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# Netflix got it right & wrong

By Colton Perry

Netflix has had a rough year. While saying it's "finished" might be an overstatement, it certainly isn't going to be the dominant player it has been in past years. The disruptive company that changed the DVD rental business, the company that buried Blockbuster and countless smaller video rental chains and stores has found itself suddenly in a very vulnerable position. This is for a number of reasons, not all of which are obvious, but collectively paint a clear picture of the difficulties that lie ahead. *Note: After press time, Netflix reversed its decision to split its business.*

Netflix created a public relations nightmare when it split its subscription plans. Customers were forced to either pay double the fees for the same plan they have or choose between the original DVD or streaming video on demand service. Make no mistake about it, Netflix CEO **Reed Hastings** would be the happiest man alive if he never had to mail another DVD to a customer. Clearly the cost of maintaining a network of distribution centers and all the overhead that is associated with that is far less attractive than streaming video on demand to connected consumer electronic devices.

Doubling subscription fees, especially in a weakened economy, resulted in consumer outrage. Netflix had a window of opportunity to try and smooth things over. Reed Hastings issued a public apology to all Netflix customers attempting to explain what they were doing. He announced the splitting of the company in two and rebranding of the DVD service to Quickster. It became very clear, Netflix is planning to get out of the DVD business and likely looking to sell Quickster.

## Doesn't produce content

This was the most obvious and public issue tarnishing Netflix. However, they have a number of other problems primarily related to content. Though they have dabbled in it, Netflix doesn't produce any content, they are an aggregator of other producer's content. They pay studios and other producers for the rights to stream films and shows to subscribers. Before streaming video over the internet became more main stream, Netflix had negotiated some very favorable deals for these rights.

In 2010, Netflix paid a total of $180 million to studios and producers like Warner Brothers, MTV and others to stream content. In February of 2012, the first of these deals with Starz, which includes some of the most premium content available to Netflix subscribers from studios such as Sony and Disney, will expire and Starz has indicated that is has no intention of renewing despite an increased offer of $300 million. Even if Starz comes back to the table or other producers renew or offer new contracts, it is clear that any future deals will come at a premium price. In fact, it is estimated that

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# Brilliant leaders, *bad ideas*

By Jay Osterholm

Over the past month I have found myself reading the news and asking, "What was that CEO thinking?"

If you look back in history, you probably would ponder the same thing. Sometimes it seems the smartest people make the worst decisions, especially from a marketing perspective. From BP, HP and most recently, Netflix, we consistently see brilliant minds leading their companies astray and as a result, losing customers and brand value.

Of course, as a witness with a marketing slant, hindsight is 20/20. Never before have we had so many communication channels available to interact with key audiences, receive feedback from customers, and have real conversations about our brands. Ideally, this means companies should be making smart, sound business-decisions based on feedback, analytics and product performance.

Take for example, Netflix. To say they have had a bad month is a drastic understatement. Its stock has fallen more than 60 percent amid a customer backlash over a price increase and plans to operate the mail-order business separately from streaming. I immediately thought, **"Don't forget what made you successful."**

Prior to their decision to separate services, Netflix had approximately 25 million customers.

It made no sense to me that Netflix would turn its back on the customer base that made them successful.

This begs the question: What would cause a successful company to change their business model so drastically?

For any outsider to try to answer this question, I would suggest a rationale approach and that decisive business mistakes could be bucketed into four categories:

1. **Greed and immediate cash-flow gratification.** While it may sound strange, it is possible for a company with 25 million customers to have limited profits if there is not a sustainable business model. For most

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# People in the News

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oper. He brings with him a wealth of programming knowledge and design experience. **Jeanne Oberti** joined the finance and operations team as BG's receptionist. Jeanne comes to BG from Scripture Union, where she worked for 20 years providing support to the vice president.

Buchanan Public Relations added **Emily Geesaman** as senior account executive. Prior, she was with Tierney and with Strategic Communication & Planning, a firm serving nonprofit organizations, foundations and government initiatives. Emily will oversee traditional and social media relations programs and provide strategic communications counsel to the agency's growing list of blue-chip clients.

Adams Outdoor Advertising of the Lehigh Valley welcomes **Tony Cioffi** as its new general manager. Prior to that, Tony spent five years as the vice president of sales for Clear Channel Outdoor in Chicago, was a market manager for 12 years with Adam Outdoor Advertising in Charlotte, NC and most recently was general sales manager from 2000-2006. Before moving to Charlotte, Tony was the sales manager for Adams Outdoor in the Lehigh Valley from 1996 – 2000. Additionally, the outdoor firm also added **Erik Rhoades** to its team as account executive.

BIGSMACK adds **Andrew Kobliska** as head of marketing & business development in a newly opened New York City office. Andrew originally partnered with agency Creative Director **Andy Hann** in the mid-1990s at a Los Angeles-based creative boutique SMOG. Years later the two moved to Pittard Sullivan where their team created and managed projects including the launch of the Fox Family Channel, Game Show Network and Fox Kids International. Andrew got his start as a producer at J. Walter Thompson, Los Angeles, leaving a few years later as head of broadcast production to launch his own creative and production studio GRAVY. He later served as president at IF! International then Vagrant Records and in 2004 at DIRECTV.

# Brilliant leaders, bad ideas

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companies, business is all about maximizing profit at any cost. At the end of the day, if the revenue stream is slow, changes need to be made. As marketers, it is our job to properly position business changes, as to not upset or drive away customers. Netflix should have informed customers of the price structure changes prior to implementation.

**2. Ignorance is not always bliss.** Social media. Blogs. Communications 2.0. Call it what you will, but in today's business world there are a plethora of channels available for customers to engage with a brand and vice versa. The strength of a brand is valued in their response to this information. However, in order to respond, companies must first be aware. Analytics and monitoring are the necessary follow-up to effective marketing campaigns and business decisions. Perhaps Netflix was unaware of how consumers would react to their unannounced pricing structure.

**3. Denial.** Acceptance of defeat is never easy. Some companies continue on a perilous path rather than owning up to mistakes, and changing course. Moreover, communicating a defeat or mistake is often more difficult than admitting it. Customers expect transparency and honesty. Without these, brand loyalty cannot exist.

**4. We are immune.** When a company reaches a certain level of success, it is easy to lose sight of the initial goals, mission and brand promise. They forget that they need their customer more than their customers need them. Rising stock prices easily lure executives to make impulsive decisions they believe will lead to short-term higher profits. Regardless of business change, it is imperative companies remember their mission and brand promise before implementing changes.

At the end of the day, brand loyalty is in many ways equated to trust. Companies are always going to make poor decisions, just as individuals do. We all make mistakes, and we are all human. The controllable element in all of this is communication and transparency. In order to maintain a solid customer base, it is imperative to remember that consumers are only loyal to a brand that continues to deliver on the expected brand promise.

# Netflix got it right & wrong

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licensing content in 2012 will cost Netflix nearly $2 billion seriously jeopardizing its low cost subscription model.

Finally, let's talk about competition. Once upon a time, Netflix was an innovative company and its red envelopes were a unique method of delivering video content to consumers. Now Netflix is shifting its focus to streaming video and it has competition ranging from Walmart with its acquisition of Vudu to Amazon's Video on Demand Service (free to Amazon Prime customers) to Hulu Plus to Comcast's Xfinity to HBO Go. And this leads not only to competition for consumers, but also competition for content. Netflix is no longer the only show in town, studios have other players vying for their content. In an example of things to come, HBO's Go service is now available directly to consumers that have HBO as a part of their cable subscription package. It is only a matter of time before HBO Go and streaming services from major cable companies like Comcast's Xfinity will be available directly to consumers regardless of a cable subscription or location.

As a result, this longtime Netflix customer clicked "cancel" and ended his subscription after eight years. It's been a great run Netflix, but I have choices and you are no longer a unique and novel service.