Change management at netflix

Organizations That Manage Change Well: Netflix’sConstant Evolution

“ The only constant in life is change”, a quote by the philosopher Heraclitus in 400 B. C. E remains true today (Graham, 2007). Whether it be in response to a major event or discovery that shakes an organization’s core function, or simply in accordance to incremental transformations, change is inevitable for all organizations. While some organizations experience the pressures of change more often than others, all organization’s must recognize, anticipate, and plan for external change forces, as well as set forth internalorganizational changesto remain relevant and competitive in any given industry or field (Chou, 2011). Leaders of organizationsmust evaluate the industry in which their organization operates within and apply their findings to anticipate possible major changes to minimize disruption, as well as seek new practices and technologies to increase productivity, effectiveness, and overall performance. The adaptability and willingness to change is a company’s greatest competitive advantage. For all organizations, change is a vital and ongoing process, which if implemented and managed correctly, allows an organization to evolve with modern changes and remain successful within their field. Being adaptable and ready for change is a company’s greatest competitive advantage when operating in today’s the rapid and constantly changing global market (Anderson, 1991). This increased presence of change must be met by highly skilled and organized leaders who use methods and strategies to successfully manage changes and their implications (Chou, 2001). One company that has gained and maintained mass success due to their adaptability and forward-thinking methods is Netflix – United States most popular internet streaming service.

With over 109 million users, in over 190 countries around the world, streaming more than 125 millionhours of TV shows and movies streaming per day as of 2017, Netflix is theworld's leading internet entertainment subscription streaming service. Thestreaming service offers users the ability to stream network and original televisionseries, documentaries, and feature films. The service allows members to watchas much as they want, when they want, and where they want – with service accesson nearly any internet-connected screen. Members are able to play, pause and resume watching, all without commercials or commitments (Netflix, 2016). The company was founded by Reed Hastings and Marc Randolph in Septemberof 1997 in Scotts Valley, California. The now tenth largest internet companywhen based on revenue, began as a DVD rental by mail delivery service and hascontinued to change and adapt its business models and according strategies toexternal and internal factors ever since its startup (Netflix, 2016).

Change has the capacityto better an organization or demise of it. When change is handled and managed successfully, success and growth will result. Netflix's success, and Blockbuster's eventualdemise are examples of how organizations offering similar products and servicescan either thrive or fail in the face of external technological and industrialchanges. During Netflix's initial years of operation, both Netflix andBlockbuster offered physical hard copy movie rentals. Blockbuster, which had seamlesslysurvived the change from VHS to DVD technology, provided its services by meansof retail locations where costumers could browse movie options on shelves, maketheir selection, and pay the initial fee based on various factors such as howrecently the film was released, or how many nights the customer wished to rentit for. Originally, Netflix used a similar business model as Blockbuster, basing their services on pay per rental basis, but rather than having retaillocations, Netflix customers would go to the company's website to make theirrental selection, that would then be mailed to the customer's home. However, after a short initial trial of this original method and receiving lacklusterresponse, Netflix introduced a subscription feature to its business model. Subscription members could rent a movie, keep it for however long they wishedor return it to rent another for one monthly fee – allowing members to rent asmany movies as they wished for one fixed price (Lotz, 2017). The differentiationthis created between the two companies' business models began Netflix's successin the industry and its domination over its indirect competitors, such as Blockbuster. Blockbuster was heavily dependent on revenues generated from hefty late fees tocreate a large portion of their revenue as part of their business model. Netflixcould charge less for their services, and eliminate late fees from theirbusiness model due to their decreased cost of operations. Netflix's consumer-friendlymodel of no late fees, low cost and wide media selection overpowered theimmediate convenience of going to a corner store to pick up a movie for a nightfor many consumers (Satel, 2014). By April of 2003, Netflix had reached onemillion subscribers. Blockbuster launched its response to Netflix's competitivethreat by implementing an online unlimited rental subscription service for thefixed price of $19. 99 per month in August of 2004, but by this time Netflix hadalready established its place and customer base in the market, impeding onBlockbuster's venture potential (Satel, 2014).

Netflix’s initial DVDrental by mail delivery service began stealing market share in theentertainment industry, respectively due to its adaptable business model to fita niche consumer need. However, Netflix achieved the success that it has today byanticipating and adapting to a major upcoming change that was recognized at thetime of its founding. This massive change was the internet and its possiblyinfinite capabilities. Netflix’s founder, Reed Hastings, stated that heoriginally dubbed his company the name ‘ Netflix’ because even in 1998 he had recognizedthe potential of the world-wide web. Reed one day he expected, and hoped, thathis company would be offering DVD rentals by means of an online streamingservice, therefore he wanted to name the company something that complied withits eventual fate (Fortune. com, 2009). Netflix was created at the time of thewide spread adoption of the DVD, founders of the company, Reed and Marc, eventested their initial mailing DVD service idea by mailing a CD-Rom back tothemselves because they did not yet own an actual DVD. The founders expectedthat just like VHS – DVDs would be around for a long time, but anticipated andprepared for the day that they were not. The company’s name and its origin highlighthow Netflix as an organization was not only ready for change disruption, butwaiting for it from the very beginning.

In 2007, Netflix launchedthe company’s online streaming service. Subscribers were still able to continuemail order DVD rentals, but could also stream a limited number of hours online– all for the fixed monthly subscription price (Huffington Post, 2015). Thiswas the result due to the change of available technology and consumer wants. Just like ten years before when the switch was made from VHS to DVD, the nextchange was ensuing. This was the adoption and availability of high speedinternet and portable computers capable of streaming media. In 2010, Netflixbegan expanding into the global markets. The company first expanded intoCanada, then in 2011 moved into various other countries around the world (Lotz, 2017). Competition quickly ensued, not only were other online steaming servicesbecoming available and more widely utilized, such as Hulu and Amazon Prime Video, but television networks were also beginning to offer online streamingsubscription services, as streaming services had enabled consumers to cancel ordecrease their cable packages while still enjoying media entertainment, just ata lower cost. To maintain and grow their market share and customer base, Netflix began to produce original and exclusive content in the form of series, movies featuring popular actors, and documentaries. Netflix could produce smashhits for their customers because they created shows based on what their userspreferred to watch. By using their own website’s analytics of what theirmembers were watching, for how long, when they stopped watching a series ormovie, and more. For example, 70% of media being streamed on Netflix by its’users are television series (Fortune. com, 2009). These observations helped themto produce highly rated, award winning exclusive series, which helped Netflixto keep their existing members and gain new subscribers. Since online streamingsubscriptions have a very low switching cost for users, it was vital thatNetflix recognized this potential threat and adapted their practices inaccordance (Investopedia, 2016).

Although not seamlesslyachieved, Netflix has gained and maintained its immense amount of success as anonline streaming entertainment subscription service by constantly reinventingitself in accordance to changes in technology, regulation, and consumer wants –all while also creating and pioneering changes within their industry to meetand anticipate the needs of the stakeholder (Management Help, n. d.). This hasbeen achieved by having adaptable and separate business models for eachbusiness function, each with their own strategy. These organizational changeswould not have successfully occurred without the proper internal implementation, and management of change. Devising the best strategic and tactical plans isessential for success, but cannot be achieved without an in-depth understandingof the human side of change management. This refers to the alignment of thecompany's culture, values, behaviors and people to encourage the desiredresults. Managing change is a complex, dynamic, and challenging process (Mabey, 1993). It is never a choice betweentechnological or people-oriented solutions, but a combination of both (Bullman, 2000).

Effective change has beencharacterized as unfreezing old behaviors, introducing new ones, andre-freezing the new (Mosca, 2011). Successful organizational change begins atthe top. An organization's leaders and upper management must have a clear andconcise understanding of the change that is occurring and be able to clearlyarticulate it. In times of change and uncertainty, all eyes go to theorganization's leaders for strength and direction. Leaders must be aligned with one another andmoving in the same direction towards the common goal. Next, the case for thechange must be clearly laid out. A clear explanation of what changes will occurand why they are necessary must be communicated to every layer within theorganization.

In times of change, it is essential for all members of theorganization to know what is expected of them so that feelings of insecurityand confusion, feelings which can lead to resistance to and denunciation of thechange, can be calmed. A multitude ofvarious factors are associated with failure rates when it comes to succeedingin change management. Even if change is endorsed by management, anill-conceived implementation plan, lack of commitment from an organization'sleaders, and limited utilization or integration of already existing systems andprocesses within the organization can lead to the failure to accept and adaptto organizational changes (Mariotti, 1998).

Another important aspectof successful change management is knowing the values that matter to theorganization and the overall goals the organization wants to achieve. Focusingon reacting to those opportunities for change relevant to overall organizationalgoals, as opposed to reacting to every invitation for change, helps companiesto make smart and practical decisions (Mosca, 2011). Due to globalization andoverall resource development, new forces and opportunities for change areoccurring more rapidly than ever, it is important to develop responses andproactive actions that align according to an organization's, or theirstakeholder's needs (Bataldon, 1998). Constant change with a lack of reasoningleads to negative organizational performance, as unnecessary change is a drainon company resources, including financial, and human alike. Largeorganizations, which employ a high number of employees, will not perform asthey become exceedingly bureaucratic. As stated by Steiner, organizations thatare known to be bureaucratized and hierarchical are less flexible, and lesswilling to change, as well as less likely to empower their staff (Steiner, 2001). Organizations will not get full value from their employees if theyinsist that employees do only what they are told. Therefore, leaders must learnhow to manage change, to move forward with successfully. There is no “ onebest way” to manage change in an organization. Organizations mustintroduce approaches to organizational change which matches their specificneeds, and requirements (Mosca, 2011)

Netflix as anorganization has demonstrated their capabilities of successful changemanagement based on their multitude of major changes evident throughout thecompany’s existence. Netflix has been able to achieve this by their unique andsomewhat unprecedented organizational culture. Netflix, although a largeorganization with nearly five thousand employees (Statista, 2016), is not atypical industrial firm, which is what many of today’s traditionalorganizational theory and practices are based on, but rather is a creativefirm. The difference between the two is substantial – industrial firms thriveon reducing variation, or reducing errors, while creative firms thrive byincreasing variation, as stated by the company’s founder and current CEO, ReedHastings (McCord, 2015). Due to this difference of firm variety, Netflix mustcreate and adhere to different organizational methods relevant to their newerand less common style of business – creative. Netflix’s core culture concept isbased on open and honest communication between all levels and in every aspectof the firm’s function. Netflix does not have set vacation policies, ratherthey encourage employees to decide their own appropriate amount of vacation, whenthey wish to take it and communicate this to their managers. To encourageemployees to utilize this policy, upper management is encouraged to set a precedentby taking vacation time themselves and communicating that to their employees. The CEO even reportedly taking four different week-long vacations in 2015. However, this concept is also protected from abuse by Netflix’s next major culturefeature. This is the notion of their compensation method. Results are rewarded, but effort producing no result is not. If an employee, although at one time wasextremely valuable and well liked, no longer fits Netflix’s changing needs, they will be given an honest explanation and very generous severance package. Netflix has found that by focusing on building the best team by having the besttalent has enabled them to continue to adapt and evolve as a company. Once anemployee can no longer benefit the company, they are able to bring in newtalent to keep company moving forward. Employees of Netflix understand thisconcept upon being hired, which is why almost all severed employees areunderstanding and accepting of their termination. Netflix believes in trustingin the hired talent to complete the given tasks in the best way the talent seesfit. Netflix giving their employees the freedom of autonomy allows forflexibility, and innately eliminates the issues resulting from bureaucratic orhierarchical structure, something that can often arise in a firm of Netflix’ssize (Mosca, 2011). Netflix found that by replacing rules withtransparency, accountability, and trust, overall productivity and performanceimproves, and expenses decrease. Netflix believes in hiring good, talentedpeople – letting common sense and acting in the best interest of the companyguide employee behavior (McCord, 2015).

Due to new technology, regulatory changes, societal or stakeholder expectations, as well as competitors– rule-driven organizations, operating within a rapidly changing industry, areunable to keep up with the constant adaption required to gain or remainsuccessful, losing customers and market share to those organizations that dohave the capability to evolve. Netflix maintains its ability to change throughits organizational culture concept – freedom and responsibility. The companyinvests in hiring the best possible talent, and rewards high-performer –weeding out continuous, unimproved low performers.

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