1. Using Porter to evaluate the movie rental industry.

Using Porter’s Five Forces Model, the relative attractiveness of entering the movie rental industry is quite low. The first force, buyer power, can be rated as high in this particular industry. Consumers have a variety of choices when deciding which source to rent movies from. As stated in this problem, buyers can choose to rent videos from a local video rental store, by ordering from his or her pay-per-view subscription, and renting videos online. Some movie rental companies hold particular competitive advantages. HBO subscribers have the option to watch any movie that is available on that network at any time. Netflix allows their customers to order movies online for a small fee of $7.99 per month. In addition, Netflix customers have the option to maintain their own movie list. Another source to rent movies from is free online streaming.

On the other hand, supplier power in the movie rental industry is recognized as low. As previously described, there are many different choices to rent movies from. In spite of this realization, movie rental companies need to constantly maintain competitive advantages in order to stay afloat in this business. Examples of supplier power at the weaker end of the spectrum are video rental stores. These sources lack significant competitive advantages. The only competitive advantage that can be recognized only appeals to customers who do not rent movies frequently. Such customers have no use for paying the monthly fees for Netflix or HBO since they don’t watch movies very often.

According the Five Forces Model, the threats of substitute products or services in this case are moderately high. Besides the previously listed sources of movie rentals, another source includes free online streaming. Websites such as Hulu.com and Crackle.com allow their users watch movies online at no monetary cost. Although this provides a cost-free alternative, there is however, a switching cost associated with current Netflix users. Netflix customers have the option to stream their movies to their TVs via certain video game consoles. By switching to the alternative of online movie streaming sites, consumers are eliminating their monthly $7.99 fee, but are limited to viewing their movies on a computer or any other device with sufficient Internet access. Another switching cost includes the quality of viewing movies. Since free online movies can only be streamed through a computer or Internet accessible device, this alternative is subject
to pauses in the movie due to buffering while streaming online. In this example, there is a pro and also some cons of switching over to a free movie rental source. For those who don’t mind giving up the monthly fee and clear movie viewing for free online movies help to enhance the threat of this substitute product/service.

The next force, the threat of new entrants, can also be recognized as moderately high. There are only a couple entry barriers associated with the movie rental industry. One entry barrier is the need to obtain legal rights for supplying copyrighted movies to potential customers. This may be a tricky barrier for an entering company to overcome. Another entry barrier is the use of online services. With today’s increasing use of technology, it is crucial that a new business include online involvement. This point emphasizes the high threat of new entrants into the movie rental industry. Especially with the option of free online movie streaming websites, a new web-based company can certainly stay afloat in the industry. However, the threat of new entrants is “moderately” high because the advantages of Netflix and HBO can be more attractive than free online video streaming. If a new company emerges into the industry under these circumstances, an additional entry barrier may include the need to provide customers with TV viewing and a customizable movie listing.

As provided in the problem, the movie rental industry is a highly competitive one. Throughout this discussion, Netflix and HBO have been the two prominent companies that have been competing in the industry. Including free online movie websites, each competitor has an attribute that appeals to customers. Each company tries to come up with something that will make their offering more appealing than their competitors’. For example, Netflix first began with supplying DVDs via mail to their customers, and required that the DVDs be mailed back when the customer was finished with it. As stated at the beginning of this discussion, Netflix has adapted to the use of IT and has included the features that they have now.

Overall, the movie rental industry is not as “cut throat” as other industries, such as the automobile and computer industries. However, this discussion has led me to the conclusion that the movie rental industry is not a very good one to try to enter. Netflix and HBO, being the prominent companies in the industry, have been able to increase their amounts of customers. Their integration of IT has probably been the ultimate appeal to consumers. It will be difficult for an entering company to top the offerings that are already provided by these two.