What Netflix Could Teach Hollywood

LOS GATOS, Calif.


The movie was nominated for best picture in 1975, and Mr. Coppola has actually called it the finest film he has ever made. After watching it this week, I wouldn't go that far, but it is certainly better than nearly anything at the multiplex right now.

Yet "The Conversation" was on its way to the movie graveyard just a few years ago. Since video stores have room for only a few thousands titles, some didn't carry it, and it was slowly being buried under the ever growing pile of newer films at other stores. It would have been easy a decade ago to imagine a time when few people would ever watch "The Conversation" again.

Then came Netflix. The Internet company with the red envelopes stocks just about all of the 60,000 movies, television shows and how-to videos that are available on DVD (and that aren't pornography). Just as important, for the sake of "The Conversation," Netflix lets users rate movies on a one- to five-star scale and make online recommendations to their friends.

The company's servers also sift through the one billion ratings in its system to tell you which movies that you might like, based on which ones you have already liked.

The result is a vast movie meritocracy that gives a film a second or third life simply because — get this — it's good. Last year, "The Conversation" (average rating: four stars) was the 13th-most-watched movie from the early 1970's on Netflix.

Its return from oblivion is a nice illustration of a brainteaser I have been giving my friends since I visited Netflix in Silicon Valley last month. Out of the 60,000 titles in Netflix's inventory, I ask, how many do you think are rented at least once on a typical day?
The most common answers have been around 1,000, which sounds reasonable enough. Americans tend to flock to the same small group of movies, just as they flock to the same candy bars and cars, right?

Well, the actual answer is 35,000 to 40,000. That's right: every day, almost two of every three movies ever put onto DVD are rented by a Netflix customer. "Americans' tastes are really broad," says Reed Hastings, Netflix's chief executive. So, while the studios spend their energy promoting bland blockbusters aimed at everyone, Netflix has been catering to what people really want — and helping to keep Hollywood profitable in the process.

Five million families now have Netflix accounts, and the company has basically reinvented the concept of a quick-turnaround mail-order business. It is, in short, one of the most impressive companies around. So why do so many people think it's doomed?

MR. HASTINGS, a friendly, goateed 45-year-old who fits the image of a California entrepreneur, founded Netflix in 1997 after running up late fees on a video rental. He figured there had to be a business in helping people avoid those fees, so his new company allowed customers to keep a fixed number of movies, usually three at a time, for as long as they wanted. When they sent one back, they got another.

Today, Netflix sends and receives 700 million little packages a year, a logistical operation that has few peers outside of FedEx, U.P.S. or the post office itself. The company's new head of operations, in fact, used to be the postmaster general.

In the San Francisco area, Netflix trucks pick up returned DVD's from post offices by 4 a.m. each weekday morning and bring them to a warehouse in a leafy Sunnyvale office park. There, workers — mainly Asian and Latino immigrants — arrive on the brightly lighted warehouse floor at 5 a.m. to begin tearing open the red envelopes and putting the discs in mechanized sorters. By 10 a.m., the workers are stuffing new envelopes to be sent out again and the discs are back at the post office the same afternoon.

Netflix has 39 of these warehouses around the country, one in each major metropolitan area. Because first-class mail service takes only a day within a 50-mile radius, most customers get a new movie two days after dropping one in a mailbox.

From the beginning, though, the company's doubters have argued that this isn't fast enough. Blockbuster's chief executive used to say Netflix would never be more than a niche business, and even now the stock trades for about $27, down about $12 from its 2004 high. One fifth of its shares are on loan to short sellers betting it will fall further.