

Netflix - The Turnaround Story

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Abstract - This research report is a crux of the biggest turnaround done by the subscription video streaming platform Netflix. It covers the turnaround story, followed by the challenges faced by the company. Then it discusses the leadership and organizational changes followed by the core competence, networks and partnership changes. Netflix as a company has just started its journey in the subscription video on demand arena and it has a long road ahead set for it.

Key Words: Netflix, Blockbuster, DVD, Streaming, Turnaround, Change Management, Technology, Management, Strategy, Streaming, SVOD

1. INTRODUCTION

Netflix is a media service mammoth, founded in 1997 by Marc Randolph and Reed Hastings in California, U.S.A. The company has a huge footprint in media and entertainment industry. In January 2019 the company reported to have over 130 million paid subscribers which were based out of 190 countries. The initial business model of the company was to rent and sell DVDs by mail. Eventually the company shifted towards DVD rental business. In 2007, the company for the first time introduced media streaming over the internet alongside its current business. The first international expansion for the company was seen in 2010 when they started their operations in Canada. The company even operates in media-controlled country like China where it has signed a deal with Baidu-owned service 'iQiYi' for streaming of original Netflix content.

1.1 The Early Signs

It was the year 2011, a year in which Netflix almost died. During the period of turmoil, the management team was in a mess, stock prices fell by 80% and most importantly the company lost more than 800,000 customers in a single year. But what caused this loss? The management took a decision to split their 10\$ all in one package into two different plans costing 8\$ each. This 60% rise in price was not welcomed by the customer base of Netflix. Netflix had rebranded its DVD rent service as 'Qwikster', later 'DVD.com'. As per Netflix, DVD rental and streaming service were two different types of business with each requiring a different cost structure, market and growth opportunity.

The entire business model of Netflix was based on subscriptions, but the company broke one single rule associated with that business model, valuing the customers. When Netflix chose to divide their customers between online streamers and DVD watchers, they violated subscribers trust.

2. LITERATURE REVIEW



2.1 Turnaround Story

As the subscribers lost trust in the brand, Netflix had a tough choice to make. To continue with the current strategy and expect the customers to eventually accept their business model or to listen to customers' requirements. Netflix choose to list to customer requirements.



It was an onset of subscription economy. Customers wanted all time access. Better access to internet had drastically increased across the world and this access was modifying the consumption patterns dramatically. Clear examples were Spotify for Music, Crunchyroll for Anime and Game Centre for hockey.

Customers had started to prefer simplicity and Netflix gave them that. With additions of basic forward, rewind and pause features, the company started to give content based on subscriber's social media feedback, geolocation data and viewing patterns.

In the present-day Netflix is known as a remarkable business innovator but 2011 it won't be wrong to say that it had forgotten about its customers. They forgot that customer relationships are a two-sided street. Once they were able to realize their mistake, they finally were able to get the wakeup call they needed and that contributed to their success today. Netflix had started with a customer base of 24 million static users but now it has more than 66 million customer relationships to listen from. This can be clearly seen as a remarkable turnaround story based on giving what the customer wants.

2.2 Strategic Challenges Faced

Netflix has been on the failure spree on a frequent basis. There are mainly two reasons which can be associated with its failures.

1. Netflix tried too hard to innovate and invent their own future.
2. There were many biases in the management which clouded their judgement as humans.

Back in 2004, Netflix had launched its own community strategy called Friends. Netflix believed that by using friends they would be able to build their own network effect through which friends would be able to recommend long-tail movies to each other.



How was Netflix able to persist for so long?

1. Netflix CEO gave huge support for the projects which contributed to the persistence of customer engagement.
2. Social strategy made more sense. Netflix's intention to delight customers in hard-to-copy and margin-enhancing ways helped.
3. SAP leadership preferred to see the positive in projects and ignore the negatives as they believed product leadership requires optimism.

4. Netflix was under the assumption that failure was in the execution not in the idea. One such example is that in USA, the video privacy protection act required an explicit opt-in permission to share rental history with others. This was an issue as Netflix members were not ready to share the details. These issues distracted Netflix from the actual evaluation of social strategy itself.
5. The paradox of small success. Netflix had various small features and each feature was used by 2% of users but those using it were highly passionate towards it. This was an issue as there were so many features which confused the new users coming on Netflix platform.

How were the challenges tackled?

1. Netflix understood that they need to behold the idea and not the source. They chose to evaluate their ideas better on their own merit.
2. Conventional wisdom, Netflix eventually learned that its customers didn't wish to reveal all the movies they had viewed. Netflix knew that this history data is something what the customers didn't wish to be made public.
3. Establishing clear objectives. Netflix had no timeline which they followed to achieve a specific goal. This was eventually changed as having no timeline clouded the management's judgement.
4. Taking off the blinders, Netflix leadership was more inclined to focus more on the goal. In this process they sometimes lost sight of upcoming changes which might have been required by them to update the momentum.
5. Netflix tend to ignore the sunk cost. For example, if Netflix had invested in a feature which didn't work, they ignored the lost cost and started to work on a new feature.
6. When Netflix failed to cash in on a new feature, the team associated with the failed feature was moved to another project so that the output is kept up.
7. Netflix always killed the failed projects properly and the consumers are informed well in advance about the upcoming changes.
8. The clean slate processes. Whenever a feature of Netflix was killed, they remove it from their website. They choose to create a simple experience which required a thoughtful sunsetting of prior efforts.

Over the course of business Netflix has made many mistakes. It chose to do long term investments in a hypothesis that entertaining space would create share holder and customer value. All these challenges were overcome by practicing skilful leadership and product management. Netflix now explores consumer science which is evaluating current data, research and surveys to form hypotheses which can help them to make their products better. Netflix chose to fine tune

itself by factoring in failure and dramatically improving the odds for the future success.

2.3 Leadership and Organizational Management

CEO of Netflix, Reed Hastings once said that if you want to build a ship, you are not supposed to drum up the people to gather wood, divide the work and give orders. Rather teaching them to yearn for the vast and endless sea should do the trick. To sustain its market momentum, Netflix has been a market innovator not only on the outside but also on the inside.

Netflix is known to hire employees who encourage independent decision making. This is done by ensuring the employees openly share information with each other and are candid with each other. Netflix avoids imposing any rules over its employees and accepts only highly effective people. Their core philosophy is to keep people over process.

Netflix's organization performance is based on specific values like: -

1. **Judgement:** The company prefers to identify the root causes and doesn't prefer to treat the symptoms. Using available data, they derive strategic decisions which are based on long term goals and not near-term goals.
2. **Communication:** The company believes in communication and employees understand the situation before reacting. Netflix tends to give candid and timely feedback to employees.
3. **Curiosity:** Netflix generates curiosity among its employees to contribute outside of their speciality. Alternate perspectives are seemed by them.
4. **Innovation:** The company pushes to bring innovation to its entire set of products by adding new features and customer engagement modes.
5. **Passion:** The company inspires the employee's thirst for excellence, and in return they work towards Netflix's success.
6. **Selflessness:** Employees seek which is best for Netflix rather than what is best for them.
7. **Inclusion:** Netflix encourages all project teams to collaborate among themselves even if they belong from various backgrounds and cultures.
8. **Integrity:** Netflix project teams are known for their authenticity, candour and being non-political. They admit their mistakes and work towards all their disagreements.
9. **Impact:** Netflix with their work demonstrate consistently strong performance as they know the relation between the organization and employees is interdependent and their survival in this competitive market is based on performance.

Netflix leadership and the entire organization is known to live by these values. They always keep inconsistency out of

their work. Each person who is a part of Netflix leadership is responsible for being a role model. For Netflix it is a continuous aspirational process. All these values help Netflix to build their dream team which helps them to learn, perform and improve daily while bringing in best content an experience for their customers.

Netflix leadership doesn't have any bell curves or rankings which sets any targets to cut bottom 10% every year. Netflix leadership pushes its management through a keeper test for each of their people. Netflix always tries to retain the employees who choose to move out of the organization. Those employees who fail to pass the keeper test are politely given a severance package and are asked to leave. This creates a better a dream team for the company. Those who are retained are on the thrill of a professional lifetime. This further ensures the team works together and always strives to do better.

2.4 Core Competence, Networks and Partnership Changes

Netflix has become a company which has started to listen to their employees and customers. To do this, a lot of changes have been brought in the core competence, partnerships and the way employees are expected to work. Some of the changes are: -

1. **Inclusion of Responsibility and Freedom:** There are places to work where employees prefer to do only those things which are a part of their scope and there are companies where employees where they take care of everything as they would at their home. Netflix has gotten away with the culture of that's not my job. The project teams are expected to do what's best for the company. This generates self-discipline and responsibility which drives the company to do great work for the company. Netflix has pushed itself away from unhealth emphasis on process and has given a preference to freedom for growth. They are trying to create a space where employees love to be there for a great pay and work.
2. **Informed Captains:** Just like a ship has a captain who is responsible for the entire ship, similarly Netflix now expects its captains / managers to make informed decisions. As per the company, the bigger the decision, the more the assent gathering needs to be. Once the captain has taken a decision for the ship, Netflix takes the bet and sticks to it.
3. **Context over Control:** Netflix now expects its team members to independently take decisions and consult managers only when they are not sure of something. Netflix believes that right context would make the right decisions. The role of Netflix's management is to teach, set context and be highly informed of what's happening. The teach on how context can be adjusted so that more decisions can be made. Only when there are urgent situations

where time availability is an issue, only then managers are expected to force their hand and make decisions. Netflix pushes its employees and managers not to please their heads but seek to serve to make business better. It's ok to have disagreements, but to have an evidence-based explanation is what is expected from them.

4. **Highly Aligned but Loosely Coupled:** Netflix now spends plenty of time to debate strategy. The organization members trust each other to execute decisions without prior approvals. Many times, the company has seen that two project teams have been working together on a similar function but when something doesn't feel right, they take a candid decision. The success of this environment is depended on high performance individuals collaborating to grow the business for a bigger impact. All this while increasing agility and flexibility.
5. **Excellence Seeking:** Netflix continuously tries to improve its culture and every new employee of Netflix helps to shape and evolve the culture further. Year on year Netflix has been improving more effectively and learning faster but now the dedication of people and consumer trust is increasing. This is helping various talented teams to come together more nimbly, effectively and cohesively.

Netflix has been able to bring various changes to its policy of being brutally honest with its employees. This has helped to build trust among them as well as with the management. They have been successfully able to encourage ownership via flexibility by hiring people who respect and not abuse the perks given. The success has been attributed to independent decision making powered by open information sharing. The leadership has encouraged everyone to avoid rules but always be pro-Netflix while doing that.



3. CONCLUSIONS

To settle it won't be wrong to say that Netflix among all SVOD services i.e. subscription video on demand, would experience incredible growth in the coming years. The main reason for the sustainability of their business model are content, cost and convenience. If Netflix endures to track user preferences and their choices to inspire a personal

experience, it would be strengthening brand loyalty which would make their customers feel more treasured.

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