

Wal-Mart Takes On Netflix; DVD Online Rental Market Heats Up

Event

On 10 June 2003, Wal-Mart Stores, Inc. announced plans to expand its online DVD rental program. The new program increases competition for and interest in market leader Netflix.

GartnerG2 Analysis

Netflix currently dominates DVD home delivery. Launched in 1999, Netflix offers more than 15,000 titles and has more than one million subscribers in the U.S. Home delivery appeals to consumers—it saves them rental late fees as well as the time and effort of visiting a store to select or return movies. Netflix subscribers use the Web to set up a personalized queue to rent movies with no due date, according to the plan they choose. Netflix promotes next-day delivery to more than 60% of subscribers, through 20 distribution centers. It offers four pricing options: \$39.95 “Ultimate”, eight movies at a time; \$29.95 “Plus”, five movies at a time; \$19.95 “Standard”, three movies at a time (90% of subscribers choose this plan); and \$13.95 “Economy”, two movies at a time with maximum of four movies per month.

Wal-Mart, which sells but does not rent movies in its brick-and-mortar stores, quietly launched a DVD rental program last year via promotion on its Web site. Wal-Mart has now re-launched with three pricing models, more titles, and expanded fulfillment through six distribution centers. Wal-Mart’s monthly pricing: \$15.54 for two movies at a time; \$18.76 for three movies at a time and \$21.94 for four movies at a time.

GartnerG2 research shows the average household in 2002 rented five movies per month (VHS and DVD) from retailers. We expect the number of movie rentals per household to remain relatively constant, with DVD crowding out VHS completely by 2007.

Netflix and Wal-Mart will soon face another DVD home-delivery challenge when Blockbuster launches its program, which may include store participation. Video on demand (VOD) and near-VOD delivered via cable, satellite and the Web will also compete.

GartnerG2 research shows most consumers still prefer movies in the physical form (VHS or DVD) versus digitally delivered.

Convenience of home delivery is the biggest threat to the pure margins that retailers earn on late rentals. To compete, retailers must focus on giving exceptional customer experience. Both Netflix

Gale Daikoku

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and Wal-Mart's DVD home-delivery services have execution challenges that must be addressed if they are to retain customers and take share from retail stores.

GartnerG2 Recommends

Netflix:

- **Improve new release availability.** Increase the number of copies available for rent for the most popular titles to trim waiting lists. Consumers want to see new releases as soon as possible. Don't give them a reason to shop the retail channel.
- **Fight churn.** With customer churn of 6%, and increased competition from Wal-Mart, as well as Blockbuster's imminent offering, you must improve customer-tracking capabilities to understand why customers leave your service.

Wal-Mart

- **Provide accurate, real-time availability status.** The vast majority of new release movies are available for rental or purchase on Tuesdays. Failing to ship or show "awaiting availability" status on a new releases that should be available to customers gives customers a reason to go to a retailer.
- **Focus on the customer experience and improve Web usability.** Reduce the number of clicks required to get from the Wal-Mart.com site to the DVD rental site, as well as during the rental process itself.

Blockbuster

- **Be the master of this multi-channel opportunity.** As the leading retailer for home entertainment rentals, you are in the best position to leverage home delivery by extending your existing business model across your 8,500 stores. Be sure that store employees have the training, resources and guidance needed to manage multi-channel inventory and customers.

Dig Deeper

Related Research from GartnerG2

[DVDs Will Show Strong Growth in the Home Entertainment Market](#)
By Gale Daikoku (13 June 2003)

[15 Best Practices to Improve Retail Web Site Usability](#)
By Geri Spieler (16 July 2002)

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