

# Price-hike-train-wreck - netflix

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Outcome

The outcome of the decision taken by Reed Hastings, to separate the price of DVD rentals from online streaming, had unprecedented consequences on the fate of the company. The immediate outcome was a huge reduction in the number of customers, which greatly weakened the company's position. The company recorded sharp reduction in the price of its stocks and reputation of the management was spoiled. The main problem was that customers became angry with the decision of Netflix to do away with its DVD operations and the price hike accompanying it. The loss of customers from Netflix provided a huge opportunity to its competitors and the company began running losses, which was worse than expected (Sandoval, 2012).

Alternative Measures

The basic problem, which had led to the meltdown of Netflix, was the pace at which it had been advancing to change its business model. The problem was twofold. If the company had chosen to act too slowly, then it could have lost out on its business to its competitors, who propagated online streaming; and if it continued to advance very fast, then it could have alienated its customers. The pace of the operation and the haphazard way in which it was conducted, led to the major fall. Following are the ways in which the company could have saved its position.

Firstly, the company should have played the ball strategically and instead of delivering the bad news of 60% price hike, it should have first released the news about signing of streaming deals with eight new studios, including Paramount, Sony and Miramax and more than 3, 500 TV episodes from 15 different network and cable stations, to gain the trust of customers (Adams, 2011).

Secondly, the company should have clearly informed subscribers about the benefits of online video streaming and provide proper and specific reasons for the rise in price.

Thirdly, the company could have started its video streaming business, as a subsidiary to its main DVD business, under the same brand and once this genre had gained popularity, it could have phased out the DVD business.

What was done right

The idea that the company was trying to propagate was not incorrect. The popularity of DVD rentals is fast diminishing and demand for online streaming is increasing, despite the fact that quality of the latter is inferior to that of the former. This is because online streaming has no shipping costs and revenues that can be earned from this business is higher than that earned from the business of DVD rentals. The closure of the large DVD rental chains signals the fact that betting on this business will no longer be profitable (Mendelson, 2013). In this regard, the vision of the company was ahead of its times and perhaps to some extent reasonable, but the pace of implementation of the whole process was incorrect.

Leader Attributes

The leader of Netflix, Reed Hastings, was considered to be a visionary and

was voted by Fortune magazine as businessperson of the year. The rationale behind restructuring the business model was that demand for DVDs would fall in the coming years. Hastings had anticipated that the DVD business will no longer be popular in coming years and the future of the industry will be online video streaming. This time his decision went wrong and the visionary was blamed for misleading and enraging the customers. However, when the business had started, it was Hastings who was responsible for the meteoric rise of Netflix, a company which delivered DVDs to the doorsteps of customers, established on a simple web-based platform. Even so, in this particular decision, the leader did not consult with the other executives and the hasty decision taken by him resulted in an unfortunate outcome (Sandoval, 2012).

#### Observations and Recommendations

This case study reveals that a decision, which was supposed to affect a business in a positive way, had ended up impacting it negatively. This is a perfect example of a case, where the idea of a visionary goes horribly wrong. The haphazard implementation of a reasonable idea led to the system spiralling out of order. According to the market conditions, the business of DVD renting will phase out eventually and will be taken over by online streaming. The action regarding this should have been taken by Hasting in a sequential manner. His haste ensued meltdown of the company. The recommendations for the company are:

To restart the discount to win back customers.

To provide both rental DVD and online streaming for gaining customer confidence.

Start a campaign to spread benefits of online streaming over renting.

#### References

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