Case 7-B

Netflix: Not so fast…a response to customer furor

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In 1997, Marc Randolph and Reed Hastings came up with an business idea that is now so common in the US that is has become a verb. What the two men invented was the beginnings of Netflix, a subscription based movie rental service that allows consumers, depending on how much they were willing to pay, to rent an unlimited number of DVD's without fear of late fees or other penalties that were part of the film-rental market in previous decades.

To say that Netflix was successful is an understatement. The company went "public"—meaning it allowed consumers to purchase stock—in June of 2002. Financial success was only one measure; Netflix, which had more than 100,000 titles available, is also credited with helping to spur the growth in the "Indie" film market. The Netflix website also experimented with a variety of algorithm that tried to predict what films—and later television shows—subscribers would most enjoy. The firm signed exclusive deals with a number of content providers, and its founders made a concerted effort to keep up with technological change. As technology improved and band-width expanded, it became possible to down-load films to personal computers, and Netflix was in the forefront of that effort. Televisions, now, come preprogrammed to received Netflix offerings, and as the first decade of the new century closed, Netflix managers realized that the core of their business had moved from the snail-mail delivery of DVD's to individual households to instant streaming to a variety of devices, among them personal computers, mobile phones and tablets.

As the firm grew, it was not without some problems. Netflix was successfully sued over claims about how rapidly DVD's would arrive at subscriber households, which resulted in a change in how the firm promoted the service. But, Netflix was extraordinarily popular. For less than it would cost two people to see a single first-run film at the local cinema, subscribers could watch almost unlimited films in their homes for a month. At the beginning of the service, most new releases were available on Netflix within six months of opening at theaters. It was not uncommon for consumers, and even movie reviewers, to suggest that a particular movie was worthy only of Netflix viewing; folks could, and did, save themselves a lot of money this way. And, if you missed a first-run film due to work, travel or family issues, never fear: within a few weeks, you could Netflix it. By early 2011, Netflix announced it had about 23.6 million subscribers, most of them in the US although there also were many in Canada. Netflix also took an interest in politics. Its political action committee was particularly concerned about intellectual property regulation and enforcement.

So, it seemed to CEO Marc Randolph and his staff that the local extension of the brand in September 2011 was to split Netflix into two companies, the first retaining the original name and specializing in "instant viewing" and the second to be called Qwikster, which was designed to carry video games but also would retain the original DVD, snail-mail business. A two tiered pricing structure was also announced. Subscribers could have "instant-view" only for about $8 per month or retain both services for about $15 per month. Subscribers were notified of the changes via e-mail; news reports, beginning first in the tech industry, followed rapidly.

And then, all heck broke lose.

Consumers were incensed. They didn’t like the separation of the DVD portion of the business from the streaming portion of Netflix. They didn’t like the new pricing structure, which was an increase at a time when individuals and families were still trying to recover from the Great Recession. And, consumers really didn’t like being informed about the changes via e-mail in a way that indicated they were going to be given very limited choices about their Netflix service.

So they quit. In the month after the Qwikster announcement more than 800,000 US subscribers cancelled their Netflix subscriptions. Netflix stock also dipped.

Management reconsidered and walked the changes back. An unusual public apology followed that said, in part:

“Consumers value the simplicity Netflix has always offered and we respect that,” said Netflix co-founder and CEO Reed Hastings. “There is a difference between moving quickly -- which Netflix has done very well for years -- and moving too fast, which is what we did in this case.”

In January of the following year, Netflix subscriptions had risen by about 600,000 from the October lows.

Micro Issues

1. Using ethical theory as a guide, what is an appropriate relationship between a company such as Netflix and its subscribers?
2. Netflix stays within the boundaries of US and international copyright laws. As a consumer, do you think it’s important to support firms such as Netflix, Hulu and others—or do you still download media content for free?
3. Netflix has been given credit for making independent films and documentaries much more widely available. Using stakeholder theory, evaluate this somewhat unexpected consequence of the movie rental business.

Mid-range Issues

1. Some strategic communications professionals suggested that what Netflix needed was better public relations. Evaluate this claim. What might that campaign have looked like?
2. Did Netflix as a corporation do the ethical thing by withdrawing from its new business model? Evaluate this from the perspective of the consumer, the stockholders, and the stakeholders.

Macro Issues

1. How does the concept of “content on demand” influence the business of news and entertainment programming? What are some potential ethical “pitfalls” this approach highlights?
2. Evaluate the Netflix algorithm which rates how well a particular consumer might like

specific content in terms of privacy, target marketing, and content production.