Netflix, Take Two
An Innovation Economy Viewpoint

By Efe Aksuyek, Ikhlaq Sidhu, Fredrik Hacklin, Pius Baschera

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Netflix, one of the United State's largest internet subscription service for movies and TV shows, is having difficult times to innovate its business model since 2011. Reed Hastings, the CEO of Netflix, believes the once disruptive DVD-by-mail service will fade away and be gradually substituted with video streaming. With this vision, Netflix separated its DVD rental and video streaming service last summer introducing new pricing for each service. Customers were unhappy with the result. Over 80,000 comments are posted on Facebook and Twitter damaging Netflix' reputation; 800,000 customers canceled their membership in the third quarter of 2011. Stock prices fell from \$300 to below \$70, company growth is slowing and license agreements are getting complicated to sign. Reed Hastings, Netflix CEO, did not see this coming.

Since the inception of Netflix in 1997, the movie rental industry has changed significantly, too. Blockbuster, the once leading movie rental service in the United States, is disrupted by Netflix. A bankruptcy is filed in 2010 and a large satellite television provider acquired the company in 2011. Other competitors survived the battle with unconventional services. Redbox, a disc rental company, enabled renting items from automatized kiosks from 33'000 locations in the United States.

Furthermore, technology convergence has made it possible for different players to compete in the entertainment sector resulting in a major change of how movies are watched. IT companies have penetrated the movie rental and movie sales market. Apple and Amazon started offering movies and TV shows streaming in their online stores. At the same time, Cable companies have become Internet service providers and created movie services within the Internet packages. Besides Comcast or Time Warner Cable, telecom giants AT&T and Verizon have set up similar streaming services as well. As a result, Netflix needs to find the right business model in this new industry landscape to survive among several Fortune 500 companies.

The Netflix case is an authentic example of how things could go wrong when innovating the business model to align with the changing consumer preferences. While Netflix disrupted the movie rental industry, the company has become an incumbent facing the threat of being disrupted. Although customers are still enjoying the all-you-can-watch package, the important question remains: will Netflix be able to sustain its service while the industry landscape changes dramatically?

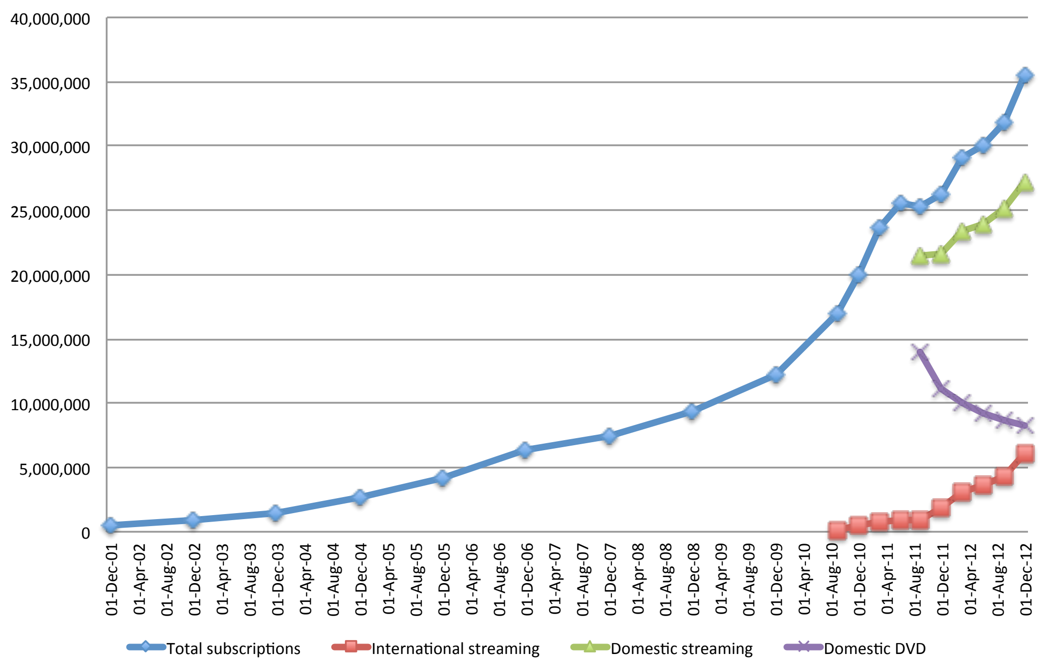
Case questions

- What happened at Netflix and what went wrong?
- Explain its customer value proposition, key resources and processes, profit formula for DVD and streaming.
- Who are Netflix' competitors in DVD and streaming and how are their pricing models?
- What are Netflix' strategy options for the future and which one would you recommend?

Exhibit 1
The New York Times - Historical Chart – NFLX: NASDAQ

Source: http://markets.on.nytimes.com/research/stocks/tools/analysis_tools.asp

Netflix Subscribers



Source: Data collected from Netflix SEC filings

Exhibit 2
Public News Commentary — New York Times

Netflix Inc.
NFLX: Nasdaq; Non-Cyclical Consumer Goods & Services/Personal Services

Updated: Jan. 26, 2012

2011 Earnings: Fourth Quarter

After a haltingly poor performance in the middle of 2011, Netflix reported fourth-quarter earnings that exceeded analysts' expectations and a subscriber uptick that surpassed its own outlook.

The company posted total revenue of $875.6 million, up 47 percent from the quarter the previous year. As the company invested in content rights and spent more to gain new subscribers, its profit, $40.7 million, or 73 cents a share, was down nearly 14 percent from the quarter the previous year, when its profit was $47.1 million, or 87 cents a share.

Reed Hastings, the company's chief executive, said he was encouraged by the number of new sign-ups for streaming video, the service that he is emphasizing as Netflix's DVD-by-mail service shrinks. In a letter to investors, he and the company's chief financial officer, David Wells, called Netflix a "global Internet TV network," reflecting the growing importance of TV shows to a company that started as a distributor of movies on DVD. Netflix is also beginning to make its own shows, in much the same way that HBO and Showtime do.

The fourth quarter was the first full quarter since a price increase and a bungled — and later abandoned — plan to spin off its DVD-by-mail service hurt the company's reputation and decimated its stock price. It lost about 800,000 subscribers in the United States in the third quarter of 2011, leveling off at 23.8 million; at the end of the fourth quarter, it had 24.4 million, somewhat more than it had expected to have.

Investors welcomed these signs of recovery, sending the stock up about 15 percent in after-hours trading on Jan. 25, 2012, after ending regular trading at $95.04. The stock, which plummeted from $300 to well under $100 in summer and fall 2011, rebounded about 30 percent in the first few weeks of 2012.

Of those 24.4 million subscribers in the United States, 21.7 million have the streaming service, and 11.2 million have the DVD service. (Many have both.) Netflix expects to gain 1.7 million streaming subscribers in the first quarter of 2012, and lose 1.5 million from the DVD service.

Netflix has 1.9 million streaming subscribers in other countries, mostly in Canada; it is also starting to gain subscribers in Latin America, Britain and Ireland.

Increased investments in those new markets is expected to cause modest losses through 2012, the company predicted. Mr. Hastings and Mr. Wells said in their letter to investors that "until we achieve our goal of returning to global profitability, we do not intend to launch additional international markets."

Background

Netflix delivers movies to people's homes, and has led the last two revolutions in that field. First it pioneered the DVD-by-mail business that put thousands of local video stores out of business by making late fees a thing of history.

The company became a high-flier of Silicon Valley and a business-school lesson in how to make a smooth transition from old technology (sending out DVDs by mail) to new (delivering streams of movies and shows on the Internet). Since then, Netflix has changed the way tens of millions of people watch films and television shows.

During the summer and fall of 2011, the problem it faced was self-inflicted. In July, in an attempt to raise cash to license more streaming content, the company increased the price for its combination Internet streaming and DVD service, angering customers. On Sept. 18, it abruptly said it would split up the two services, frustrating fans of both. The DVD-by-mail service, which is how the company began, would become the Qwikster brand with its own management team. The name Netflix would remain for movie streaming.

In the days following the announcement, tens of thousands spoke out against the plan and price change on Netflix's Web site and others, and Netflix stock slid sharply.

Netflix expected some of its 24.6 million subscribers to cancel, but the cancellation rate far exceeded expectations. The company said that it ended the third quarter of 2011 with 800,000 fewer subscribers in the United States than in the previous quarter, its first decline in years. But despite the decline in subscribers, the company did well financially in the third quarter, which ended Sept. 30.

On Oct. 10, Netflix said it was abandoning its plans to rent DVDs on Qwikster, admitting that it had moved too fast when it tried to spin off the old-fashioned DVD service into the new brand. Under the new plan, the price change would remain in effect, but the two services would not be untethered. That means that subscribers who want both online streams and DVDs won't have to manage two accounts and pay two bills each month, after all.

But the changes at Netflix extended beyond price increases and customer dissatisfaction.

In September 2011, Netflix and DreamWorks Animation, the company behind successful movie franchises like "Madagascar" and "Shrek," announced they had completed a deal to pump DreamWorks films and television specials through Netflix. The deal replaces a less lucrative pact between the film studio and HBO.

The Netflix accord, which analysts estimate is worth $30 million per picture to DreamWorks over an unspecified period of years, is billed by the companies as the first time a major Hollywood supplier has chosen Web streaming over pay television.

It is also a bet by Jeffrey Katzenberg, the animation studio's chief executive, that consumers in the near future will not distinguish between the two. Netflix will begin streaming DreamWorks films starting in 2013.

The DreamWorks contract comes as Netflix is trying to navigate a dense thicket of challenges. Competition from the likes of Apple, Amazon and Vudu, a streaming service owned by Wal-Mart, is increasingly fierce; Dish Network, which plucked Blockbuster out of bankruptcy earlier in 2011, has announced a Blockbuster-branded streaming and DVD-by-mail service.

Access to movies and TV shows is what matters most to Netflix, and Hollywood, after helping to build up the company with generous deals, is starting to play hardball. In February 2012, Netflix is expected to lose the right to stream films from Walt Disney Studios and Sony Pictures Entertainment, as a result of a failed renegotiation with the premium cable channel Starz.

The films from Starz helped to jump-start Netflix's streaming service several years ago, but according to Starz, the two companies could not come to terms on a new contract. Netflix said it would acquire content from other sources, essentially spending its subscribers' money elsewhere.

2011 Earnings: Third Quarter

Netflix said in October 2011 that it ended the third quarter of the year with 23.8 million subscribers in the United States, a loss of 800,000 in three months, representing a notable decline after years of consistent growth.

The battered company attributed the losses — which were even greater than it anticipated — to price shock.

Heading into the summer, Netflix thought it would have 25 million subscribers at the end of the third quarter. Then it announced a change to its pricing structure that caused the cost of the combination streaming and DVD-by-mail service to rise to $16 a month, from $10. Some subscribers canceled their accounts in protest.

The subscriber figures were shared with investors when Netflix reported its quarterly earnings. Netflix stock dipped more than 25 percent in after-hours trading. Still, Netflix earnings rose 65 percent for the quarter that ended Sept. 30. The company earned $62.5 million, or $1.16 per share, up from $38 million, or 70 cents a share, for the same quarter last year.

The company indicated that it expected only a slight rise in its subscriber totals in the fourth quarter of the year. It defended the price change, though, saying in a letter to shareholders that its prices "are the right place for Netflix to be in the long term."

"What we misjudged was how quickly to move there," the letter stated. "We compounded the problem with our lack of explanation about the rising cost of the expansion of streaming content, and steady DVD costs, so that absent that explanation, many perceived us as greedy."

Looking further ahead, Netflix also said that it expected to post an overall loss for a few quarters beginning in the first quarter of 2012. Though it intends to remain profitable in the United States each quarter, the move away from global profitability, it said, will be due to the company's push into new markets in Britain and Ireland.

Company Information

Netflix, Inc. (Netflix) is an Internet subscription service streaming television shows and movies. The Company's subscribers can watch unlimited television shows and movies streamed over the Internet to their televisions, computers and mobile devices, and in the United States, subscribers can also receive digital versatile discs (DVDs) delivered to their homes. The Company operates in three segments: Domestic streaming, International streaming and Domestic DVD. The Company obtains content from various studios and other content providers through fixed-fee licenses, revenue sharing agreements and direct purchases. The Company markets its service through various channels, including online advertising, broad-based media, such as television and radio, as well as various partnerships. In connection with marketing the service, the Company offers free-trial memberships to new and certain rejoining members.

Text source: http://topics.nytimes.com/top/news/business/companies/netflix-inc/index.html
Accessed August 2012.

Exhibit 3
Public News Commentary — The Associated Press

Gaps in Netflix's online library likely to persist Inferiority complex:

Netflix's Internet video library can't match breadth of DVD selections.

By Michael Liedtke, AP Technology Writer
Associated Press, 4/10/12
LOS GATOS, Calif. (AP)

Peruse Netflix's catalog of DVDs, and you'll find just about any movie or TV series you want. Look for many of the same titles in Netflix's Internet video library, and prepare to be exasperated. It's a problem that Netflix is unlikely to solve anytime soon. Despite an expensive expansion, Netflix's online video selection remains inferior. Netflix offers more than 60,000 titles that can be viewed on Internet-connected devices, while its DVD-by- mail service has more than twice that — some 140,000.

Competitive tensions and Netflix's own financial limitations account for the huge disparity. No matter how much Netflix Inc. is willing to pay for the rights, some online video remains off-limits.

Major movie studios are refusing to license the rights to most of their latest movies at the same time they're released on DVDs. Premium cable channels such as HBO and Showtime also are withholding their most popular series, including "Game of Thrones" and "Dexter," because they are worried about losing subscribers if the content is available on Netflix's less expensive Internet service.

The mere $8 per month that Netflix charges for unlimited online viewing is one of the main reasons the service has attracted more than 23 million streaming subscribers, out of a total of 26 million. The expanding audience, in turn, is causing studios to demand higher fees for video that they are willing to license to the company.

Studios know Netflix is getting a bargain, says Wedbush Securities analyst Michael Pachter. Netflix's streaming subscribers watch an average of 30 hours of Internet video each month, which works out to just 27 cents per hour.

The Internet video library already is far more appealing than it was five years ago, when it opened with just 2,000 titles — The streaming catalog now features recent seasons of many acclaimed TV shows, including "Mad Men" and "The Office," and exclusive series such as "Lilyhammer." Coming attractions include "The Artist," winner of this year's Oscar for best picture, and another original series called "House of Cards" starring Academy Award-winning actor Kevin Spacey. Netflix also has struck a deal to revive the critically acclaimed TV series, "Arrested Development," which last aired in 2006.

As it is, Netflix has already agreed to pay about $4 billion in licensing fees during the next few years. CEO Reed Hastings foresees spending billions more.

Netflix might be able to afford to buy even more online video if it raises its prices, but that's a strategy the company says it won't pursue following a customer backlash over last summer's rate increase of as much as 60 percent in the U.S. For now, Netflix is trying to showcase the material already available in its online library by fine-tuning its recommendation system.

Pachter believes there is only so much that Netflix will be able to do to conceal the weaknesses in its Internet library. In particular, he believes the recent loss of the streaming rights to movies and TV shows from Starz Entertainment will cost Netflix some subscribers. The Starz contract expired Feb. 29, depriving Netflix's streaming library of popular fare that included recent movies from Walt Disney Co. Netflix had been paying an estimated $30 million annually; Starz is believed to have demanded as much as $300 million a year to renew.

Although Netflix downplays the loss of the Starz content, Pachter likens it to a cable-TV system losing the Fox network and such popular shows as "American Idol."

"I think Netflix has underestimated the intelligence of consumers," Pachter says. "They seem to think all content is fungible, but I don't think consumers will see it that way."

Text source: http://finance.yahoo.com/news/gaps-netflixs-online-library-likely-200620240.html

Exhibit 4
Public News Commentary — The Economist

Netflix messes up

The terror of the film and television business has become a lot less scary

Sep 24th 2011

Last December Jeff Bewkes, Time Warner's boss, sneered that Netflix threatened media about as much as the Albanian army threatened world peace. Few were fooled. Netflix, which hires out DVDs through the post as well as streaming films and television through the internet, had already impoverished Hollywood by training people to rent DVDs instead of buying them. It was starting to lure people away from pay-television. But then the army began marching in the wrong direction, and its general shot himself in the foot.

On September 1st Netflix began imposing new prices on its 25m subscribers. Americans had been able to pay $9.99 a month for DVDs through the post as well as the right to stream some films and programmes. Netflix would henceforth offer them a choice: $7.99 a month for streaming, or the same price for DVDs. People who wanted both would pay $15.98.

Customers don't like it. They have jammed the firm's switchboard and posted 82,000 largely hostile comments on its Facebook page. Netflix told investors to expect a rare loss of subscribers, driving its shares down. The company's reputation for top-notch customer service has been tarnished. So Netflix's founder and chief executive, Reed Hastings, tried to explain himself—and made matters far worse.

On September 18th Mr Hastings explained that the company feared being left behind by technological change, like AOL with its dial-up service. It was separating DVDs from streaming because its future lies in streaming. The DVD-by-post service, he said, would move to a new website, with a new billing system, and be renamed Qwikster. It's an odd name (whatever else the US Postal Service is, it isn't qwik) and a big mistake. As The Economist went to press, Netflix shares were trading around $130—a steep decline from their July peak of $299.

Netflix has made a tactical error and treated its customers shabbily. It has also jumped too hastily into the future—as if Renault were to declare that electric cars are the future and rename its petrol-car division Qwikmobile.

Worst of all, Netflix has disregarded a big strategic advantage. DVDs may be old media, but they come with strong legal protections. As soon as a DVD is released by a Hollywood studio, roughly four months after the film appears in cinemas, Netflix can start renting it. To stream a film via the internet, in contrast, Netflix must strike an agreement with the studio or TV firm that owns it. As Netflix has become richer and scarier, negotiations have become harder. The company must wait eight or nine years to stream many studio films. A few media firms refuse to sell any streaming rights at all.

When Netflix combined DVDs and streaming, it offered both a vast selection of up-to-date content and the prospect of instant gratification. By forcing customers to choose between the two, it has revealed the weaknesses of both of its offerings. Netflix isn't like the Albanian army—it is far more dangerous than that. But it seems to have trained its guns against itself.

Text source: http://www.economist.com/node/21530169

Exhibit 5
Public News Commentary — Forbes

What is wrong with Netflix's business model?

Panos Mourdoukoutas, Contributor

MARKETS | 9/02/2011 @ 8:07AM

Netflix (NASDAQ:NFLX) has been the poster child of web-based companies that captured and captivated momentum investors who chased after its stock. For more than two years, the company's stock tried to reach for the moon, but couldn't get there. It has been falling back to earth, especially after negotiations with its major video content supplier Starz Entertainment collapsed on Thursday afternoon—sending the stock sharply lower in after hours trading.

The collapse of the negotiations between Netflix and Starz Entertainment confirms who has the upper hand in the streaming video business: content providers. It further highlights what is wrong with Netflix's business model. Like Amazon.com (NYSE:AMZN), the company sells something to the end customers. But unlike Amazon.com, Netflix doesn't own anything. It doesn't have any production facilities, any warehouses, just a site where it sells somebody else's products—content developed by Starz, CBS (NYSE:CBS), and the like.

In the short-run, this may be a highly profitable business. In the long-run, however, profits attract competition; and the company is at the mercy of content providers that have a number of options: They can sell their content directly to the end customers or they can auction it to the highest bidder (streaming-video companies), allowing each to earn what economists call "normal profit," an average rate of return; CBS' robust profit report last month confirms this point. This means that Netflix's stock deserves a PE valuation closer to 15, which is the PE for NASDAQ:QQQ, rather than closer to 53!

The bottom line: Netflix doesn't have a sustainable competitive advantage, because it cannot protect its business from competition; and no bargaining power to get favorable prices for video content.

Text source: http://www.forbes.com/sites/panosmourdoukoutas/2011/09/02/what-is-wrong-with-netflixs-business-model/

Exhibit 6
Public News Commentary — TechCrunch

An Alliance With Cable Is Exactly What Netflix Needs To Survive

Matt Burns

Tuesday, March 6th, 2012

For television consumers, Netflix has long been looked upon as a potential savior from the bonds of cable TV. But now they seem to be joining the enemy. If a Reuters exclusive is believed, there have been high-level talks between Reed Hastings and cable executives to bring Netflix to cable. One day, perhaps within the year, it's entirely possible that cable subscribers will have Netflix access from their cable box.

The Reuters report speculates that this partnership would elevate the tension between Netflix and HBO. But this move, if it's true, is much bigger than a fist fight between the two companies. It's about the future of Netflix.

Once upon a time, Netflix was going to ride into town and free consumers from high cable bills. It was going to provide a nearly a la carte content option, something that cable providers cannot do. In lieu of live content, consumers could choose from a large, but still limited, media library for a relatively bargain price. But then big media got wind and slowed Netflix's roll by demanding high licensing fees and short-term contracts.

Netflix is effectively at a stalemate right now.

Over the last few years Netflix's growth was fueled by an explosion of new hardware. The company early on embraced a lot of hardware platforms and made their app a staple on every device. But now, in 2012, Netflix's untapped market is likely depleted. Netflix needs cable nearly as much as cable needs Netflix.

Cable providers are often looked upon as massive anti-consumer machines. Comcast and others pioneered on-demand streaming in the living room but Netflix often gets the credit. By bringing Netflix into the fold, cable providers can save face and look pro-consumer for a change. Offering Netflix through their cable boxes is akin to buying innovation.

As Reuters states, the service would likely be offered for a monthly fee but a massive deal could likely be struck that would be beneficial to both companies while offering Netflix at its standard $7.99 monthly price. Netflix would also likely have to rework several of its contract deals to stream via a cable provider's set-top box as well. These negations might delay, or even kill, the whole deal.

Unconventional cloud-based services like Netflix, Rdio, and even Steam show consumers are willing to pay a modest price for convenience. Cable is not convenient nor is it priced well. Cutting the cord is a popular anti-establishment movement. But Netflix is also in a tough spot as growth is slowing and content deals are becoming harder to sign. Netflix has a tough road ahead, though. The company is essentially dancing with several devils. They need to sign deals that are not only financially beneficial but also maintains the core values consumers have come to love and expect.

Text source: http://techcrunch.com/2012/03/06/an-alliance-with-cable-is-exactly-what-netflix-needs-to-survive/

Exhibit 7
Public News Commentary — Thomson Reuters

NFLX - Q1 2012 Netflix, Inc. Earnings Conference Call
April 23, 2012 / 10:00PM GMT

Presentation / Edited transcript

Operator: Good day, everyone, and welcome to the Netflix first quarter 2012 earnings Q&A session. Today's call is being recorded. At this time, for opening remarks and introductions, I would like to turn the call over to Ellie Mertz, Vice President of Finance and Investor Relations. Please go ahead.

Ellie Mertz - *Netflix Inc - VP, Finance & Investor Relations:* Thank you and good afternoon. Welcome to the Netflix first quarter 2012 earnings Q&A session. I'm joined here by Reed Hastings, CEO, and David Wells, CFO. […] Now, let's move directly to questions. As is our standard practice, we have organized the questions by topic as we received them via e-mail this afternoon. […]

Do you expect to slow the growth in US streaming content spend? And do you believe there is a certain terminal amount of content that is needed to sustain any number of subscribers, whether it be 25 million or 40 million subscribers? Said another way, do you think Netflix has to spend considerably more on content to grow from 25 million to 40 million subscribers?

Reed Hastings - *Netflix Inc – CEO:* Well, we are growing content spend and content offering very aggressively going forward. And revenue is growing faster than that, so that's where we get the widening margin. But we have a smallest fraction of the total amount of content that we would like to eventually have. So, we will continue to grow the investment in content quite aggressively, slightly less than the rate of revenue growth.

[…]

Ellie Mertz: Can Netflix survive as a middleman? I define middleman as an intermediary between content owner and end user. Is the Company's largely middleman status the reason for its apparent evolution to, at least in part, original programmer? How long do you think it will take to become a credible peer to HBO, which has had smash hit originals such as the Sopranos and Sex and the City?

Reed Hastings: Well, there are lots of middlemen that are hugely successful in many different industries, and sometimes they verticalize the production and they have store brands for various items. And it doesn't mean that their middleman or retail status is weakened. They do that to strengthen themselves. And if you think about HBO, initially, it was almost all licensed content, and then they grew in as they gained scale to also doing produced content. But still the majority of HBO's budget is on content produced by others, by the major studios. So yes, we feel very comfortable about being an aggregator that packages together an incredible set of content, provide a great value for consumers, and that's a great position to be in. […]

Ellie Mertz: […] The biggest complaint I hear that is Netflix has a weak library of streaming content.While keeping prices low is a strategy that seems to be working well, it prohibits a very common complaint from being addressed. Has Netflix proposed the idea of a tiered subscription plan for online access? A silver, gold, and platinum plan which open up an increasingly larger and more popular library could both address this issue and increase profitability. Has this ever been considered?

Reed Hastings: No, we're very focused on keeping our proposition extremely simple. We think that that is the right strategy when we are in this rapid phase of growth of the market, to have a single $8 unlimited product in the marketplace. Eventually, in the next curve model, in the tail phase when a market matures, then you look to segment in various ways. But knock on wood, we are a long way from that, and we will continue to focus for the foreseeable future on a clean, simple proposition.

Ellie Mertz: Cable ratings for many networks have declined this year. Do you believe networks are attributing this to Internet TV, and could it impact pricing on renegotiating TV content deals?

Reed Hastings: You know, I'm not sure why cable network ratings are -- some are up and some are down. I think it's mostly due with the individual programming. If you've got incredible programming, there's several examples where the ratings are up. And in terms of how it affects us, we've got the ability to pay, because we've got a larger subscriber base than anybody else. So to the degree that the prices are higher, we are still able to deliver on the consumer proposition.

Ellie Mertz: Let's move to questions about competition. Are you still thinking Amazon will do a stand-alone streaming product outside of Prime?

Reed Hastings: Our understanding is that that will still happen, yes. In terms of particular time frame, we're not sure on what that might be.

Ellie Mertz: You have talked a lot about net neutrality. What do you see as the most realistic and/or likely path toward enforcement of net neutrality?

Reed Hastings: I'm not sure at this point. I think we are broadly socializing the idea of what's neutral and what's not. And we documented one clear example where we think this is not at all neutral. And we are engaged in a public discussion, essentially, of the issues, so we will see how that plays out.

Ellie Mertz: A related question. Why are you so concerned about Comcast and bandwidth caps? If one hour of streaming time takes up a mere gigabit of bandwidth and the Comcast monthly bandwidth cap is 250, implying 8.3 hours per day of viewing time, why the concern, especially if you believe that the Netflix streaming product is vastly superior to Xfinity?

Reed Hastings: I think the concern we have is with the principles of net neutrality. Obviously, with a high enough cap, it kind of doesn't matter. But if something is accepted with one cap, we may find the next year that the cap is much lower. And so, I think we have to really try to figure out the principles and advocate for those upon which will allow operating. I would agree it's not a near-term issue with the 250 gigabyte cap, but the core principle is important anyway, which is the cap should be applied equally or not at all.

Ellie Mertz: I was wondering what Netflix will do to increase and hold existing subscriber base in the US and elsewhere with so many other companies entering the streaming video business.

Reed Hastings: Well, I think what's happening is everyone's realizing that consumers want click-and-watch on-demand, and so there is a lot of announcements of everything from startups to large companies. And we've been focused on this market for a very long time and have some substantial advantages because of that in terms of the breadth of our integration in the various devices, in terms of our on the remote control buttons that we have on smart TVs, in terms of our integration into all of the game consoles. We have big advantages in terms of the development of our website and the core service, the algorithms and the personalization. We have incredible content. It's not as broad as we will eventually have, but it's much broader than any competitor. So, often what happens is when there is a lot of attention on the market, there are new competitors, but the leader gets the majority of the benefits of that. And it's our job to continue to deliver for consumers so that we're chosen more often than anybody else. […]

Ellie Mertz: Could the iTunes integration be extended beyond Apple TV to iPhones and iPads, too, in order to ameliorate the e-commerce payment problems in Latin America and elsewhere?

Reed Hastings: There's a number of integrations we could do. One would be in the iTunes aspect. Others would be with ISPs. Others would be with cable companies. So we're looking at those broadly. And each one will have a small, positive effect, but there will be no one breakthrough or silver bullet.

Text source: http://files.shareholder.com/downloads/NFLX/2441030395x0x656163/831036da-b64e-43a4-96c5-99fd62b784c5/NFLX-Transcript-2013-04-22T22_00.pdf