

Netflix (management of innovation case)

Business



Netflix has been in the forefront of innovation in the video rental industry despite the fact that it came about 20 years after the opening of the first brick and mortar video rental store (The Video Station) and 12 years after the opening of Blockbuster (its most prominent competitor). Netflix' mail service came in at the right time when the DVD-format was still new making the company's business model even more relevant. The change in format (VHS to DVD) was just the first of the many changes that happened in the industry but Netflix seemed to have the right formula to make its business relevant to the business landscape at for its strategies to work for their growth. KEY TO SUCCESS: HAVING THE RIGHT CULTURE A. Reed Hastings was pathing the technology Two years before the recognition of DVD as one of the most rapidly adopted consumer electronics products in history (2000), Netflix had already began offering DVD rentals requested over the Internet and delivered through the mail (1998).

Within a year after movies started to be delivered directly through their cable television provider or over their computer (2006), Netflix launched WatchNow (2007). In an environment defined by fast-paced technology, Netflix's Reed Hastings seemed to have foreseen the forthcoming changes in the business landscape and innovated at the right time making the business benefit from these changes. B. Heeding to the market needs The same year when the " crowdsourcing" term was coined (2006), the company launched Netflix Prize giving away up to one million dollars to anyone who could substantially improve its existing recommendation algorithm (Cinematch). Netflix Prize is a testament that the organization recognizes the fact that its

market is a potent source of innovation – they did not confine innovation in the four corners of their corporate office.

Moreover, Netflix Friends was released in 2006, 2 years after Facebook's founding. Leveraging on the power of social media, Netflix was able to get feedback from its customers with Netflix Friends' function of connecting with friends and seeing what movies are they renting and their respective ratings. In essence, the company was able to “socialize” their product and get direct and immediate feedback from their market. C. Tapping the Right Partners Netflix must have done something for Wal-mart, a former competitor, to direct its customers to them in 2005 when the company closed.

This is very strategic since already had a substantial share of the market then. Also, knowing that the number of titles serve as a strong factor affecting the revenue of companies in the movie rental industry, partnering with production houses also seemed tactical for Netflix have exclusive rights to handle newly released movies. Though the exclusivity is limited for a specified time-frame, this allowed the company to leverage on the popularity of the movies – while the movies were still hot. D. Self-disruptive Culture It is but natural for organizations to resist change and preserve their business formula especially if it is still working – this is the very reason why some became irrelevant with the advent of technology.

Netflix braved these changes and continuously altered their business model – some can even be considered as fearless moves as these alterations can technically be termed as “self-disruptive” making their old strategies obsolete. Netflix introduced the concept of the subscription at a time when

people are used to visit brick and mortar stores to rent VHS tapes and DVDs and pay for it on a per transaction basis. This happened two years after its founding (1997), something which Blockbuster adopted five years after (2004) when it re-entered the US online movie rental system. In 2007 when online streaming is already gaining popularity, thereby posing threat to Netflix and all the other players in the movie rental industry, Netflix launched WatchNow – the same year where movies started to be delivered directly through their cable television provider or over their computer and piracy was becoming prevalent. Despite these challenges, Netflix fearlessly launched the platform (WatchNow). E.

Competition with Blockbuster Blockbuster was merely reacting to the changes in the environment, even copying Netflix’s business model and strategies at times. On the other hand, Netflix was at the forefront of innovation in the movie rental industry – either responding quickly to changes in the environment or introducing something new to the market even outdated its old practices and strategies. STRATEGY FOR NETFLIX TO REMAIN AT THE FOREFRONT OF THE MOVIE RENTAL INDUSTRY Table 1 shows that from 2002 to 2006, subscriber acquisition cost has continued to increase probably because of increase in prices or this might be brought by steeper competition. The continued increase in investments to acquire new subscribers proved worthy since gross subscriber additions and the total number of subscribers increased over the period of six years (2002 to 2007). Table 1. Netflix’s subscriber-related statistics (FY 2002-2007) | | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | | Subscriber acquisition cost* | 32.

3 | 32. 80 | 37. 02 | 38. 77 | 42. 96 | 40.

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88 | | YoY Change | | -0.09% | 12.87% | 4.73% | 10.81% | -4.84% | | Gross subscriber additions | 1,140,000 | 1,571,000 | 2,716,000 | 3,729,000 | 5,250,000 | 5,340,000 | | YoY Change | | 37.

81% | 72.88% | 37.30% | 40.79% | 1.1% | | Total Subscribers | 857,000 | 1,487,000 | 2,610,000 | 4,179,000 | 6,316,000 | 7,479,000 | | YoY Change | | 73.

51% | 75.52% | 60.11% | 51.14% | 18.41% | *in \$ per customer Despite the consistent increase in the number of subscribers, Figure 1 shows that the year-on-year change in gross subscriber additions and the total number of subscribers fluctuated over the period of six years (2002 to 2007).

These statistics serve as indicators the point earlier made that it is becoming more and more expensive to acquire customers; hence, competition is becoming the steeper. If there is something that Netflix needs to keep so as to remain at the forefront of the movie rental industry, it is the organization's drive for innovation and fearless, risk-taking attitude. In a few years' time, online streaming might become obsolete and piracy may become more threatening but if Netflix stays nimble, it can easily wade itself thru the tides of the ever-changing technology-based landscape of the movie-rental industry. On the extreme end, it might not actually be a "movie-rental industry" anymore, it might evolve to "mobile entertainment" or something else but if Netflix will be able capitalize on its established subscriber base and culture of innovation, the company can exist for years or even decades – they may actually engage in a business unidentified with what they have in 1997 when they started, but still relevant.