.99 - 8 titles out
Current Members	1 million subscribers	3 million subscribers
Community Features	Currently, Blockbuster does not offer a way for users to share rental information with other users.	Users can invite each other to join a Friends list, so they can see each other's rental queues and make additional viewing suggestions.

Future plans	Blockbuster is said to be planning to integrate its online and store operations, presumably offering users a unified membership that would allow rentals and returns from stores <i>or</i> online, but no firm timetable or details are available.	Netflix has announced a partnership with TiVo and is planning to roll out a video-on-demand online viewing option at some point in the future.
---------------------	--	--

Conclusion	Netflix's enhanced customization features and extensive catalog will appeal to those who want to only rent online.	One free in-store rental per week and the promise of increased online/in-store integration makes Blockbuster a good choice for movie watchers that prefer to mix web ordering with real-world aisle browsing.
-------------------	--	---

Slide #5: The Legal Implications of Rivals

I. On April 4, 2006, Netflix filed a patent infringement lawsuit alleging that Blockbuster's online DVD rental subscription program violates two patents

A. The first patent covers the selection, delivery and return process

1. first cause of action alleges Blockbuster's infringement of U.S. Patent No. 7,024,381 because they are copying the "dynamic queue"

B. The second relates to the no-late-fees policy and the way in which clients amend their movie lists.

1. second cause of action alleges infringement of Patent No. 6,584,450 which covers in less detail the subscription rental service as well as Netflix's methods of communication and delivery.

II. Blockbuster issued a press release on April 6, 2006 stating its belief that the claims are without merit and that it intends to fight them

A. "Apparently Netflix would prefer to take us on in the courts rather than facing us in the marketplace where the consumer is the judge," said Shane Evangelist, senior vice president and general manager for Blockbuster Online.

Conclusion

I. Difficulties in unseating Netflix

A. Wal-Mart threw its weight behind Netflix (the Wal-Mart DVD Rental business ended on June 17, 2005)

1. Wal-Mart stores across the country to advertise and promote the NetFlix movie rental service ("offline" advantage)

II. Blockbuster's advantage

A. Giving subscribers printable coupons every month for their choice of two free in-store rentals of a movie or game

1. NetFlix does not currently offer game rentals

2. Various coupons for other in-store specials such as low-priced used DVD movies

B. Blockbuster has announced that within the coming year they will start using some or all of their retail stores to supplement their distribution centers

C. Insist adult entertainment, which Blockbuster currently doesn't stock, would perk up Blockbuster's profits

Slide #6:

Future outlook on the online-DVD rental business

I. The Online Market

- A. Continue their strong growth
- B. Movies on demand have yet to catch on widely

II. Netflix

A. expansion plans are to directly download movies via the Internet for further convenience

B. limited video on demand

C. video game market

III. Blockbuster

A. try and acquire Netflix

- 1. at one point could have for \$50 million

B. No More Late Fees promotion

IV. Amazon

A. try and buy Netflix

- 1. Amazon has been offering rentals in the UK for some time

V. Studios

A. want the competition

B. dangers in helping the smaller players