Netflix 1 case study example

Business, Marketing

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- Reed Hasting's original strategic vision for Netflix was to create a better way to provide home movie services to its customers. Hastings wanted to deliver DVD's by mail to his customers using the United States Postal Service. In 1997, home movies were only available on VHS, so Hastings recognized a need for his services in the market. There were no companies solely dedicated to the home delivery of DVD's in the marketplace and Hastings realized that he could create a customer base who wanted these services. Hastings strategy was simple; customers were able to rent a certain number of movie selections in a month, once the movie was returned the customer would receive a new selection from the Netflix library. Hasting's strategy could be viewed as a Blue Ocean Strategy. A Blue Ocean strategy is when a company creates uncontested market space or introduces new ideas into the current market. Hastings created a demand for his product (movies by mail); therefore he was only competing with himself. Furthermore, Hastings took a product that was already available in the market on VHS and introduced a new market concept of providing movies on DVD instead of VHS. The DVD's were sent via home delivery; this concept had not been marketed to the vast public, as most people were renting videos from local video stores. Home deliveries of DVD's were not the norm

and Hastings' concept was innovative for its time.

- Some of Netflix's early rivals were Vongo, Cinema Now, Movie Beam and Blockbuster. Vongo, Cinema Now and Movie Beam threatened Netflix by offering direct mail and direct streaming services. With some of the companies, they allowed customers to download movies and burn them onto a CD for future viewing. This was important because

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customers could pay for the movie, and then watch it at a later date. This option was not yet available with Netflix. Netflix was still in the process of product delivery through the mail service. One of the biggest competitors for Netflix was Blockbuster Video (Blockbuster). Blockbuster was the major video retailer at the time, and had many brick and mortar stores across the country. Blockbuster posed a serious threat to Netflix because their policies and pricing structures were similar and they had a vast movie database. Customer could purchase movies online or in one of the many stores. Blockbuster also eliminated its late fees for customers, which many customers enjoyed. It proved to be a loss of profits for Blockbuster, but they continued to enjoy success in the movie market. Blockbuster introduced an online service in direct response to Netflix and gained market position as a viable competitor.

Once the video on demand market began to thrive, many cable companies began offering on demand services. These services allowed customers to stream movies directly to their computers, televisions and other limited devices. The on-demand services proved to be a good alternative to renting movies from video companies and a threat to Netflix. Customers could

simply purchase the movie using their remotes, and the movie would play directly on their screen. There was no additional equipment to purchase and the cost would be added directly to the customer's bill. The video on demand threatened Netflix because customers could now get online delivery of their movies and forego the wait of home delivery. This directly attracted the impulse customers and would require Netflix to reevaluate their delivery method.

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- Netflix underwent changes within its company and made decisions that affected their customers and their profits. Netflix decided to split its DVD rentals and streaming services in order to distinguish itself from the competition. Although both divisions would still be under the Netflix Company, Netflix wanted to capitalize on the young movie audiences and the popularity of the video on demand. Netflix did not need to split their services, because they already had a good share of the market and was a pioneer in field of delivering movies by mail. The sudden division of the company portrayed Netflix as unstable and the division itself was confusing. Netflix would have customers confused if the customers were unaware of the changes that were made at the company. The customer confusion could include issues related to practicability and how the new services would work. If Netflix marketed the two companies as completely separate entities then customers would have to navigate two different websites and create separate accounts. This would be frustrating and confusing for the customer.

In addition to splitting its services Netflix implemented a price increase. This

was not a smart move. A price increase is never popular with customers, especially when other confusing changes are being made. Netflix should have implemented the service split or the price increase, but not both simultaneously. The increase in price was probably to offset the cost of the new divisions and services; costs that were ultimately passed down to the customer. Customers would more than likely cancel their memberships if they were unhappy with their services; this would mean profit losses for Netflix. Making new changes all at once is not always a good strategy. Customers need time to adjust to and

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familiarize themselves with changes, before being faced with another change. Overall, this was a bad move and Netflix should have reevaluated the timing and delivery of the changes.

- In order for Reed Hastings to sustain the company’s growth and continue the strong financial performance Hastings must follow his own proven methods. Hastings has to adhere to his business model and continue to do what works, only better. He must stay competitive, maintain and update Netflix’s viewing options and remain customer focused. Staying competitive is the number one mission of Netflix. The market is saturated with many companies offering online streaming of movies, television shows etc., and Netflix must take heed and evaluate their competition. Netflix must make sure they are priced according to the market, and that they continue to offer comparable, or better services than their competitors. Hastings must think out of the box and look for weaknesses in the market. One idea to attract new customers would be to tap into the syndication market. Everyone has a

favorite show that they remember from their childhood, or a more recent show that they enjoy. Netflix could contract with the studios to offer these syndicated shows via DVD or streaming. This could be beneficial for Netflix, as customers would no longer need to purchase their shows on DVD or look for complete seasons of shows; instead, they could watch their favorite shows on Netflix. This would increase the company's profits and drive business to Netflix. Netflix has a strong customer base and the focus must remain on the customer. Any major changes affecting the customer should be communicated effectively well in advance of the proposed change.