

## Welcome to IF Consulting's e-Newsletter

April 13, 2006

Our regular email tackles the topical issues that surround all marketing channels and their underlying strategies.

### Business methods cause bust up

Netflix, an online DVD rental company, has sued rival Blockbuster for patent infringement. The lawsuit requests that Blockbuster's 18-month-old online rental service be shut down and Netflix compensated for damages.

Netflix subscribers pay a monthly fee to select and rent DVDs from the company's website. The company holds two U.S. patents for its business methodology. The first patent covers the way Netflix customers select, receive and return their DVDs. Issued only last week, the second patent "covers a method for subscription-based online rental that allows subscribers to keep the DVDs they rent for as long as they wish without incurring any late fees, to obtain new DVDs without incurring additional charges and to prioritize and reprioritize their own personal dynamic queue — of DVDs to be rented."

The company claims that DVD rental giant Blockbuster knew that Netflix had patented its business method and was seeking a second, but willfully and deliberately violated the existing patent. Blockbuster launched its online rental service in 2004.

[http://www.usatoday.com/money/media/2006-04-04-netflix-sues\\_x.htm](http://www.usatoday.com/money/media/2006-04-04-netflix-sues_x.htm)

### IF Comment

Netflix's rapid growth over the past few years is based on its innovative, low-frustration DVD rental system. The subscription service became so popular that brick and mortar behemoth Blockbuster, with nearly 10,000 stores, was obliged to set up a similar service known as Blockbuster Online.

Netflix has now sued Blockbuster on grounds of patent infringement; specifically, that Blockbuster Online infringes Netflix's proprietary business methods.

The courts will weigh the merits of the case, but a more basic question is whether business methods, as opposed to product inventions, are legitimate candidates for patents. How broadly can 'business methods' be interpreted? In 1999, Amazon.com won a similar case against its main online competitor at the time, Barnes & Noble, for offering a feature similar to Amazon's patented 'One-click ordering' process. But in 2002, British Telecom lost a case in which BT claimed unpaid royalties from ISPs, as BT was in ownership of a patent on Internet hyperlinks.

Can a party patent a business method? If Netflix wins its case, will innovation be stifled? It will be interesting to see how the courts can resolve this legal question.



**IF International**

Marketing Channel

Strategy Consultants

Maximizing shareholder value  
through creating the best route  
to market

IF International

ACN 004 783 519

email [channels@i-f.com](mailto:channels@i-f.com)

[www.i-f.com](http://www.i-f.com)

USA

Europe

Australia

## Snippets

It's not unusual for American teenagers to hold down a minimum-wage job in the fast-food industry. What is unusual is that the fresh voice you hear on the speaker as you order at the drive through could belong to an employee hundreds of miles away. McDonald's now runs a call centre, where orders are taken from 40 outlets around the country. The orders are then sent back to the restaurants by Internet, to be filled a few yards from where they were placed.

[http://www.nytimes.com/2006/04/11/technology/11fast.html?\\_r=2&oref=slogin&oref=slogin](http://www.nytimes.com/2006/04/11/technology/11fast.html?_r=2&oref=slogin&oref=slogin)  
(free registration required)

Virgin Cars, the revolutionary car dealership concept launched in 2000 by Sir Richard Branson, has ceased trading.

<http://www.datamonitor.com/~2c2026d50286475c9dfad669474800c6~/industries/news/article/?pid=39822305-BD56-48CC-8CC1-49B779A7F5F7&type=NewsWire>

Frank Valenti, his brother Charles Valenti and two business partners have shut down their five Burger King restaurants. Although none of the involved parties are commenting, the recent closures could indicate that the franchisees have buckled to competitive and financial pressures in a market that has been described as 'brutal'.

<http://msnbc.msn.com/id/12248872/>

## Share the Knowledge

If you or your colleagues are interested in receiving our e-Newsletter please visit: <http://www.i-f.com/E-comForm.htm>

IF Consulting publishes "Our View", a review of topical marketing channel issues. Samples are available on our website.

IF Consulting is a leading international marketing channel strategy consulting firm with over 35 years' experience in a vast number of industry sectors. See our website for further information.

<http://www.i-f.com>