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Article

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Streaming Services & Service Design
An Analysis of Netflix and Amazon Video Based on the Gap Model by Parasuraman, Berry & Zeithaml.

Authors Peter Wenzel, Irene Mahle & Jens U. Pätzmann


ABSTRACT
It can be observed that the behaviour of television consumption of consumers in Germany may begin to change. The digital agenda (BMVBS, 2014) significantly improved the availability of high-speed broadband internet connections (BMVBS, 2015). Additionally the emerging spread of Smart TVs made it possible for video streaming services to be considered as an alternative way of receiving television content (TNS Infratest, 2015). The market shares in Germany have been redistributed since Amazon started its “Amazon Video” service in February 2014 (Amazon.de 2014); and Netflix followed into the market in September (Netflix.com, 2014b). Amazon became in this obviously short period until the 1st quarter of 2015 the market leader in Germany with 32% and also Netflix with 17% gained strongly market shares to become the second power in the German market according to a study of Goldmedia (Goldmedia, 2016). Worldwide, Netflix is the market leader with 81 Mio. subscribers (Netflix.com, 2016b). This leads to considerations about how these companies manage to have such an impact on this market and how they create preference for their services at this considerable rate. It appears conceivable to link this success to their specific Service Design.

How to design Services

Finding a clear and widespread definition for Service Design appears challenging. Mager provides a current definition of the key principles of Service Design to shape customer-oriented functionality and form of services (Mager & Gais, 2009, p. 42). Furthermore successful Service Design interfaces need to be both useful, usable and desirable from the customer perspective and effective, efficient and distinctive from the business perspective (Mager & Gais, 2009, p. 42). Moritz adds the necessity of regarding it as a multi-disciplinary discipline which needs experts of different disciplines for achieving excellence by always having the customer in mind (Stefan Moritz, 2005, p. 40). In summary an outstanding level of service quality can only be achieved by combining different skill sets by both having the customer and business in mind.

What is Service?

It appears necessary to clarify the term “Service”. Definitions for service are commonly referred to and based on the specific characteristics of services itself which are intangibility, perceived purchase risk, inseparability, perishability and variability (Homburg et al., 2013, p. 354). All of these attributes apply to video streaming. The output of a service is usually not a physical product like an intangible video stream for entertainment purposes (Homburg et al., 2013, p. 355). Inseparability means that the service cannot be used without being logged into the service of a specific provider. Additionally the dimension of time is an important criterion for services, because usually the quality of the service can only be evaluated after the provision which also relates to the perceived risk for purchasing the service (Kotler & Armstrong, 2014 [i.e. 2013, p. 260 – 261]). The outcome is limited to the temporarily restricted usage of the service due to its terms of use (Kotler & Armstrong, 2014 [i.e. 2013, p. 260 – 261]). At last, perishability is directly linked to the terms and conditions of the service and the customers’ choice of how the content is intended to be used meaning whether the demanded entertainment content is intended to be bought, rented or used within a flat-rate offer.

The Link between Service Design and Service Quality

According to research, Service Design is inevitably associated with the aspect of measuring and conceptualizing service quality for improving existing and developing new Service Designs. Two of the most popular models in science for measuring service quality are: SERVPERF by Cronin and Taylor (1992) which is a solely performance based approach for measuring service (Cronin, J. J. Jr. & Taylor, 1992, p. 56) and SERVQUAL.

The core of the SERVQUAL approach by Parasuraman, Zeithaml and Berry (1988) is to measure the Delta between perceptions minus expectations of cus-
tomers (Parasuraman et al., 1988, p. 15). SERVQUAL itself bases on the “Conceptual Model of Service Quality” also by Parasuraman, Zeithaml and Berry which is commonly referred as the “gap model” in literature, characterizing five specific gaps between Service Design and perception (Meffert & Bruhn, 2009, p. 190; Cronin, J. J. Jr. & Taylor, 1994, p. 126). Groonroos also supports this idea of focusing on the discrepancy between the expected quality which is influenced through branding plus communication and the experienced quality (What? How?) (Groonroos, 1988, p. 12). The gap model may not be suitable for every industry out of the box, but especially in the service oriented American banking industry the model had a significant positive impact (Meffert & Bruhn, 2009, p. 204).

The streaming business in this article is basing on information systems and customer-oriented web-based services. Jiang, Klein, Parolia and Li therefore provide a brief overview on the successful scientific application of SERVQUAL in IT-environments which supports the relevance and suitability of the model in this industry (Jiang et al., 2012, p. 150 – 151). From the conceptual point of view, the gap model is proven to fit best with the intended idea of comparing the services of Netflix with Amazon.

Figure 1: Modified Gap Model by Parasuraman, Berry and Zeithaml
Source: Own representation based on Parasuraman et al. 1985, p. 44
The SERVQUAL Model

The model is basically divided into the business and customer perspective and takes also the influence of branding and communication into account (see figure 1). The perspective of the business consists of four major gaps which build on each other, being the core of this comparison (Parasuraman et al., 1985, p. 44–45; Meffert & Bruhn, 2009, p. 191 – 192). Gap 5 would require a full-scale SERVQUAL practical study which is excluded according to the limitation on the conceptual aspects of Service Design.

The intentional gap model focuses mainly on traditional interpersonal services while present technology enabled services are likely to be more non-personal and therefore more accessible, convenient and productive (Bitner et al., 2010, p. 201). For filling the gaps, Bitner, Gremler and Zeithaml provide strategies enabled through current technology:

GAP 1: The listening gap can be filled by getting customer insights through online customer research, questionnaires and the usage of CRM-Systems for personalizing the contact with the customer (Bitner et al., 2010, p. 205–207). It is important to find a balance between using customer data for promotion and improving services and invading privacy which can be perceived as offending (Bitner et al., 2010, p. 208).

GAP 2: The design and standard gap manages to translate customer expectations into service standards (Bitner et al., 2010, p. 208). The complete customer experience needs to be designed in a way to meet and even surpass these expectations and emphasize on consistency with expectations and the service image (Bitner et al., 2010, p. 208; Mager & Gais, 2009, p. 42). Techniques like service blueprinting and measuring service operations through customer-defined scales help to understand the customer perspective and improve the research and development (Bitner et al., 2010, p. 209). An internally holistic view on the customer helps to meet and exceed expectations (Bitner et al., 2010, p. 210).

GAP 3: The service performance gap can be filled by hiring and training the staff right to fulfill the intended service (Bitner et al., 2010, p. 211 – 212). Technology enables both customers to “self-serve” or even contribute to their experience and service employees to serve customers more efficiently through parallelized digital communication (Bitner et al., 2010, p. 2013). The participation of customers within the service delivery changed and customers may spare time and meet their demands faster by self-serving; but it is necessary to train them for using the service to its full potential (Bitner et al., 2010, p. 213; Lovelock & Wirtz, 2011, p. 189).

GAP 4: The communication gap addresses the aspects of advertising, pricing and communicating the intended service delivery and quality (Bitner et al., 2010, p. 214). Consistency is the key for conducting a successful integrated communication strategy over all channels and especially for addressing feedback along the relationship with the customer (Bitner et al., 2010, p. 214). A major issue for this gap is communicating false promises from the side of marketing and sales which exceed the service capabilities (Bitner et al., 2010, p. 215). Technology enables service providers to communicate on various channels like mass media or social media and influence the brand and service perception - which also results in an increased relevance of mouth-to-mouth communication (Bitner et al., 2010, p. 216). It appears thoughtful to consider influencing the word of mouth communication in a positive way through current instruments like viral marketing or guerrilla marketing (Esch, 2011, p. 286–289), testimonials (Lovelock & Wirtz, 2011, p. 207) and the use of social media (Lovelock & Wirtz, 2011, p. 208).

Video-on-Demand in Germany

Video streaming services can be considered as a further step in the digitalization of the traditional service offer of a video store. In Germany, there are three major manifestations of streaming offers: Transactional-Video-on-Demand (TVoD) or commonly referred to as Pay-per-View, Electronic-Sell-Through
(EST) which means the digital purchase of content and Subscription-Video-on-Demand (SVoD) as an entertainment flat-rate which is the current main market driver (Mozart, 2014).

**Who is Netflix?**

In 1997, NETFLIX started its business in Los Gatos, United States, with a DVD-by-mail rental service which provided an online catalogue of movies being delivered for rental by mail and being expanded all the time (Netflix.com, 2014a). In 2007, Netflix began to stream content on PCs; and until 2009 on consumer electronic devices like consoles, Smart TVs and others which was considered as a huge step (Steel, 2015).

The global expansion began in 2010 with Canada: until now, the company has 81 Mio. subscribers in over 190 countries (Netflix.com, 2014a, 2016b). Netflix states that people like content but do not like the traditional linear TV experience (Netflix.com, 2015b). The idea to solve this is providing Internet TV, which can be accessed on-demand and nearly on any screen with personalized suggestions (Netflix.com, 2015b). According to Netflix, the target audience in every single market shows great differences in viewing habits which makes it important that every user gets a matching selection of content suggestions on his or her starting page (Netflix.com, 2015b). The currently offered Netflix Originals are in fact only exclusively licensed content which Netflix wants to change in the future by starting to produce its own content (Shaw, 2015b).

**Amazon's VOD-Service**

Amazon is today the leading full-range online retailer in Germany with 6.5 billion € revenue in 2014 (EHI Retail Institute & Statista, 2015). By acquiring the Internet movie data base (IMDb) in 1998 (IMDb.com, 2015b) and LOVEFiLM International Limited DVD-by-mail rental service in 2011, Amazon both extended its expertise and provided a similar offer to the Netflix DVD-service. These services were merged to Amazon Prime Instant Video SVoD on 26th February 2014 and became part of Amazon Prime (Amazon.de 26.02.2014).

Amazon also offers its own range of hardware for using Amazon Video like the Fire TV-boxes and Fire Tablets (Amazon.de, 2015d). The Prime offer is probably also intended to provide content for the tablets and fixing customers into Amazons eco-system of media content (books, films, series) similar to the Kindle. Therefore it can be considered to be a product-service hybrid (Stickdorn & Schneider, 2011, p. 61).

![Brand Positioning Netflix and Amazon Video](image-url)

*Figure 2: Brand Positioning Netflix and Amazon Video*

*Source: Own representation based on Homburg 2013, p. 143*
Commonalities of both companies

Both companies are actually also business partners. Netflix is a customer of the Amazon Web Services (AWS) infrastructure which both companies use for providing streaming services (Amazon Web Services, 2015; Butler, 2014). According to the quarterly report, Amazon especially profited of the revenue of the Web Services (Greif, 2016). So Netflix may at this point be confronted with a kind of management dilemma funding its potential main competitor through using AWS.

The major business challenges for both companies are the fragmented industry of content providers with complex time-based and regionally-limited licensing terms (Netflix.com, 2015b) and video piracy (Netflix.com, 2015b). Therefore the assortment of both services is constantly changing due to the limited availability according to the license terms (Netflix.com, 2015b).

Filling the listening gap (Gap 1)

The analysis begins with the first and basic gap of gathering customer insights. Netflix uses its customer data for evaluating the quality of experience (QoE) and both improving the service and personalizing the customer relationship (Netflix.com, 2014c). Amazon does it the same way, but can also combine the information of all of its sales channels from retail to digital and additionally the market perspective through the internet movie database (IMDb.com, 2015a).

During an explorative field research phase - by using both services - Netflix did not ask for any customer opinion while Amazon produces pilot episodes of potential upcoming Amazon Original series which are promoted to Amazon Video users who can watch them and take part in a detailed customer survey (Amazon.de, 2015a). For customers who want to contribute in value creation it is possible to hand in scripts or concepts directly to the Amazon studios (Amazon.com, 2015a). This potentially high degree of involvement may also be related to the fast growing strategy of Amazon; but also intensifies the relationship with its customers. A customer who watches series directly on the Amazon website can further provide direct feedback for improving the service itself. Amazon is more actively requesting feedback of its customers.

The aspect of customer relationship leads to CRM which obviously both providers use to inform the customer about new content which conceivably will meet the customer demands via newsletter, notification through the app like Netflix and on the starting page of both platforms. As the services are non-personal, one may refer to the newsletter as a CRM communication tool. Both newsletters are personalized despite the fact that Netflix calls the customer only with the first name to make it sound like a suggestion of a friend, while Amazon calls the full name which may be perceived less personal.

The strategies in case of failure are similar: both services provide error messages which report the error and usually suggest solutions like retrying or changing to another content. The error messages are further documented with options for troubleshooting in the help section and FAQ-section (Amazon.de, 2015c; Netflix.com, 2015a). One difference may be the direct accessibility of Live-Chat and the service hotline of Netflix directly from the help section.

Filling the design and standard gap (Gap 2)

Service blueprinting means that before a service is launched, any aspect of the service is tried and tested through different relevant internal perspectives and externally by test persons (Stickdorn & Schneider, 2011, p. 202). The major difference in terms of usability is that Netflix decided to provide one similar user interface for all supported platforms, browsers and mobile devices which one may value as meeting the definition of Mager for being useful, usable, desirable and customer-oriented (Mager & Gais, 2009, p. 42). Amazon Video is integrated into the regular Amazon Shopping website which means that searching for and watching movies or series on the website...
is a different experience than via the user interface of the Fire TV devices and on other platforms like consoles. The underlying intention seems to promote the use of a Fire Device for experiencing the service in its potential best way.

Apart from the user interface, Amazon differs between Prime Video-SVoD and Amazon Video offering TVoD and EST. Netflix on the other hand is a pure SVoD flat-rate, but does not provide a publically accessible overview on its content despite being member or using third-party websites. The mentioned business relation between Amazon and Netflix provides the usage of the Netflix app on its Fire devices (Amazon.de, 2015b) as a potential win-win situation by offering more content for Amazon and having a reliable Hardware solution for Netflix.

Both services are intended to be used multiple and simultaneously within one household and - depending on the subscription model - Netflix offers up to four simultaneous devices using the service (Netflix.com, 2015c). Under the aspect of a customer journey, Netflix offers the customer friendly feature of defining profiles for each user and also offers a predefined kids profile. These profiles save for each user their language settings, watch list and the status of their last playback. This common feature of operating systems enables the Netflix software to be used to a higher degree in a multi-personal way. Amazon Video only provides one profile and therefore one watch list for each account. This small feature provides a noticeable convenience advantage for Netflix and could be a competitive advantage.

As a customer-defined measuring method, one may interpret the possibility of writing reviews about the series and movies which both provide to the customer via their regular websites. Netflix customers who use the device apps only have a pre-defined basic 5-star rating for getting an idea about the quality of the content, while Amazon users are limited to only use the main website. So the access to the user reviews is restricted on both platforms if the website is not being used.

Filling the service performance gap (Gap 3)

The mentioned design decisions in gap 2, which are based on the insights of gap 1, need to be considered under the perspective of contributing real added-value and consistent technology usage. Netflix limits the extent of service performance to the defined specification of gap 2 by apparently delivering the same user experience on any device and a consistently high streaming quality due to its awarded adaptive streaming algorithm (Netflix.com, 2014c).

Amazon on the other hand shows a fragmented user-experience with additional exclusive features which can only be used on specific browsers and Fire devices like voice command or “X-Ray” showing information about actors or the soundtrack for certain content (Amazon.de, 2015b). This may be intended to promote the Fire devices and ecosystem but it probably makes it more inconvenient and complex for the consumer to use the service to its full extent.

The lack of consistency leads to the aspect of teaching customers how to use the service. Netflix customers need to “learn” the already simplified and convenient appearing user interface for one time, while Amazon’s customers need to adapt on differences in using the services according to their device. Amazon delivers its Fire TV hardware pre-installed activated with the customer account and provides a short video introduction after first start up to learn the device, while Netflix offers tutorial videos on its YouTube-page (Netflix.com, 2015d; Amazon.de, 2015b).

In earlier times and for certain services, customers often have been part of the service provision while current services mainly let them only use it. As mentioned in gap 2, Netflix does not directly involve the customers because everything happens hidden which is convenient, but also may raise fears concerning privacy and informational self-determination. Amazon on the other hand involves customers directly through voting for new content suggestions and also by enabling customers to even handing in own scripts.
and content (Amazon.com, 2015a). The series “The man in the high castle” for example was chosen by the customers to be produced by Amazon and is now being accessible for watching (Lewis, 2015). So Amazon customers can take part in the service provision at least in the long term - when they know how to participate - being part of the Service Design.

**Gap 4 – Part 1: The Brand Positioning**

Analysing the communication gap is split into positioning and analysis. The application of the brand personality sums up the brand core, brand benefits and the brand personality for providing a brief overview on the positioning (Homburg et al., 2013, p. 143–144). Netflix aims for focusing its brand to a specific goal and compares itself to Starbucks or HBO, companies which clearly state their message to be the brand for a specific purpose (Netflix.com, 2015b). The goal of Netflix is to be a convenient high-quality non-linear entertainment network (Netflix.com, 2015b). The name itself, a combination of “net” and “flicks” that means colloquially Internet-movies supports this intention. Netflix wants to provide the user everywhere smart, convenient and exclusive high-quality content (Netflix.com, 2015b). According to Esch, one may conclude that this is a sub-brand strategy by using the strong corporate brand of Netflix as a visible driver for the exclusive content of Netflix Originals (Esch, 2011, p. 519).

The intention of the brand Amazon is - according to its founder Jeff Bezos - to provide the biggest selection for the customer (Wheeler, 2006, p. 178–179). Amazon uses its core logo and brand also for its video streaming service and facilitated the name from Amazon Prime Instant Video to now just Amazon Prime Video (Soper, 2015). The relevant sub-brands of Amazon’s streaming service are Amazon Video for TVoD/EST, Amazon Prime Video for SVoD and Amazon Fire TV Streaming stick and Fire HD for tablets (Amazon.de, 2015d). Following Esch one may conclude that Amazon also uses sub-brands to use the halo effect of its corporate brand image for facilitating the market cultivation and diversification (Esch, 2011, p. 519).

**Gap 4 – Part 2: Analysis**

The main objectives for the communication of service providers is representing a quality promise, differentiating from the competition and establishing customer loyalty in the long term (Homburg et al., 2013, p. 139). Additionally, for the quality promise it is a necessary task to price the service according to its value (Lovelock & Wirtz, 2011, p. 160 – 163).

Beginning with pricing, both Netflix and Amazon Prime Video are SVoD services which can be defined as “Membership”-Relationships with the intention of continuously delivery of service (Lovelock, 1983, p. 13). Netflix offers its subscription from 7,99 € to 11,99 € (4K Ultra HD) per month plus one free-month trial period (Netflix.com, 2015c). Netflix reminds the customer to terminate the trial period and offers to terminate the subscription every month which emphasizes on having no obligations (Netflix.com, 2015c). Amazon charges 49 € (Amazon.com, 2015b) on a yearly subscription base for becoming Prime Member and using the included various services like Prime Video or 7,99 € (Pakalski, 2016) per month for Amazon Video only. While Netflix includes the whole assortment in its fee, Amazon Prime Video includes only a fraction of the overall assortment in its SVoD-offer and excluded content needs to be paid additionally as EST or TVoD.

While both services use the common mix of media including TV, print, mail, online and social media, the conducted evaluation is limited to Facebook presenting a public visible bidirectional channel.

Netflix lines out the advantage over linear TV, the quality and the size of the content selection to deliver enough content for “binging” it (Netflix.com, 2016a). This is how Netflix wants to address and stimulate the personal needs of the customers to watch it all at once.

The focus is on the own Original series and Netflix appears to be less responsive than Amazon. Amazon is also promoting its Amazon Original Series by pro-
viding trailers and background information but also additionally new added 3rd party content (Amazon.de, 2016). They include the announcement of new SVoD, TVoD and EST content and also run competitions. Both social media teams are using a consistent and careful language for answering customer request to avoid overpromises. Amazon Video tries to distinguish its efforts by organizing a social viewing with the popular Rocket Beans to address a young target group having an impact on the word of mouth (Rocket Beans TV, 2015).

**Summarizing and concluding the findings**

Overall, the conceptual analysis showed that Netflix conducts its service in a consistent and sophisticated manner correlating with its brand intention to provide smart, convenient and easy service to the customer. Additionally during the explorative field research by using both services, Netflix never had an outage while Amazon had a few downtimes especially on Sunday evenings (Schuiszill, 2015). The initial research question can therefore be answered with “yes” but needs to be additionally empirically validated. Netflix does distinguish from its competitor Amazon Video in terms of its service. Netflix is more consistent in filling the potential gaps of Service Design and meeting its self-defined standards. The main reason why Netflix can be seen differently to Amazon Video is that Netflix concentrates on the most important things in the potentially right way by conducting these also in a very consistent manner.

Amazon follows its core values of offering good value and a large selection making the offer a more fragmented service while standing out in terms of involv-

...ing and integrating the customers and offering additional features. The high customer involvement and lower pricing concept may become a long-time advantage to gain customer loyalty for Amazon while Netflix needs to emphasize on constantly delivering high quality content to keep its customers. Also customers may request additional functionalities because of the influence of Amazon. Netflix plans to begin producing its own Netflix Original content for assuring the exclusivity and control in the future (Shaw, 2015b). The reason is that the importance of exclusivity has become one main driver for differentiating from competition (Deloitte, 2015, p. 12). Amazon’s aggressive and fast speed of the development of the service both by fast developing exclusive content through the Amazon studios, possibly adding sports content and further developing the streaming software will enhance Amazon’s market power (Scholz, 2015). Additionally the importance of the Amazon Fire TV devices will also increase as aggregator for further different offers like Hulu in the US (Shaw, 2015a). This way Amazon can extend its eco-system and expand the network of its services to strengthen the customer loyalty.

Overall challenges for video streaming in Germany may be connected to net neutrality (Greis, 2015) and a quote for providing European content (W&V, 2016). A further field of tension may be the reaction of the German TV stations on potentially rising numbers of streaming users of both Netflix and Amazon Video. Regarding streaming itself it can be expected that SVoD will become even more important (GfK & Statista, 2015) and that the market of streaming providers will further consolidate to end up with the big three Amazon Video, Netflix and potentially Maxdome (Deloitte, 2015, p. 17) in Germany.
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