Netflix Reconsiders High Stakes Wager

By Ethan Tussey

6-8 minutes

MIP Article *Netflix Reconsiders High Stakes Wager* has been updated.

In September 2011, Netflix CEO Reed Hastings apologized via blog post and YouTube video for the way his company handled a series of controversial decisions, including a sixty-percent hike in subscription fees and the proposed separation of its streaming and rent-by-mail services into different companies. While media critics were quick to catalog the public relations blunders, the debate also draws attention to the shifting template for streaming media companies.

Critics rightfully believed Netflix's decision to spin off its DVD service would confound customers who have come to expect low prices and maximum convenience from streaming media companies. Subscribers responded angrily to Hastings' online announcements, singling out the hassles of dealing with separate rental websites as a primary concern. Initially, Hastings assured customers the strategy would help Netflix secure more content, but the company later caved to customer complaints when it scrapped plans for the separate DVD company altogether. Ultimately, the proposal to spin-off the DVD business failed to undo lasting impressions the company made when it originally launched its “Watch Instantly” option as a gradually expanding bonus service, not a separate entity. Netflix’s latest decisions are evidence of its desire to turn itself into an online content network—a strategy MIP examined in July 2011—but subscribers appear both resistant to and uninformed about its tactics.

Meanwhile, proponents applauded the company’s brave wager on the anticipated growth of streaming media, even if subscribers failed to embrace Netflix’s strategy. One media critic made reference to Al Ries’ book *Focus: The Future of Your Company Depends on It* wherein the author argues companies that cope best with technological change do not hesitate to abandon comfortable business models. Similarly, former Netflix CEO Marc Randolph argued the company has a history of unorthodox decision-making, pointing to such popular innovations as the “queue” and “no late fees,” which generated substantial profits for the company.

Right now, the future for Netflix is uncertain. The price increase caused more subscribers to leave than executives’ expected. New subscription rates have been slow, and the company’s stock price has fallen. Competition is on the rise as well. Capitalizing on Netflix's bad publicity, Blockbuster Video, now part of Dish Network, announced plans to offer a combined streaming and rental service. Wal-Mart, Amazon, Best Buy, and Hulu also have launched competing streaming services. Additionally, Netflix's DVD rental business faces competition from Redbox as a recent survey indicates thirty percent of Netflix subscribers plan to shift their dollars to the rental kiosks. There is even speculation that Amazon might purchase Netflix and create one enormous streaming media company. With entertainment companies demanding television-sized licensing fees, Netflix needs to figure out quickly how to acquire the necessary content to grow its subscriber base both here and abroad.

Useful Links:

Netflix Blog about the Rate Hike

Reed Hastings apologizes

Los Angeles Times piece

Lessons from Netflix's strategy and fallout

DreamWorks Animation has shed nearly a third of its workforce in less than two years—a startling indication of the studio's ongoing financial struggles and its inability to reshape creative operations at a time of industry-wide economic uncertainty.

Two conversations among a group of media industry executives and creatives at the Flow Conference address the variety of ways the television industry is transforming, including those areas where it continues to struggle to satisfy new audience demands.

The success of female-driven films this summer, along with new records of female filmgoers, have reignited calls for more gender diversity in front and behind the camera.

The *Aereo* case highlights the potential of digital technologies to de-stabilize longstanding industry norms, including the ways content is monetized, distributed, and consumed

While the upcoming slate of games command much of the attention at the Electronic Entertainment Expo, the relentless promotion risks obscuring more interesting signs of growth.