

BEFORE THE
POSTAL REGULATORY COMMISSION

REPORT ON USPS FIVE DAY PROPOSAL
Docket No. N2010-1

COMMENTS OF
WILLIAM MCCOMB
VICE PRESIDENT OF POSTAL OPERATIONS
ON BEHALF OF
NETFLIX, INC

INTRODUCTION

Madam Chairman and Commissioners, I am Bill McComb, Vice President of Postal Operations for Netflix, Inc. I am very pleased to appear before you today to discuss potential changes in the frequency of mail delivery.

EXECUTIVE SUMMARY

With more than 14 million subscribers, Netflix is the world's largest online subscription service streaming movies and TV episodes over the Internet and sending DVDs by U.S. mail. On average, approximately two million discs are shipped by U.S. mail from our nationwide network of distribution centers every day. For 2010, we anticipate spending approximately \$600 million dollars on postage, making us the largest growing first-class mailer in the country. While Netflix delivers movies and TV episodes two ways – by streaming directly over the Internet and through DVDs by mail – my comments today will be focused on the DVD side of our business.

Our subscribers depend upon the Postal Service to deliver their DVDs quickly and in good condition. Since starting our business in 1998, the Postal Service has been an extremely reliable partner, helping Netflix achieve award-winning customer satisfaction and scaling with our own growth. In light of this relationship, we are keenly interested in working with the Postal Service and all other interested parties to ensure that our nation's mail service continues to be reliable, trusted and affordable.

Netflix believes that a well-functioning Postal Service, positioned over the long haul to meet changing customer and consumer demand, is more important than maintaining current delivery frequency at the expense of the broader health and continued operational reliability of the nation's mail service. We believe that those subscribers who currently rely upon Saturday postal delivery to receive and watch movies on the weekend would adjust their rental habits to account for the Postal Service's change in delivery and would plan their DVD rental selections around the fact that mail would not arrive on Saturday. As such, we believe the impact of a change in delivery frequency on our subscribers and our business would be relatively small. To be clear, however, Netflix does not favor ending Saturday delivery in a vacuum; rather, it is a reasonable proposal in light of the very difficult challenges facing the Postal Service.

WITNESS BACKGROUND

I am the Vice President of Postal Operations for Netflix. In this capacity, I have responsibility for the design of a network that maximizes the timely delivery of DVDs to our customers and the returns of those DVDs to Netflix. In addition, I oversee the service performance of that network as well as having responsibilities for damage, loss and security.

I have worked for Netflix since 2003. From 1999 to 2003, I was the Senior Vice President, Operations for Cyberbills, a company focused on solutions for allowing customers to view, pay,

manage and automate all of their bills or invoices online. Prior to that, I spent 27 years with the Postal Service. During my tenure with the Postal Service, I served as the Area Vice President, Midwest Area, the District Manager (Western NY, Buffalo NY), the MSC Manager, Akron OH, the Postmaster (Akron OH & Buffalo NY), the Regional Director Operations, Eastern Region, Philadelphia PA, the General Manager, Logistics, Memphis TN in addition to spending 11 years at Postal Service Headquarters in Washington DC.

I received a bachelor of science in industrial engineering from Clarkson University and an Executive MBA from Stanford University.

COMPANY BACKGROUND

With more than 14 million subscribers, Netflix is the world's largest online subscription service streaming movies and TV episodes over the Internet and sending DVDs by U.S. mail. Netflix is a publicly traded company whose stock is listed on the NASDAQ stock market under the symbol, NFLX. For calendar year 2009, Netflix had total revenues of \$1.6 billion and has forecasted 2010 revenues to exceed \$2 billion.

Our subscribers can instantly watch unlimited movies and TV episodes streamed to their TVs and computers and can receive DVDs delivered quickly by U.S. mail to their homes. We offer a variety of subscription plans, with no due dates, no late fees, no shipping fees and no pay-per-view fees. Aided by our proprietary recommendation and merchandising technology, subscribers can select from a growing library of titles that can be watched instantly and a vast array of titles on DVD. On average, approximately two million discs are shipped daily by U.S. mail from our distribution centers across the United States. These centers have been strategically located to optimize our fulfillment operations with that of the Postal Service, helping to provide 97% of our subscribers with delivery of their DVDs in about one business day. Additionally, as of the first quarter of 2010, over half of our subscribers instantly watched 15 minutes or more of streaming content.

Subscribers can:

- Watch streaming content without commercial interruption on their computers and TVs. The viewing experience is enabled by Netflix controlled software that can run on a variety of consumer electronics devices. These devices currently include Blu-ray disc players, Internet-connected TVs, digital video players, game consoles and other devices such as the Apple iPad.
- Receive DVDs by U.S. mail and return them to us at their convenience using our prepaid mailers. After a DVD has been returned, we mail the next available DVD in a subscriber's queue. Typically, we mail out the next available DVD on the same day as we receive a returned DVD.

Our core strategy is to grow a large subscription business consisting of streaming and DVD-by-mail content. By combining streaming and DVD as part of the Netflix subscription, we are able to offer subscribers a uniquely compelling selection of movies and TV shows for one low monthly price. We believe this creates a competitive advantage as compared to a streaming only subscription service. This advantage will diminish over time as more content becomes available over the Internet from competing services, by which time we expect to have further developed our other advantages such as brand, distribution, and our proprietary merchandising platform. Despite the growing popularity of Internet delivered content, we expect that the standard definition DVD, along with its high definition successor, Blu-ray, will continue to be the primary means by which a majority of Netflix subscribers view content for the foreseeable future. However, at some point in the future, we expect that Internet delivery of content to the home will surpass DVD as the primary means by which most Netflix subscribers view content.

We launched our DVD-by-mail rental subscription business in 1999 and expanded our business to include streaming content over the Internet in 2007. This recent expansion of our business model to include Internet streaming of content is rapidly changing the way many of our customers utilize our service. As mentioned above, as of the first quarter of 2010, over half of our subscribers instantly watched 15 minutes or more of streaming content. This was up from 38% when compared to the first quarter of 2009. Nonetheless, despite this growth in Internet streaming, our disc shipments continue to grow. For 2010, we anticipate spending approximately \$600 million on postage, making us the largest growing first-class mailer in the country. In light of this, we continue to invest in the DVD-by-mail component of our business, strengthening our service to achieve more consistent delivery and lower costs. Given the continued growth and investment in our DVD-by-mail business and its importance to our overall company strategy, we are very much interested in assuring that the Postal Service continues to deliver reliable and affordable mail service to the nation.

PROPOSED CHANGES IN DELIVERY FREQUENCY

There is no doubt that the Postal Service is currently operating in a time of significant change. What better example than that of the Netflix service itself? Only three short years ago, Netflix's entire business was DVDs-by-mail. Our delivery of movies was totally dependent on the Postal Service. In just three short years, we have seen a significant change to our business model, with more than half our subscribers instantly watching 15 minutes or more of streaming content in the first quarter of 2010. While our mail volume is still growing, and will likely grow for some time and thereafter continue to be an important part of our business for many years, this rapid shift to Internet streaming of content is emblematic of how new technology has changed the way Americans communicate and transact business and of the challenges facing the Postal Service.

Currently, Netflix processes DVD shipments and its subscribers receive delivery of their rented DVDs six days a week. The Postal Service has proposed eliminating Saturday operations. The result of this proposal would be obvious: our subscribers would no longer receive DVDs nor would Netflix process shipments on Saturday. We believe the impact, however, on our subscribers and our business would be relatively small. In particular, we believe that those subscribers who currently rely upon Saturday postal delivery to receive and watch movies on the weekend would adjust their rental habits to account for the Postal Service's change in delivery and would plan their DVD rental

selections around the fact that mail would not arrive on Saturday. As to our Saturday shipping operations, we would revert back to our historical five-day shipping operations. Netflix only began shipping on Saturdays last year. For the nine years prior to that, we processed returns and shipped out DVDs Monday thru Friday. In light of this, we would not anticipate any material negative impact to our business arising from returning to a five-day operating schedule.

To be clear, Netflix does not favor ending Saturday delivery in a vacuum; rather, it is a reasonable part of a comprehensive reform package that will help address the very difficult challenges facing the Postal Service. Netflix believes that a well-functioning Postal Service, positioned over the long haul to meet changing customer and consumer demand, is more important than maintaining current delivery frequency at the expense of the broader health and continued operational reliability of the nation's mail service. Of course, we would want any change to delivery frequency to be implemented with significant lead time and with substantial outreach to postal users. By so doing, the Postal Service would help minimize any disruption and allow consumers plenty of time to reset their delivery expectations.

CONCLUSION

On behalf of Netflix, I appreciate the opportunity to provide comments concerning possible changes to delivery frequency. In light of the very difficult challenges facing the Postal Service, we believe the proposed changes in delivery frequency called for by the Postal Service, along with the other proposals the Postal Service has outlined, will help secure its viability for many years to come and help assure that our nation continues to enjoy reliable, trusted and affordable mail service. I look forward to your questions and would be happy to be a resource to you as you evaluate the various Postal Service proposals.