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E-commerce and Business Case of a US E-commerce firm

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1. Outline

Due to the opportunity to study in the States and exposing myself to many different models of business, which are not applied in Europe, has made me want to research E-commerce.

E-commerce is increasingly getting into our lives. More and more there are less companies that do not adapt their business online and more companies who solely start up online.

The first phase of this Research Project will introduce E-commerce. It will first go around what is colloquially and formally known as E-commerce and the differences between it and E-business.

The introduction will continue with an explanation of seven unique features of E-commerce that have made it a success: ubiquity, global reach, universal standards, richness, interactivity, information density, and personalization/customization.

The next step will be explaining the different types of E-commerce: Business-to-Consumer, Business-to-Business, Consumer-to-Consumer, Peer-to-Peer, and Mobile commerce. We will focus in the first and second kind and divide them into different current models.

After that we will talk about the origins of E-commerce, the evolution since then with references to some historical data, the crash of dot.com, and predictions about the future of E-commerce.

Before the most theoretical part ends, we will also talk about three more issues. First, why does E-commerce develop better in some places than in others? Explaining the generic factors that help E-commerce develops. Besides, some developing and developed countries will be put as examples to view different levels of E-commerce development.

The last two issues in this first part will be explaining what makes a current E-commerce a success. Focusing on the point of view of the website creation and discussing the role of the social networks in E-commerce in the near future.

The second phase of this Research Project is the business case. To start the most practical part we will choose a real E-commerce firm from the States, making a case study in order to determine the convenience of entering the Spanish market. The firm is Netflix and we will first make an introduction in order to perform a business case with as much information as possible.

After that we will refer to four elements: customer, product, company, and competition. We will find out similarities and differences between the American and Spanish markets in various issues, give some data about the evolution of different parameters in Spain, and provide extra useful information.

To end the business case a table will be made to summarize the information and help us reach a conclusion of the viability of Netflix in Spain.

Two things must be said before starting. This Research Project pretends to be the best with the resources available. A business case like this would imply lots of hours, a large team from a consultant firm and quite privileged information. Because of this insufficiency, there will be some issues that could not be explained.

This approach will be useful for my future career as a consultant as I will work using one of the typical frameworks (business situation) in consultancy. Moreover, I will get experience in something likely to be the future of every company. In this manner, I will have a wide perception of a real E-commerce from the States which does not exist in Spain and might be capable of being applied there.

2. Acknowledgements

This Research Project puts an end in my degree as an Industrial Engineer. During the last five years I have learned to solve complex problems individually and in groups. I have acquired a wide knowledge in many industrial issues. And not least, I have met many people which I have interchanged points of view and enriched myself. I am ready and excited to start my career.

Since I was a child I have demonstrated my desire to learn through my consistency and regularity studying and doing other things in life. This has led me get higher marks as I passed my courses, but most important, to improve as a person.

But this would not have been possible without my parents. They have let me study in such a privilege position. I have always had the possibility to practice sports, travel around the world, have a good health care, and receive a great education and love.

They have sacrificed efforts in money, time, and missing me as long as for my good. Immeasurable thanks to them.

My sister has been and will always be a pillar for me. My child life was great also because of my godparents and their two sons. The oldest one was a reference for me and helped me grow up. Thanks also to my best friends.

In terms more specifics of this project I want to acknowledge all the staff of Industrial Technology and Management of the School of Applied Technology at IIT, especially Pamela Houser who treated me wonderfully since the first e-mail I sent her and, my advisor Mazin Safar. He was the first one to welcome me to Chicago and advised me very carefully during the whole Research Project. Moreover, we had very interesting chats about the American lifestyle.

I also appreciate the company I had with my roommates who helped me a lot to understand US habits and customs and in this way understand why the US is so developed in E-commerce.

Finally, I am grateful for the council of Miquel Garcia Reyero (manager of Deloitte) who told me the topic of this Research Project as a very useful work for my future career as a consultant. Besides, he has given Deloitte good feedback about my selection process and I have recently accepted their offer to start on September as consultant of strategy and operations.

3. Previous definitions

Internet

Network of computer networks which is decentralized, global and scalable indefinitely.

It is called decentralized because Internet is not owned nor controlled by anybody. It has been spread almost everywhere and its use is growing extremely fast. According to the figure 1, on June 30 2010, approximately the 30% of inhabitants in the world had access to its services.

Its purpose is to facilitate the exchanging of information digitally between many type of users like business, government agencies, and individuals. Some of the most common activities you can do with the Internet are: e-mail, research, shopping, and chatting.

Its origins are related to a communications project of the U.S. department of defense in 1966 which pretended to be an emerging plan for maintaining the relations all over the country in case there was a massive attack. In 1973, Arpanet began the process of construction of the current configuration by interconnecting different networks. Nowadays Internet is considered one of the most relevant inventions of our history as it has completely changed the human behavior.
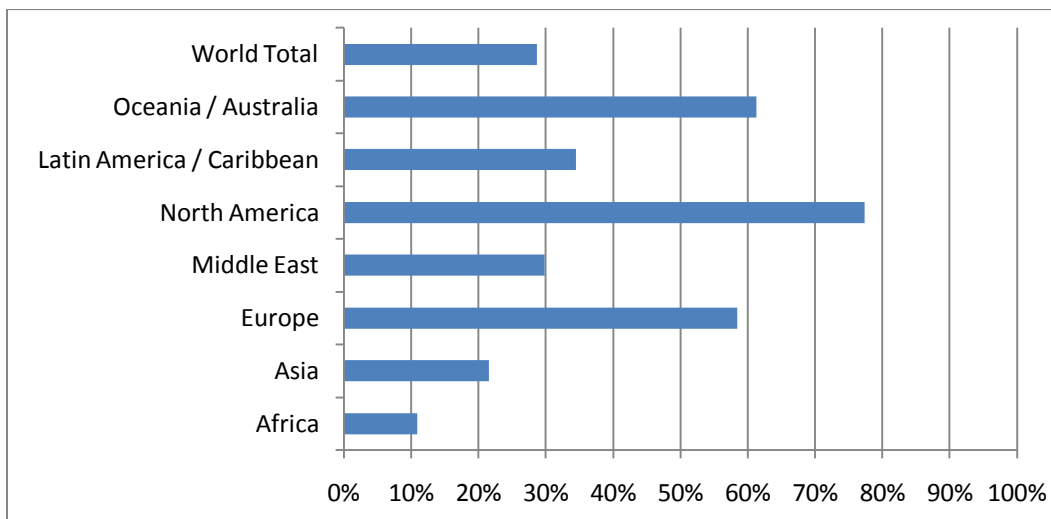
Figure 1: Percentage of Internet users over the population of each zone on June 30 2010

Source: Internet World Stats

World Wide Web

This is one of the most popular services the Internet offers. It is also known as Web and currently provides the user over fifteen billions pages[1]. These are called websites and you can find many multimedia elements as photographs, videos or texts, and hyperlinks, which give you, access to pages. These websites are basically implemented with HTML (Hyper Text Mark Language) but there are more languages you can execute complex functions with.

In 1989 Dr. Tim Berners-Lee developed software to browse through different pages within the same computer. Two years later he came up with the idea to store all this information – black and white text pages – in the Internet. But it was not until 1993 when the first Web browser could load colors, images, and some primitive animations.

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[1] WorldWebSize.com

4. Introduction of E-commerce

4.1. What do we know about E-commerce and E-business?

E-commerce, also known as electronic commerce, introduces a new channel to make transactions for a business taking advantage of Internet resources.

More formally, Kenneth C. Laudon [1] states:

"E-commerce consists on digitally enabled commercial transactions between and among organizations and individuals"

It is important to understand the whole definition:

- Digitally enabled. The transactions are done with the use of digital technology which is almost always related to the Internet.
- Commercial transactions. There must be exchange of value between the involved actors in the transaction. For the most part, there is a seller who gives a good or provides a service and a buyer who pays a determinate amount of money for it.

And what is E-business? The same author affirms:

"E-business is the digital enablement of transactions and processes within a firm, involving information systems under the control of the firm"

This definition seems very similar than the one we have seen above about E-commerce. While E-commerce is only related to commercial transactions, E-business also includes processes which are made within the organization and are not related directly with the revenues. These four points summarize the differences:

1. E-business is broader in scope and E-commerce is just an aspect or a subset of it
2. E-commerce only covers business transactions such as buying and selling of goods and services over the internet
3. E-commerce essentially involves monetary trade while in E-business, money transactions are not necessary

4.   While E-commerce covers only external processes, E-business covers internal processes as well

Although we will have in mind the two definitions above in this text, we must say that there are a few authors who show discrepancies on the two concepts.

The table 1 shows some processes which can imply either one or two concepts:

E-business	
- Production - Inventory management - Product development - Risk management - Finance - Knowledge management - Human resource	E-commerce
	- Sales - Marketing - Order taking - Delivery - Customer service - Purchasing of raw materials and supplies for production - Procurement of indirect operating-expense items, such as office supplies

Table 1: Processes within an organization which can be related to E-business and/or E-commerce

Andrew Bartels [2] states that E-business and E-commerce are expressions that are sometimes used interchangeably, and sometimes they are used to distinguish one vendor's product from another. But the terms differ, and that difference matters to today's companies.

E-business is usually much more difficult to implement than E-commerce is because it may integrate the whole organization. However it has a higher payoff in the form of more efficient processes, lower costs, and potentially greater profits.

4.2.   Unique features of E-commerce

Applying an E-commerce to your business or starting up one using only electronic channels are ambitious projects but worth enough because of their following seven unique features. These are the differences from the traditional commerce.

UBIQUITY

By having an E-commerce everyone is able to access your website and rapidly make a purchase without having to make a displacement. The temporal and geographical boundaries are eliminated which is a big advantage for the consumer and consequently their transactions costs are reduced. It requires much less mental effort for the purchasers since they do not have to go from one book store to another one to find a book. For that reason, the cognitive effort is also reduced.

GLOBAL REACH

We have learned in the second section that the current online population is approximately two thousand million. This high and continuously increasing number is the potential market which E-commerce merchants could achieve. This is unthinkable for commerce without Internet. No matter where the people are, they are able to buy something from the other side of the world provided they have access to the Web and the E-commerce offers shipment.

UNIVERSAL STANDARDS

Market entry costs for E-commerce companies are lower because the only concern is how to bring the good to the new consumer. There are no differences between countries when it refers to the technology used since the standards of Internet (TCP, IP…) and Web (HTML, XML…) are recognized worldwide.

At the same time, the search costs for consumers are decreased because they can easily compare products and their prices from the entire planet.

RICHNESS

Before the birth of E-commerce there was a trade off between richness and reach. The content of the message used to be less powerful when it was supposed to reach more people. What Internet has allowed is to give the same richness in the message regardless of the size of the target. Moreover, the balance between richness and reach is much better.

INTERACTIVITY

Older Medias, such as TV and radio, are one-way directional communication channels because the information always goes from the merchant to the consumer. However, Internet allows transferring information from two sides. The surfers can be requested for data and ask them. In this manner, the consumer gives a feedback to the company which is extremely valuable for future marketing actions.

INFORMATION DENSITY

E-commerce technologies reduce information collection, storage, processing, and communication costs. At the same time, the accuracy and timeliness of information is increased. As a result, information becomes more plentiful, cheaper and of higher quality.

There are two concepts related with information density we should mention:

- Price transparency. Ease with which consumers can find the variety of prices
- Cost transparency. Availability of information about the costs which the companies have to incur

PERSONALIZATION AND CUSTOMIZATION

Personalization refers to transmitting a different message depending on the buyer the company is targeting. E-commerce technologies can get data about the surfers such as age, location, interests, and generate a history of their activity. Then this data turns out to information used to address the visitors in a more personalized manner, what makes them feel more familiar and attracted to the website.

While personalization relates to the message, customization bears on the product or service. It allows the user to change the final properties of the product or service they are going to pay for. For example, Nike lets the user choose different colors for a same model of trainers and Apple lets you have an iPod with your own name on the back. You might do that in a shop, but the array of possibilities and the ease to do that are much higher though E-commerce.
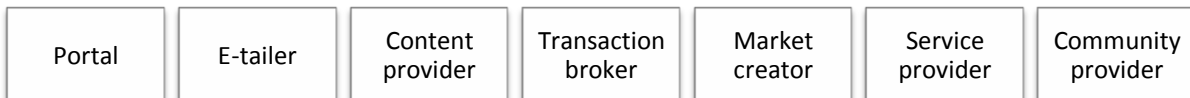
4.3.   Types of E-commerce

We could classify all the different types of E-commerce in five categories. The first three explained are named because of the market relationship or the one who is selling to whom. The last two types of E-commerce are named by the technology used. The following graph summarizes all the types of E-commerce we have today.

Business-to-Consumer	Business-to-Business	Consumer-to-Consumer	Peer-to-Peer	Mobile-commerce

4.3.1. Business-to-Consumer (B2C)

Business-to-Consumer (B2C) E-commerce is characterized in that online businesses sell products or provides services to individuals customers. Although B2C is the E-commerce with more presence in the Internet and it has the majority of online consumers, this is not the one with the highest incomes. The following graph summarizes all the types of B2C E-commerce we have today.

Portal	E-tailer	Content provider	Transaction broker	Market creator	Service provider	Community provider

PORTAL

Google and *Yahoo* are only some examples of websites that offer a powerful Web search and every day a more extended integrated package of content and services (e-mail, chat, calendars…). In the past, the portals were thought of being just gateways; now they have become destination sites and the top 10 most visited gather almost all the search engine traffic.

It's is important to say that they do not usually sell goods. Their main revenues come from advertising, fees for steering customers to other sites and premium services. Both portals cited above are of horizontal or general portals. There are also vertical portals, such as *iboats.com*, which are more focused on a particular subject.

E-TAILER

The revenue E-tailer model is product-based, with customers paying for the purchase of a particular item. There are different E-tailers:

- Virtual merchants. Online version of retail store (*Alice.com*)
- Clicks and mortar. Complement of a physical store (*Best Buy*)
- Online Mall (*SkYMall*)
- Manufacturer-direct (*Dell*)

Since the number of Internet users is growing exponentially and the cost of new market space in the web is low, there are many business openings. However, the key remains in differentiating of already existing E-tailers and keeping low expenses and low inventory.

CONTENT PROVIDER

Content provider is one of the largest types of Internet usage by distributing information content (news, music, photos…), which is everything that includes some form of intellectual property. This last concept represents all human doings that can be put into touchable medium such as text, CDs, or the Web.

While some of these providers charge a subscription fee to download all the stuff you want in a period (*Netflix*), others prefer to charge for each item downloaded (*Harvard Business Review*). Likewise, there are many traditional media which extend its information to the Web, offers unlimited and free access to it and make money by advertising (*Chicago Tribune*).

TRANSACTION BROKER

The largest industries using this model are financial services (*Dif Broker*), travel services (*Expedia*), and job placement services (*Monster.com*). Although they save money and time for the consumer, the latter misses the personal advice that he was used to with the traditional broker. Most benefits from these companies come from transaction fees.

MARKET CREATOR

This B2C E-commerce creates a digital environment where buyers and sellers can meet. The company is neither the buyer nor the consumer; it is just the one who lets them interact and be their own agents, unlike transaction brokers. The best example is *eBay* which has had such a great success because of the lack of inventory, production costs, and the transaction fees it charges. The big handicap for this E-commerce is the marketing investment, which must be high in order to promote and create a solid market full of people.

SERVICE PROVIDER

Service providers offer services online and make money mainly from their sales. Many services can be entirely provided through the Internet, such as *elephantdrive*, which lets you store information on the Web. There are others, which are paid from your house and followed by pick-up or delivery, such as *Big Box*, which picks your physical material and brings it to the store.

Moreover, most of the traditional services can be at least arranged by the website's company, such as a car's repair. To complicate matters a bit, we could say that some transaction brokers are service providers as well, because they offer services such as pension planning or vacation planning.

COMUNNITY PROVIDER

These sites create very different online digital environments which let the surfers with similar interests post and receive interest-related information, make transactions, and even play by adopting different personalities. The revenue model is a hybrid and combines elements of the above B2C E-commerce models. *About.com* is a great example that gathers many people interested in different topics and takes that opportunity to let other companies advertise in much focused areas.

4.3.2. Business-to-Business (B2B)

As the name reads, Business-to-Business (B2B) E-commerce lets two or more companies make commercial transactions via digital technology. This is more welcomed and reliable for the businesses since it accounts most of E-commerce (92% in the US in 2008[2]). The following graph summarizes all the types of B2B E-commerce we have today.

Marketplace / Exchange	E-distributor	B2B service provider	Matchmaker	Infomediary
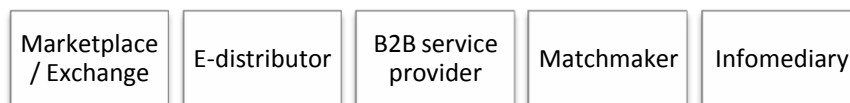
MARKET PLACE / EXCHANGE (B2B HUB)

This kind of E-commerce is similar to B2C market creator but with the difference that all the actors are companies. While purchasers gather information, check out suppliers, and collect prices, sellers have a wide access to buyers. In this manner, it is possible to identify potential suppliers, customers or even partners.

There are vertical B2B Hubs that focus on a specific industry (*Direct Ag Network*) and there are horizontals that concentrate in a particular product but attend different industries. Both sites make money from transaction fees.

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[2] "E-Stats". Department of Commerce of US Census Bureau. May 27 2010

E-DISTRIBUTOR

Whereas B2B Hubs allow sellers and buyers to communicate and make transactions themselves, E-distributors set up their own place to serve many other companies and make money from their sales of goods. As the B2B Hubs, large audiences are vital to make the business profitable. *Grainger* is a clear example that distributes products related with maintenance, repair, and operations to other industrial companies.

B2B SERVICE PROVIDER

These companies offer business services to other firms. Traditional B2B service providers offer solutions like accounting or human resource management. We must mention in this category the application service providers (ASP), which enable the use of Internet-based software applications (s*alesforce*).

MATCHMAKER

Matchmakers helps businesses find what they want and need on the Web so this way, they charge a commission each time there is a transaction or just because they contact the provider with the customer. For instance, *iShip* lets the companies compare prices of different carriers and finally link them to the chosen carrier's website.

INFOMEDIARY

This sector is increasing and extremely fast because of the boom of the information power. Every day is more and more important to have access to statistics which show present and future trends about the society. Infomediaries collect that information, taking care of the law, and sell it.

4.3.3. Consumer-to-Consumer (C2C)

B2C market creators can be considered Consumer-to-Consumer E-commerce as well. Individual sellers prepare the product and introduce a description and a photograph of it. Market maker publishes that information and facilitates the payment while it charges a transaction fee. While in *eBay* the product is in auction, in *half.com* the sellers fix a price. At this point some people would think that *craigslist* is a C2C, but the fact is that there is no commercial transaction via its website.

4.3.4. Peer-to-Peer (P2P)

Current phenomena such as *Skype* or *Spotify* use that technology which is characterized by the share of files and computer resources without a common server, that is to say, information available for some other's use on the Web.

4.3.5. Mobile-commerce

Mobile-commerce is an extension of the above types of E-commerce because it lets them develop when you do not have a computer in front of you. Using a wireless Internet connection and some applications installed on your mobile phone, commercial and digital transactions are possible for the user.

Its use is becoming more widespread thanks to lower prices for Internet mobile rates. For example, *Amazon* has its own application for the iPhone that allows you to buy products just with one click.

4.4. History and future of E-commerce

4.4.1. Origins

Although we always associate E-commerce with the Web, there is E-commerce which does not use this new Media. Precisely the birth of E-commerce is dated before the birth of the Web. In the late 1970s, a pharmaceutical firm named Baxter Healthcare allowed the hospitals to order supplies by using a telephone-base modem. In 1981 the first commerce oriented to the consumer appeared: The French Minitel, which was a videotext system that combined the telephone with a screen.

None of these two systems worked with Internet. As relates to it, in October 1994 the first banner ad was published in Hotwired, a commercial web magazine which was later acquired by Lycos, and as a curiosity, clicking the AT&T banner leaded you to nowhere. In early 1995, we see the first sales by Netscape and Infoseek.

4.4.2. Evolution

The evolution of E-commerce can be split up in two eras. Between them is the crash of dot.com:

E-commerce I: 1995 – 2000

This was one of the most euphoric commercial stages as thousands of dot.com companies were formed. The technologies developed during the last forty years before that point drove to a new phase for commercial transactions. It was the celebration for the Internet not being controlled by anyone and free to all.

For the economists, E-commerce brought the concept of friction-free commerce, which comprised the following issues:

1. Price, cost, and quality information were equally distributed (Bertrand market).
2. Transaction costs were low.
3. Prices could be dynamically adjusted.
4. The number of intermediaries declined (disintermediation).

5.   Unfair competitive advantages were eliminated.

Although this vision was just an ideality, E-commerce represented an extraordinary opportunity for the real entrepreneurs. The first movers were the firms who took the market in a particular area and rapidly spread to gather market share. They tried to get the customers familiarized with their websites and raised switching costs through building attractive sites. Even the best first movers created technologies and techniques which propagated quickly and were adopted almost by everyone. It is called the network effect.

Crash of dot.com

The crash in the stock market values of the dot.com created the previous stage meant the end of it. There were mainly fours reasons which explain that:

1.   The systems had to be rebuilt from year 1999 to 2000.
2.   The telecommunications industry had built in excess capacity in high-speed fiber optic networks.
3.   E-commerce Christmas season provided less sales growth than anticipated.
4.   The valuations of dot.com and technology companies had risen so high that the earnings of those companies couldn't justify the prices of the shares.

E-commerce II: 2001 - present

Only the 10% of dot.com formed since 1995 survived. The previous advantage of low costs disappeared slowly. Customer acquisition and retention costs began to rise to very high levels. Costs of technology, site design, maintenance, and warehouses for fulfillment started to equip themselves to traditional commerce. Moreover, the government tried to have some control over the Internet because the population was being socially and culturally influenced in a drastic measure.

4.4.3. Predictions for the future

Despite the fact that revenues and customers of E-commerce are still growing each year, another big phenomena, such as the introduction of cars and radio, did not continue growing after their first years. In 1915 there were over 250 automobile manufacturers in the United States; by 1940, there were only five. In 1925 there were over 2000 radio stations across the United States; by 1990, there were fewer than five hundred. So, what are some predictions for the future of E-commerce?

Jim McGregor [3], chief technology strategist at In-Stat, told the E-Commerce Times:

"In general, online retailing has a bright future, but it needs time and education. Most people don't know that you can buy just about anything – and I do – from Amazon, including car parts, office supplies, food and household items. This is the educational part.

Then there are the generational and time issues. Some people are accustomed to going to the store whenever they need something. Granted, there will always be things we need right now or that we would prefer to purchase in person, such as produce, but I believe there is plenty of growth left in the E-commerce area, especially as people get more connected."

A recent article by Stu Woo [4] says that the 2010 growth rate of US E-commerce (12.6%) outpaced that of 2009 (11%) and some of the causes could be the economy's recovery, greater spending per online shopper and more first-time online shoppers.

In the same article Forrester Research foresees that for the next five years the Internet retail sales in the US will grow 10% per year. Stu Woo believes that this is based on:

"E-commerce will grow over the next four years as shoppers continue to shift their spending from physical stores to online ones. Increased use of smartphones and tablet computers, greater merchandise selection and new business models, such as daily-deals sites such as Groupon, will also aid growth."

4.5. Why does E-commerce develop better in some places than in others?

We could summarize what encourages or inhibits E-commerce in a country on these generic and external factors:

1. Protocol making process
   It is necessary to have a good telecommunications infrastructure that allows the use of the Internet in most of the entrepreneurships and homes.

2. Delivery infrastructure
   A reliable system to deliver goods to the customer is required.

3. Availability of payment systems
   There must be easy payment methods such as, credit/debit cards, checks, wire transfers or cash on delivery.

4. General business laws
   There must be a balance between what companies have to do to maintain the privacy of the data of the surfers and what law rights the latter have.

5. Public attitude to E-commerce
   The level of support and welcome of E-commerce in the life style is essential.

6. Business attitude to E-commerce
   The willingness of companies to move away from traditional ways of doing business and the development of E-commerce is also vital.

Now, let's see how these factors are in two developing countries so this way, we will know what a country must not do.

The first example of a developing country, Dedrick and Kraemer [5] analyzed how China's E-commerce is going nowadays. They stated that although there is a considerable interest in E-commerce, there are also noteworthy barriers to expand the use of it. Some of these are low diffusion of computers, high cost of Internet access, and lack of online payment processes, which are related with the Internet itself. However, there are undirected factors such as inadequate transportation and delivery networks, limited availability of banking services or uncertain taxation rules which inhibit E-commerce.

As a second example of a developing country, Chepaitis [6] also affirms that one of the main problems in Russia, which holds back E-commerce is that people avoid sharing data. This attitude goes from the politicians to the employers, which scarcely divulge information to their employees. And in case there is transmission, the monetary compensation is needed. As a result, that communication is low in quality and unreliable and makes it very difficult for information systems to work well.

J. Philipp [7] states that Internet censorship is becoming a larger concern globally, as countries continue to block or filter content of the Web. Not only in the above countries but mostly in the Middle East this is happening. The government controls Websites such as YouTube, Facebook, and Google. There is no doubt that this is a threat to free flow of information and inevitably is reducing growth in E-commerce.

If we pay attention to Europe, we will see that there has been an increase of the presence of companies who use E-commerce. The figure 2 shows the evolution of three countries which have some of the biggest economies in Europe.
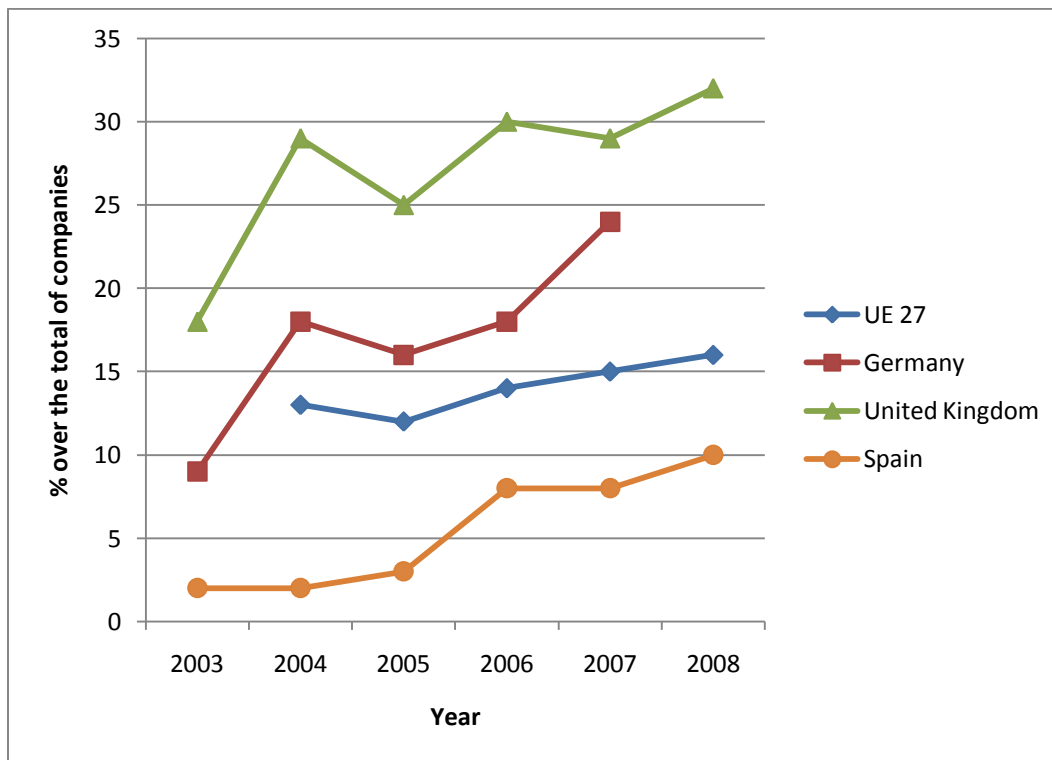

Figure 2: Percentatge of companies who sold through the Internet during 2003 – 2005

Source: National Statistic Institute (Spain)

We notice that the United Kingdom is the place in Europe where it is most common for companies to use the Internet in order to make transactions.

The government of the UK declared in 1998 that they would do all in its power to make the UK the best place for E-commerce in the world. It based its E-commerce policy in three core pillars: access, trust, and understanding. By 2002, the UK was recognized second only to the US in its environment for E-commerce. E-service-expert.com gives the following keys as an explanation of its success:

- Strong market environment
- Supporting legal regulation
- Government readiness which developed an E-government strategy
- High preparation of business with elevated IT spending and computer penetration
- Citizen uptake
- Infrastructure development

4.6.   What makes a current E-commerce business a success?

Andreas B. Eisingerich and Tobias Kretschmer [8] did a wide study about the feelings of E-commerce managers and the customer perceptions about the practices applied in E-commerce websites.

From the point of view of the company, there are many E-commerce leaders who are disappointed by the behavior of their customers, which they think are disloyal and unwilling to spend. There are 57% of managers who expected more about the implementation of E-commerce, but only 17% have plans to improve the situation.

From the point of view of the customers, five practices that are increasingly common and expected by them are:

1. Personalized shopping
2. Clear categorization
3. Order tracking
4. In-depth product or service related information

5.   Engagement through the provision of related information on related products and services

The fifth practice is the most valuable. For example, Ralph Lauren, shows how to engage users by its website. By publishing RL Magazine makes the consumers feel in that world. Reading about fashion, art, sports or diets facilitates brand attachments and association with the clothes brand.

"Most firms limit their sites to providing narrow information about the products or services that are for sale. But we found it helps customers search for solutions, invites them to think of all the ways the core products might add value to their lives, wins their loyalty, and entices them to buy".

4.7.   Do social networks improve E-commerce?

Could be the current rise of social networks, such as Facebook, implement a virtual market between your friends network? The department of Computer Science of the University of California at Santa Barbara [9] performed a detailed study of Overstock Auctions, a novel auction site that integrates social links into user profiles. Using data on connections between roughly 399,000 Overstock users, they evaluated the impact of social connections on business transactions.

"Our study examines the impact of social networking connectivity on business transactions. We found that in general, users perform few transactions with their friends on the social network."

Most of the users do not participate in the social marketplace and those who do it separate business from friends. The results show that there are very few transactions between friends.

"However, our sampling of user feedback shows that transactions between partners connected on the social network result in significantly higher user satisfaction."

This is demonstrated in higher success rates at long distances and more difficulty to cheat as fraudsters who try to use fake accounts are rarely well connected in social networks.

Finally, the study purpose some actions to improve the efficiency of E-commerce in social networks: progress in user education (more people involved socially and encourage business to interact socially) and, better advertising and more features for existing services.

5. Business case

After doing a complete introduction in the expanding world of E-commerce, it is time to concentrate on a real US firm. As it was said in the outline, there are plenty of E-commerce business models, which could be applied in Europe. Because of its new way to offer a traditional service, Netflix is the firm chosen. There is nothing similar like this in Europe at all.

The aim of this business case is to determine whether the implementation of the business model studied is feasible or not in Spain. This case will be done after introducing Netflix and will be based on fours elements: customer, product, company, and competition. At the end, a SWOT (Strengths, Weaknesses, Opportunities and Threats) will be presented as summarizing and support for deciding the viability of Netflix in Spain.

| Introduction | Customer | Product | Company | Competition | SWOT |
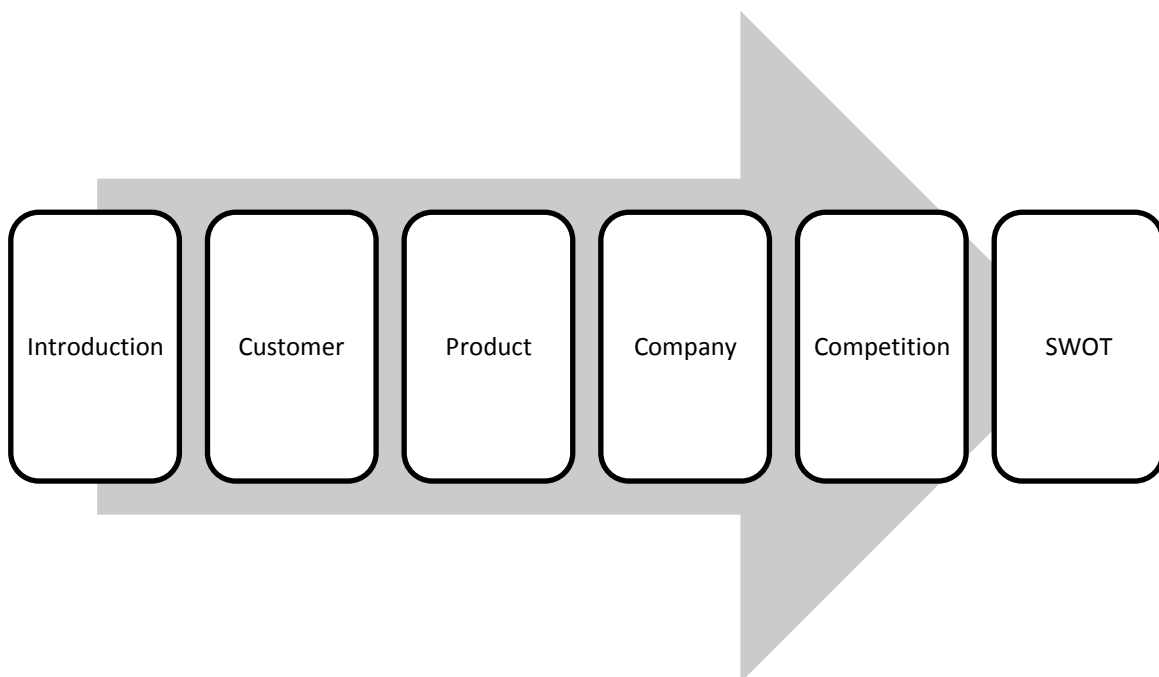
5.1. Introduction of Netflix

Netflix is the world's leading service for enjoying movies and TV shows. It was established in 1997 in Los Gatos, California. Basically it offers two services: on demand internet streaming video and DVD by mail. While both services are provided in the US, only the first one is offered in Canada. Nowadays Netflix has 23 million subscribers and more than 2000 employees.

Netflix is a Business-to-Consumer E-commerce because it develops commercial transactions through the Internet with people. Within this classification we could say that it belongs to content provider and service provider categories at the same time.

In April 1998 the first website of Netflix was launched and it consisted in the typical pay-per-rental model. Later, in September 1999 the model was turned into the current monthly subscription which provides unlimited rentals.

Now, the available plans in the US are:

1. Netflix Unlimited Streaming Only Plan ("Watch Instantly")
   Unlimited streaming for $7.99

2. Netflix Unlimited Plans (unlimited DVDs each month with unlimited streaming)
   1 DVD out at-a-time for $9.99
   2 DVDs out at-a-time for $14.99
   3 DVDs out at-a-time for $19.99
   4 DVDs out at-a-time for $27.99
   5 DVDs out at-a-time for $34.99
   6 DVDs out at-a-time for $41.99
   7 DVDs out at-a-time for $48.99
   8 DVDs out at-a-time for $55.99

3. Netflix Limited Plan: 1 DVD out at-a-time for $4.99
   Limit 2 DVDs each month with 2 hours of streaming to their PC. This plan does not allow members to stream movies to their TV via devices streaming from Netflix.

The first plan only includes video streaming of selected titles to computers running Windows or Mac. TVs can also reproduce these videos if they are connected with the Wii, PlayStation 3, Xbox 360 or specific DVD players and set-top boxes. The list of devices continuously increases and now even includes iPad, iPhone, and iPod touch.

The second plan is the star service. It consists on receiving the DVD in an envelope which will be used by the user for sending back the disc as well. Until we do not do that, we will not receive the next DVD in our queue. So this way, the users save time and money because they do not have to move from their houses and pay for displacement costs. Moreover, this plan also lets users access to unlimited streaming.

The third plan is addressed for people who do not watch movies so often since it only allows two DVDs rentals and two hours of streaming per month.

Netflix makes movie recommendations based on previous ratings of the user itself and other members who have similar tastes made. Besides, there is a browse feature to search for movies by genre, new releases, top 100 or critics' picks.

5.2. Customer

5.2.1. Who is the customer?

The target will be the person who has access to the Internet and wants to improve his/her experience on watching movies and TV shows with a reduction of commercials and an increase of the offers and commodities.

So we should know the characteristics of the current market (US) and the potential market (Spain). For that, we will provide an array of data of both countries and compare them. The information will be related to TV and Internet habits.

The average Spanish citizen watches TV and video 2 hours and 53 minutes per day and spends 1 hour and 52 minutes on informatics applications per day. These quantities have risen at the expense of reducing by 20% social life and fun.[3]

The volume of business generated by the B2C E-commerce in 2009 stood at 7,760 million Euros, representing an increase of 15.9% over 2008.[4]

This increase in turnover is related to the increase in the percentage of Internet users, which increased from 54% to 58%, and the percentage of population who shops online, which augmented from 16% to 17% (figure 3). Likewise, the presence of Internet in Spanish homes has increased steadily (59% on 2010) the last eight years (figure 4).

Each household has an average expenditure of $36 on the internet per month and 97% of households access the Internet with broadband connections over those connected.[5]
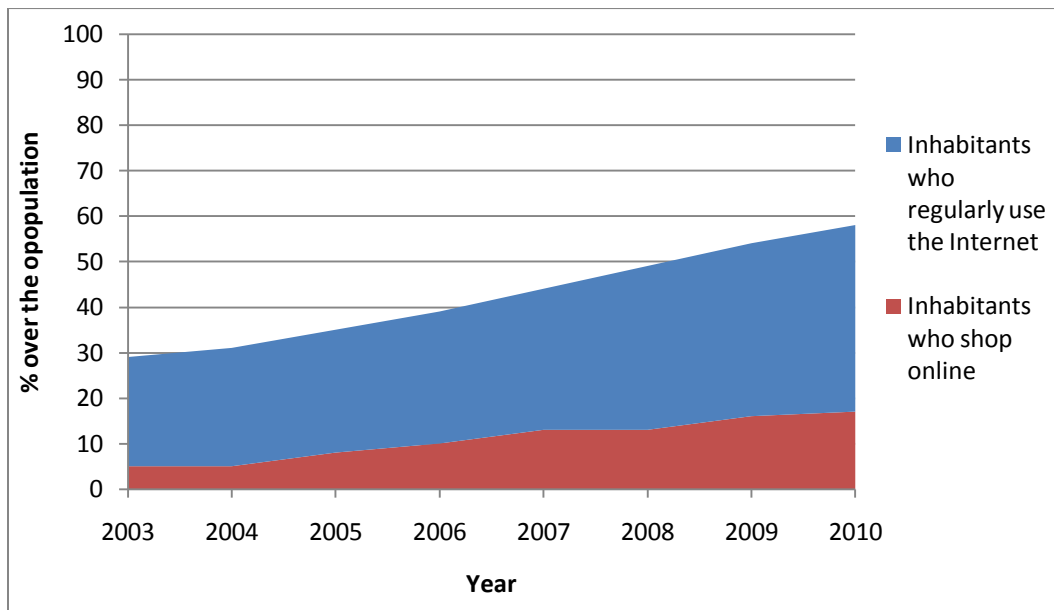

Figure 3: Evolution of the Internet users and online shoppers in Spain

Source: National Institute of Statistics (Spain)

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[3] "2009 – 2010 Time use survey". National Institute of Statistics (Spain)
[4] "2010 B2C study". Red.es
[5] "XXVII and XXVIII New trends in the household panel (January – June 2010)". Red.es
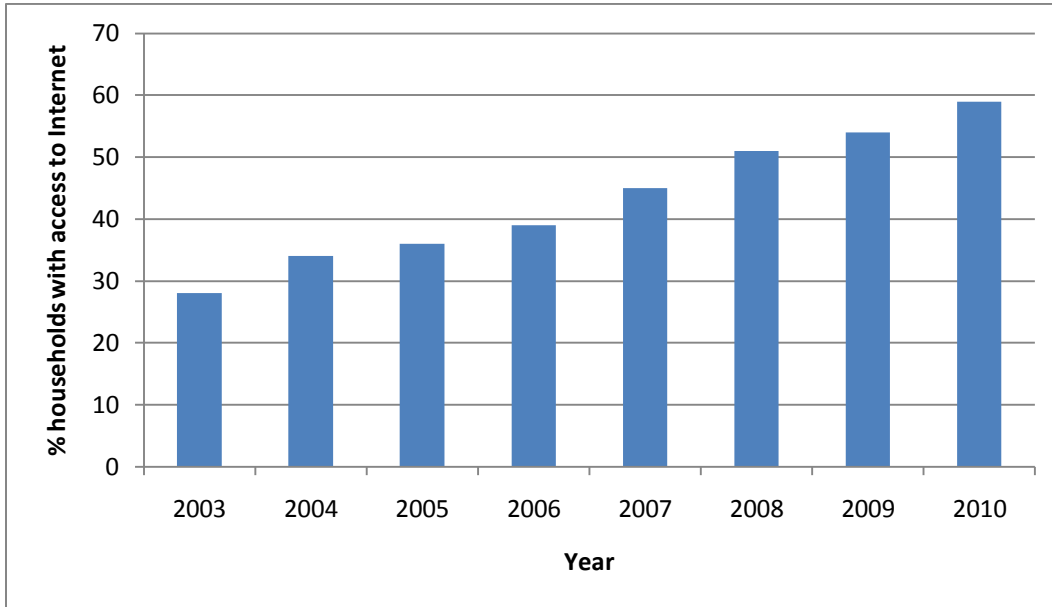
Figure 4: Evolution of households with Internet in Spain

Source: National Institute of Statistics (Spain)

However, the average American watches 3 hours and 46 minutes of TV each day, which is almost one hour more than what the Spanish watch.

The percentage of Americans who have access to Internet is 78%[6] and 52% of the population bought something online during the last year[7]. The percentage of households with Internet is 71% and 96% of those have broadband connections.[8]

The table 2 summarizes the above data and gives evidence that almost in everything the US has a higher position than Spain. The percentage of users is 20 points elevated, the proportion of online shoppers is triple, and the presence of Internet at homes is 12 points superior. Spain is only better in terms of broadband connections.

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[6] "Internet users". The World Bank. 2009
[7] "The main street fairness tax: is it time to collect taxes on Internet sales?". Ethics Sage. 2009
[8] "Industry statistics". USTelecom. October 2010

	Spain	US
Time watching TV per day	2h 53 min	3 h 46 min
% Internet users	58	78
% Online shoppers	17	52
% Households with Internet	59	71
% Broadband connections	97	96

Table 2: Comparison between Spain and the US about TV and Internet habits

5.3. Product

5.3.1. Nature of the service

Why someone would pay for Netflix?

- Extensive catalogue which includes the last releases
- Suggestions that make you more confident about what you will watch
- Not having to move from your couch. Only when picking the envelope from the mailbox and leaving it in the closest postbox
- Large list of compatible devices
- Flat rate at a low price for unlimited movies and TV shows
- Video streaming in case you want to watch a movie instantly
- Easy to sign up and web browsing
- Queue that contents the movies you want to be sent automatically
- Watching a video as many times as you want

Some of the currents facts that demonstrate that Netflix is having success in the US are explained in its website:

- Netflix members watch two more movies than they did before signing up for the service. Further, those add 2 million movies to their queues every day.

- There are more than 5 billion movie ratings from members and that amount increases in 4 million every day. The average member has rated more than 200 movies.

- About 60% of Netflix chooses their movies based on movie recommendations fitted to their individual tastes.

- More than 90% of Netflix members are so satisfied with the service that they suggest it to their friends and family. More than 70% of new members recognized that they joined the service because of an exciting recommendation.

5.3.2. Complimentary goods or services

Goods or services are complimentary if a reduction in the price of one leads to an increase in demand for the other. They are usually goods that are consumed or used together, such as gin and tonic or computers and software.

There are some goods that are necessary to consume Netflix. As higher the proportion of these in the society, the number of potential consumers will be higher. Those goods are Information and Communications Technologies (ICT) and we will analyze the main ones: TV, computers, and DVD players. We could say that Internet is a complimentary service as well, but we have already studied it in the field of customer.

The percentages of Spanish households with one of these technologies were in 2010: 99.5% for TVs, 50.1% for desktop computers, 42.5% for laptops and 78.4% for DVD players. In the figure 5 we can see the evolution of those variables since 2003.
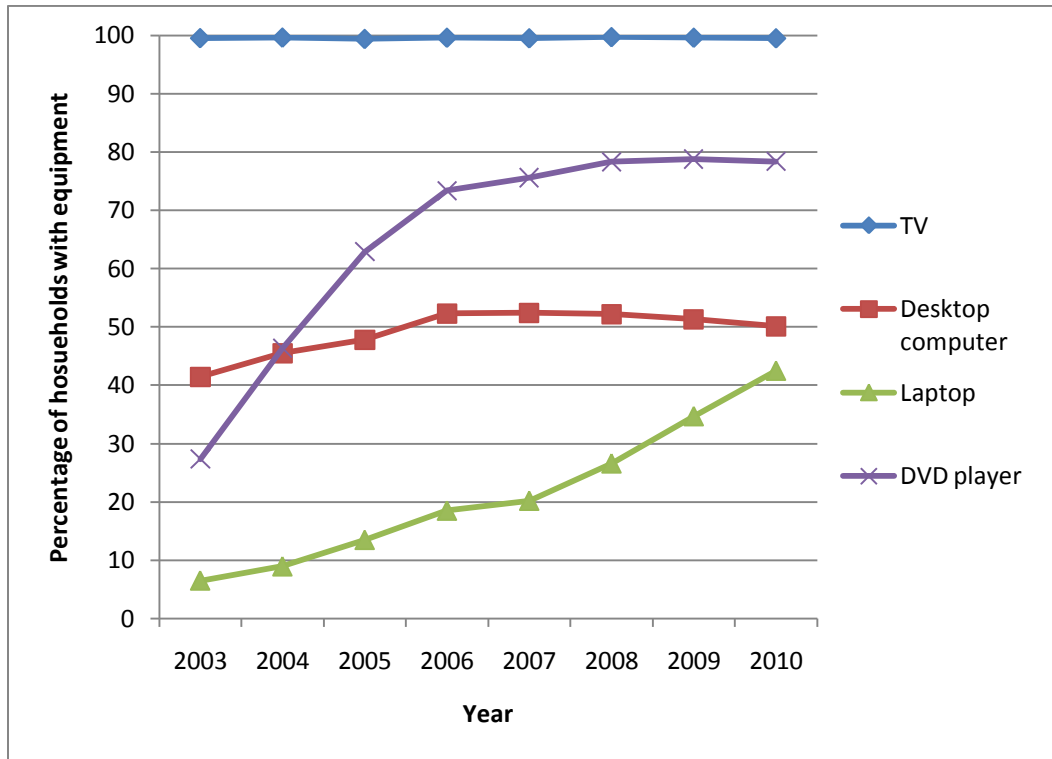
Figure 5: ICT equipments in the main Spanish dwellings in the last 8 years

Source: National Statistics Institute (Spain)

While the percentage of TVs at homes has remained practically constant and high, the percentage of DVD players increased 70% per year from 2003 to 2006, then it increased slightly and now it seems it is not going to grow any more.

Although this last fact is a threat for Netflix, the exponential evolution of number of laptops in Spain is an opportunity. Its huge increase easily compensates the vaguely reduction of desktop computers and enlarges the number of inhabitants that have access to a computer.

To make some comparisons with the US, we could say that the percentage of TVs of American households is lower (98%). The Washington Post [10] also published an article with the current household ownership rate of personal computers (87%) and DVD players (94%), which is much higher than it is in Spain.

The table 3 summarizes the differences between Spain and the US in terms of ICT:

	Spain	US
% TV	99.5	98.0
% Desktop computer	50.1	87.0
% Laptop	42.5	
% DVD player	78.4	94.0

Table 3: Comparison of household ownership rate of ICT between Spain and the US (2010)

5.3.3. Substitutes

There is another service which is also directly related to movies but involves the displacement of the people. That entertaining activity is watching new releases on movie theaters. This is the main substitute service because it has the same function and the reduction on its demand implies an increase on the demand of movies at home.

The figure 6 shows the evolution of the number of spectators in Spain during last 18 years. It can be appreciated that there was a peak in 2001 with 360 spectators per 1,000 inhabitants. After that moment, the attendance at movie theaters has declined 33%. This is good news for Netflix because movie theaters are a substitute for it.
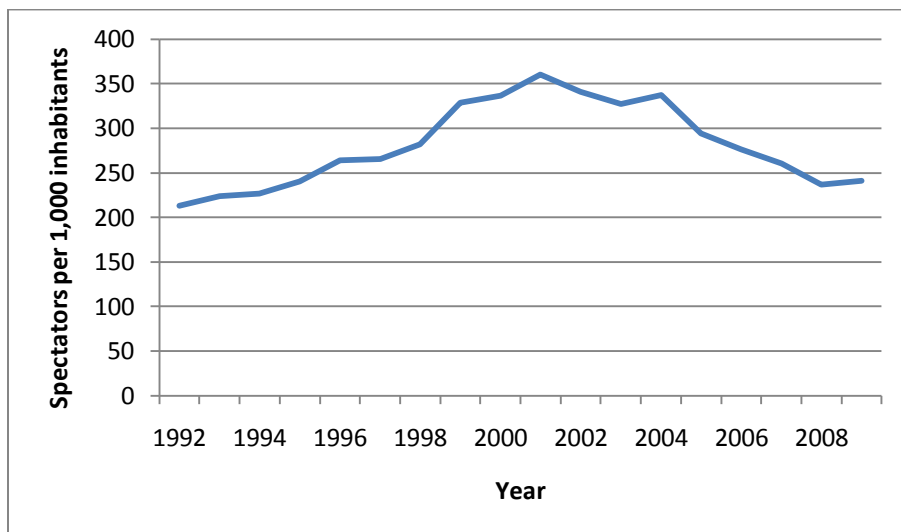

Figure 6: Attendance at movie theaters in Spain during last 18 years

Source: National Statistics Institute (Spain)

But what is the origin of this decrease? Is the price of tickets for watching a movie on theaters one of the causes? Yes it is. In the next figure the average movie theater ticket is expressed in base 2006. This means that we associate the price for that year as a reference and in this way we can compare how it developed in comparison with the consumer price indexes.
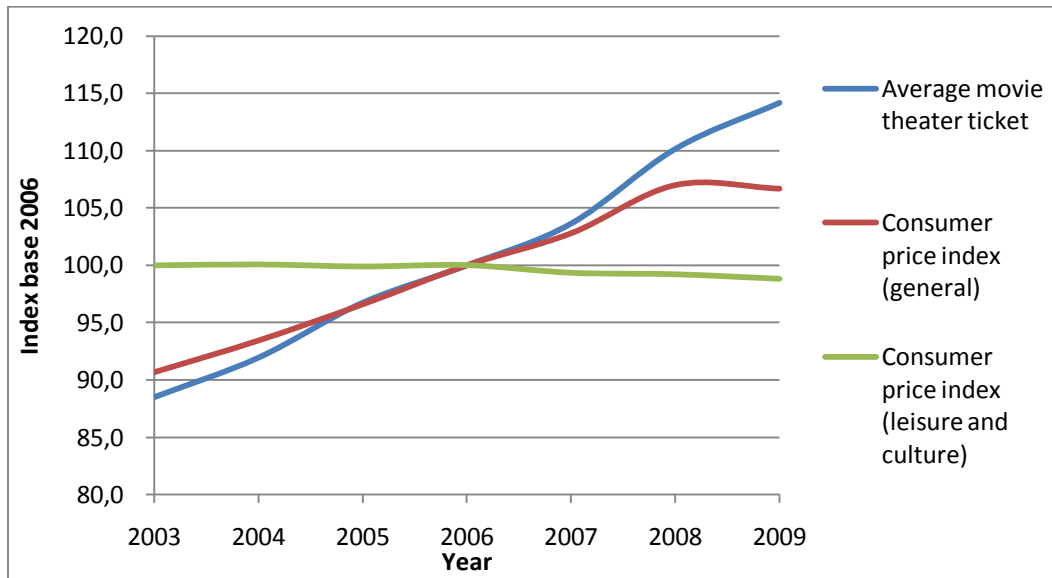
Figure 7: Comparison of prices between a movie theater ticket and the consumer price indexes in Spain

Sources: Facua and National Statistics Institute (Spain)

In the figure 7, we can see that the price for watching a movie in a Spanish theater has grown dramatically. While the consumer price index for leisure and culture has remained fairly constant, movie tickets have increased almost 15% in just 3 years. Clearly this was not well taken by the consumers and it is why in 2010 movie theaters received 12.8 million less attendants than the previous year and registered a 5.6% shortening of their incomes [11].

If we compare the movie tickets of Spain and the US, we will see that going to the cinema in Spain is a bit more expensive than in the US. While in Spain its cost in 2009 was 5.96€ in average, which is $8.31[9], in the US that average price was $7.5[10]. It must be said that these amounts are averages, which means that in the cities they were higher.

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[9] Taken the average conversion of EURUSD for 2009 at OANDA
[10] National Association of Theaters Owners

5.4. Company

5.4.1. Distribution channel

The United States Postal Service (USPS) is the company chosen by Netflix to operate in the US. That company is an independent agency of the United States government, established in 1971, and is one of the few authorized agencies by the US Constitution.

It was made independently in the early 1980s and since then it has not received any money from the government, but it does borrow money from it. The USPS, or colloquially known as "Post Office" or "U.S. Mail", has the obligation to serve all Americans, regardless of geography, and with the same price and quality.

If Netflix wants to use a similar company as a provider in terms of distributing the DVDs, it should choose the main postal services firm in Spain, Correos. Correos is the first company of the country in terms of capacity and territorial coverage. Unlike the USPS, Correos is propriety of Spain and since January 2011 it became part of Grupo Correos as a result of the union of its subsidiaries and itself.

The recent fact made Grupo Correos stronger in those fields: the design and impression of massive communications, the integral management of B2B and B2C mails, and the technological integration with its customers. The second term is a good opportunity to operate with the services of that company.

But what are the current prices of both companies for an individual customer? Although this is not the price that Netflix is paying to USPS or would pay to Grupo Correos, the comparison will give an idea of the level of prices for both companies.

USPS has a special service called Media Mails for sending small and large packages consisting of books, film, manuscripts, sound recordings, video tapes, and computer readable media (such as CDs, DVDs, and diskettes). The prices for that service are based on weight and the lower weight not over one pound. The corresponded price for that weight is $2.41. Nevertheless, that delivery time is between 2 and 8 days, so it means that Netflix is not using that service.

Netflix must be using a service more similar to Priority Mail because it satisfies in most cases a delivery within 2 days. Besides, it is not needed such a high weight limit. An individual who sends an envelope using that service has to pay $4.95.

Correos does not have a special service as USPS has for media mails. The most convenient type of product would be the express letter, which the cost is based on weight. Correos warranties 90% delivery in all major cities in one day. That means that smaller cities might wait one or two extra days. The price for a 2 ounces mail is around $4.4 with taxes included. If we discount the taxes, the price will be around $3.75.

5.4.2. Cost structure

This list shows a brief overview of the main fixed costs that Netflix would incur:

- Acquisition of streaming content library. It might need new licenses because the language is different and the broadcasting market is Spain right now.

- Purchase of movies and TV shows in DVD format. A new stock is needed as Netflix cannot use the ones that are on the other side of the Pacific.

- Web hosting. In case it does not want to maintain the same domain and make a particular website for Spain.

- Wages of new employees that work on web design and maintenance, logistics and administration.

- Marketing plan to let the Spanish market know the new firm and its benefits. It might be an outsourcing cost at the beginning because a native company would transmit better the message to the objective public.

- Rental of property and auxiliary equipment. Netflix needs a central base and some stores around Spain. It also needs stuff such as computers and furniture.

- Utilities

- Office supplies

And the following list gives us an idea of the variable costs:

- <u>Mail postal service.</u> This is the biggest variable cost that Netflix has. It must reach an agreement with a Spanish postal service company that warranties shipping around the country and then pay for every movie that the users rent. Surely that Netflix plans are making money with inactive customers.

5.5. Competition

5.5.1. Competitors concentration

M. Prieto [12] describes the main actors in the current and future scenario of watching movies and TV shows in a Spanish household. She states that the keys will be the price and, the easiness and speed of selecting a movie to watch.

<u>iTunes Store</u>

The online video store from the huge Apple landed in Spain last November. The movies can be watched on your computer, iPhone, iPad or TV via Apple TV from $1 to $5 for HD movies.

<u>Wuaki</u>

The Spanish firm offers more than 500 movies for rent and accessible from the PC. In the coming months the service will be available on some televisions like LG and hopefully a flat rate will be launched.

<u>Movistar Videoclub</u>

All those who have Telefónica broadband connections at home can access an array of movies (1$ to $6 each) and TV shows (from $0.70 each) with a HD media player connected to their TV.

Filmin

This Spanish company focuses on the independent film. Further that there is a subscription fee of $14 per month; you have to pay between $3 and $4.50 for movie rentals. The company has a catalogue of more than 800 movies and 400 shorts.

Digital +

This is the oldest cable company in Spain and now offers its Pay Per View (PPV) service using Internet. Subscribers pay between $3 and $7 for movies and $3 and $4.50 for TV shows. The aim is to open to non-subscribers via the Internet.

Ono

This is a cable company as the previous one and has more than 750,000 subscribers. Ono launched its video store with more than 1,500 free contents and the possibility to rent each new released movies from $4.50.

Samsung Movies

Video is accessible from mobile phones, tablets and televisions. The good thing is you can also buy movies but the bad thing is that you need a Samsung product. The rental movies prices vary from $0.70 to $7 for new releases. Both Sony and Toshiba have launched similar services.

Voddler

The Swedish company is the last one to enter that market. It operates in Scandinavia since 2005 and offers more than 2,300 movies, 1,500 chapters and 280 documentaries. Although most of them are free before watching ads, there are not many new releases and those require payment.

	Streaming on computer	Streaming on TV	Flat rate	New releases	Reception of DVDs
iTunes Store	✓	✓		✓	
Wuaki	✓				
Movistar Videoclub		✓			
Filmin	✓				
Digital +		✓		✓	
Ono		✓		✓	
Samsung Movies	✓	✓			
Voddler	✓			✓	
Netflix	✓	✓	✓	✓	✓

Table 4: Comparison between Netflix and its competitors

As we see in the table 2, none of these competitors offer everything that Netflix would offer at the same time: unlimited plan for streaming video and DVD by mail with the last releases.

The first novelty and main novelty are the sending and receiving of DVDs that would allow the consumers to possess the movies and TV shows as long as they want and without moving from their home. So this way, they could watch the video whenever they are able and as many times as they like.

The second newness is the flat rate that allows the consumers to choose and watch an unlimited number of movies and TV shows without paying more. Besides, we must remember all the extra benefits listed above (5.3.1.).

5.5.2. Industry regulatory environment

Netflix is clearly based on the Internet; consequently, the most important technology is the one that guarantees the safe transaction of money and the personal detail protection. In Spain there are three specific laws that Netflix should consider[11]:

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[11] Noticias Jurídicas

Law 59/2003, of 19th December, of electronic signature

When an activity is based on the Internet the following issues are legally required:

- Authentication: the message comes from the person who claims to send the message.
- Integrity: the message cannot be manipulated.
- No repudiation: the person who sends the message and the person who receives it cannot deny these actions.
- Confidentiality.

Only if the emitter has the encryption and delivery mechanisms that ensure failure in handling third, the electronic signature is equivalent to a handwriting signature, because the four above aspects are met.

Law 34/2002, of 11th July, of information society services and electronic commerce

Netflix is considered an information society service because is done by the distance, via electronic devices, and at the request of the recipient.

This law binds to make public some information of these societies and bans sending advertising messages to people who previously had not requested it.

Only the people who have contracted a related service before and those who show their interest may receive these communications, which must include in the title the word publicity and contain a link where the receiver can easily unsubscribe to these e-mails.

Organic Law 15/1999, of 13th December, of personal details protection

The details of the consumer can only be picked for their treatment and not any other purpose as specified to the consumer. The personal details will have to be deleted when they are not necessary for the initial objective.

When the people are required for their details, they have to be informed about: the existence of a file, the obligation to answer to the questions they are asked, the consequences they are exposed to, their right to modify or eliminate their details and the identity of the saver of the information.

Security and privacy are the two most important factors to take into account when doing an e-transaction. It is worth reminding the methods and technologies that Netflix might already apply to ensure the enforcement of the above laws.

In order to guarantee security:

- <u>Adhere to Payment Card Industry guidelines for secure passwords requirements (WIPS) and follow the Data Security Standard.</u> The Payment Card Industry Data Security Standard (PCI DSS) is a worldwide information security standard defined by the Payment Card Industry Security Standards Council. The standard was created to help payment card industry organizations that process card payments prevent credit card fraud through increased controls around data and its exposure to compromise.

- <u>Make the website operate entirely encrypted, over Secure Sockets Lyer.</u> Encryption is the process of encoding information in such a way that only the person (or computer) with the key can decode it. The latest encryption technology uses a Secure Sockets Layer (SSL), which is an Internet security protocol used by Internet browsers and Web servers to transmit sensitive information. The server receiving the data uses special "keys" to decode it.

- <u>Search for leading technology investors</u> who have built payment and web companies that people already trust.

- <u>Have a proper system security.</u> Netflix should employ a managed cloud computing infrastructure to ensure redundancy and proper firewall and update security.

- <u>Send to clients an e-mail confirmation</u> of every substantive action they made to prevent clandestine account access.

- <u>Get a digital certification for the web</u> that authenticates the entity. Independent services like VeriSign authenticates the identity of the website.

In order to guarantee privacy:

- <u>Get a digital certification for the web</u> that authenticates the website. Netflix should get a license of the TRUSTe Privacy Program. TRUSTe is an independent organization whose mission is to build user's trust and confidence in the Internet by promoting the use of fair information practices.

- <u>Under no circumstances share user's information with thirds</u>

- <u>Maintain a security program to protect personal information</u>

- <u>Restrict on disclosing personal account information to outsiders</u>

5.6. SWOT

STRENGHTS	WEAKNESSES
- Extensive catalogue with the last releases - Saving in time and displacements for the user - Flat rate at a low cost for unlimited DVD videos and video streaming - Large list of compatible devices - Easy operational: fast signing up, simple web browsing, personal queue and movie and TV shows suggestions - Fast delivery time - High customer satisfaction. More than 90% of Netflix members recommend that service to their friends and family - Low fixed costs - First mover advantage	- Power of the studios to limit when movies can be available or for how long - Movies and TV shows are not exclusive. Other competitors can access to them and make difficult to differentiate the product - The most important expense is shipping - Watch instantly feature only allows a small selection of DVDs - No TV shows on live - Problems providing copies of new and popular movies - Lack of control over DVD return time

Table 5: Strengths and weaknesses of Netflix [13]

OPPORTUNITIES	THREATS
- The percentage of Internet users and household with Internet has doubled in 7 years in Spain - The percentage of Internet users that buy online has more than tripled in 7 years in Spain - Very high percentage of broadband connections at Spanish homes - Almost all Spanish homes have TV - Exponential evolution of number of laptops in Spain - Declining attendance at movie theaters and 15% of increase on the ticket prices in the last 3 years in Spain - The prices of distributing the DVDs would be quite cheaper than doing in the US - The main group of Spanish postal services is owned by the government, has recently widened its B2C services and warranties a delivering around all the country - Averages of salaries and local renting in Spain are much lower than in the US are - The current website domain can be exploited - There is no other E-commerce in Spain that offers flat rate, new releases and DVD mailing at the same time	- The Spanish citizen watches less TV than American one does - The percentages of Internet users, online shoppers and household with Internet are much higher in the US than in Spain - Stagnation of the percentage of DVD players in Spain and still much lower than it is in the US - New acquisitions of movies and TV shows licenses to online streaming and DVD mailing because of the new market and language - High level of illegal downloads in contents such as music, movies and software in Spain - E-commerce law regulations in Spain are extremely strict especially in personal details protection. This requires good security and privacy systems

Table 6: Opportunities and threats of entering Spanish market for Netflix

6. Conclusions

There are four conclusions that must be mentioned about the first part of this Research Project. The first one is that E-commerce is getting into our lives every day more but the people still need education and time to know that almost everything can be bought from the Internet and to change their habits from switching the physical stores to the virtual ones. In addition, there are studies who forecast a 10% of E-commerce growth for the next four years in the US.

There are mainly six factors which explain the better or worse development of E-commerce in a country: protocol making process, delivery infrastructure, availability of payment systems, general business laws, public attitude to E-commerce, and business attitude to E-commerce.

On the other hand, it is the belief that the success in terms of E-commerce website depends on five practices: personalized shopping, clear categorization, order tracking, in-depth product or service related information, engagement through the provision of related information on related products or services. Against that, a high percentage of managers expect more from the implementation of E-commerce, but only a minority makes something to improve the situation.

Although the transactions made in social networks provide a higher satisfaction to the user, the users perform fewer transactions with their friends on the social network. This study reveals that social networks might not have a significant paper in the future of E-commerce.

The SWOT gives us a wide idea of the internal (strengths and weaknesses) and external (opportunities and threats) situation of Netflix regarding the entry of a new market. That table tells any company what it has to do in order to make the right decisions: maintain, build and leverage the strengths, remedy or exit the weaknesses, prioritize and optimize the opportunities, and defend and oppose the threats.

About the strengths, what Netflix must do is really easy: maintain the same model that it applied in the US and Canada. So this way, the customers will perceive the extensive list of benefits that we have mentioned before and that it will bring surely to a high rate of acceptance and satisfaction. The twelve years of experience of Netflix in this field let it know what the customer most values and what differentiates it from the rest of competitors.

About the weaknesses, there are some things to do in order to remedy the current ones and try to not extend them to Spain. A good deal with the studios will be the key to improve the availability of movies and TV shows. It should be increased especially for online streaming, and new releases should come earlier. Regular predictions should be done in order to estimate the times of returning the DVDs and the demand of popular movies.

There are much more opportunities than threats. Although the spread of Internet is much higher in the US than in Spain, the percentage of internet users has doubled (58%) and the percentage of online shoppers has more than tripled (17%) in the last seven years in Spain. Besides, Spain possesses a higher rate of broadband connections. All this reveals a good scenario in terms of Internet connections for Netflix.

If we talk about complimentary products, there is a stagnation of the number of DVD players in Spain but this is compensated by the exponential evolution of the number of laptops. What Netflix could do is potentiate the use of its service via computer and offer set-tops boxes in competitive prices that connect TV with Internet.

The main substitute product is the cinema. Since its attendance is decreasing and the ticket prices has increased 15% in the last 3 years in Spain, the demand of services of Netflix should be more elevated than before.

Netflix should take opportunity of the lower costs of shipping of Correos, employing people and renting locals in Spain rather in the US because of the lower costs and, maintaining the current domain to avoid extra costs.

And there is a last threat that Netflix should treat with the help of its competitors. It is the high percentage of illegal downloads that is not rightly punishable by law. Nowadays the law in Spain is really tough with the personal data protection that the websites must warranty, but it is not with the illegal downloads that users do. A big effort must be done by E-commerce companies in order to improve that situation.

Finally, after all this serious and extensive study and screening it globally, we can say that the implementation of Netflix in Spain would highly presumably be a success. In fact, after finishing that Research Project, Netflix has announced that it will land in Spain on January 2012 [14]. This gives such a high reliability to the conclusions reached in this study.

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7.2. Generic references

Resource's name	Domain name
Internet World Stats	http://www.internetworldstats.com/stats.htm
WorldWideWebSize.com	http://www.worldwidewebsize.com/
e-service-expert.com	http://www.e-service-expert.com/
Google	http://www.google.com/
Yahoo	http://www.yahoo.com/
iboats.com	http://www.iboats.com/
Alice.com	http://www.alice.com/
Best Buy	http://www.bestbuy.com/
SkYMall	http://www.skymall.com/
Dell	http://www.dell.com/
Netflix	http://www.netflix.com/
Harvard Business Review	http://hbr.org/
Chicago Tribune	http://www.chicagotribune.com/
Dif Broker	http://www.difbroker.com/
Expedia	http://www.expedia.com/
Monster.com	http://www.monster.com/
eBay	http://www.ebay.com/
elephantdrive	http://www.elephantdrive.com/
Big Box	http://www.bigbox.com/
About.com	http://www.about.com/
Direct Ag Network	http://www.directagnetwork.com/
Grainger	http://www.grainger.com/
salesforce	http://www.salesforce.com/
iShip	https://iship.com/

half.com	http://www.half.ebay.com/
craiglist	http://chicago.craigslist.org/
Skype	http://www.skype.com/
Spotify	http://www.spotify.com/
Amazon	http://www.amazon.com/
National Statistics Institute (Spain)	http://www.ine.es/en/welcome_en.htm
US Census Bureau	http://www.census.gov/
Red.es	http://www.red.es/
USTelecom	http://www.ustelecom.org/
Commission of the Telecommunications Market (Spain)	http://www.cmt.es/
iTunes Store (movies)	http://www.apple.com/itunes/charts/movies/
Wuaki	https://wuaki.tv/
Movistar Videoclub	http://www.movistar.es/on/
Filmin	http://www.filmin.es/
Digital +	http://www.plus.es/
Ono	http://www.ono.es/
Samsung Movies	http://www.samsungmovies.es/
Voddler	http://www.voddler.com/
United States Postal Service	http://www.usps.com/
Correos	http://www.correos.es/
Noticias jurídicas	http://noticias.juridicas.com/
Facua	https://www.facua.org/
National Association of Theaters Owners	http://www.natoonline.org/
Oanda	http://www.oanda.com/
Forrester Research	http://www.forrester.com/rb/research
The World Bank	http://www.worldbank.org/
caseinterview.com	http://caseinterview.com/

8. Appendix

Figure 1: Percentage of Internet users over the population of each zone on June 30 2010

Source: Internet World Stats

World regions	Population	Internet users	Penetration
Africa	1,013,779,050	110,931,700	10.9 %
Asia	3,834,792,852	825,094,396	21.5 %
Europe	813,319,511	475,069,448	58.4 %
Middle East	212,336,924	63,240,946	29.8 %
North America	344,124,450	266,224,500	77.4 %
Latin America / Caribbean	592,556,972	204,689,836	34.5 %
Oceania / Australia	34,700,201	21,263,990	61.3 %
World Total	6,845,609,960	1,966,514,816	28.7 %

Figure 2: Percentatge of companies who sold through the Internet during 2003 – 2005

Source: National Statistic Institute (Spain)

	2003	2004	2005	2006	2007	2008
UE 27		13	12	14	15	16
Germany	9	18	16	18	24	
United Kingdom	18	29	25	30	29	32
Spain	2	2	3	8	8	10

Figure 3: Evolution of the Internet users and online shoppers in Spain

Source: National Institute of Statistics (Spain)

	2003	2004	2005	2006	2007	2008	2009	2010
% Inhabitants who regularly use the Internet	29	31	35	39	44	49	54	58
% Inhabitants who shop online	5	5	8	10	13	13	16	17

Figure 4: Evolution of households with Internet in Spain

Source: National Institute of Statistics (Spain)

	2003	2004	2005	2006	2007	2008	2009	2010
% households with access to Internet	28	34	36	39	45	51	54	59

Figure 5: ICT equipments in the main Spanish dwellings in the last 8 years

Source: National Statistics Institute (Spain)

	2003	2004	2005	2006	2007	2008	2009	2010
% TV	99.5	99.6	99.4	99.6	99.5	99.7	99.6	99.5
% Desktop computer	41.4	45.5	47.8	52.3	52.4	52.2	51.3	50.1
% Laptop	6.5	9.0	13.5	18.5	20.2	26.6	34.7	42.5
% DVD player	27.4	46.4	62.9	73.4	75.6	78.3	78.8	78.4

Figure 6: Attendance at movie theaters in Spain during last 18 years

Source: National Statistics Institute (Spain)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Spectators per 1000 inhabitants	213.2	223.8	226.7	240.3	264.1	265.4	282.3	329.0	336.3
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Spectators per 1000 inhabitants	360.5	340.6	327.3	337.1	294.1	276.1	260.6	236.5	241.2

Figure 7: Comparison of prices between a movie theater ticket and the consumer price indexes in Spain

Sources: Facua and National Statistics Institute (Spain)

		2003	2004	2005	2006	2007	2008	2009
Average movie theater ticket	€	4.62	4.80	5.05	5.22	5.41	5.75	5.96
	base 2006	88.5	92.0	96.7	100.0	103.6	110.2	114.2
Consumer price index (general)		90.7	93.5	96.6	100.0	102.8	107.0	106.7
Consumer price index (leisure and culture)		100.0	100.1	99.9	100.0	99.3	99.2	98.8