Netflix vs. Blockbuster

A Case Study in Digital Transformation

Introduction

- How Netflix disrupted Blockbuster
- Three stages of transformation:
  1. Business Model Innovation
  2. Operational Efficiency
  3. Product and Market Redefinition

Stage 1: Business Model Innovation

- Blockbuster (2004): $5.9B revenue, 60,000 employees, 9,000 stores
- Netflix: $500M revenue, mail-order DVDs, no late fees
- Long tail strategy: niche content access online
- Inspired by Reed Hastings' $40 late fee for Apollo 13

Netflix Early Growth

- 2003: First profit - $6.5M on $272M revenue
- 2004: $49M profit on $500M+ revenue
- Blockbuster tried to copy Netflix but failed to adapt

Stage 2: Operational Efficiency

- Hastings paid 2x for 10x developers
- Automated DVD logistics with minimal staffing
- Blockbuster's high overhead: staff, stores, late fees

Stage 3: Product as Information

- Netflix = content + data; Blockbuster = DVDs on shelves
- 80% of views come from recommendations
- Netflix invested in algorithms; Blockbuster did not

Case Study: House of Cards

- Netflix used viewer data to guide production decisions
- Identified demand for political drama with Spacey and Fincher
- $100M committed to 2 seasons with no pilot
- Major hit: awards, recognition, subscriber growth

Why Software Is Eating the World

- Software transforming industries: Amazon, Tesla, Airbnb
- Netflix as a software company in entertainment
- Boeing & Airbus: shift to real-time data and digital twins

Final Lesson

- Digital transformation = redefining the product and market
- Success comes from data-driven, adaptive strategies
- The future: Not what you make, but what you know