"Are You Still Watching?" A Crisis Analysis of Netflix

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Abstract

Title: “Are You Still Watching?” - A Crisis Analysis of Netflix
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Ever since its move towards streaming content online, Netflix is considered a posterchild of a self-disrupting company. However, in late 2021 the company’s stock price lost more than 70% of its value. This study aims to investigate the reasons for the crisis Netflix is facing and assessing whether the company has the ability to handle its current and future challenges through the use of the RBV, VRIO and dynamic capabilities concepts used in the context of strategic adaptive management as well as crisis management for academic teaching.

The dissertation provides an overview of the aforementioned concepts as well as information on the market, the company and the crisis of Netflix through secondary data gathered from interviews, newspaper articles, publicly available data as well as the book “That Will Never Work: The Birth of Netflix and the Amazing Life of an Idea” by Netflix’s first CEO.

The study includes a chapter providing teaching notes for the academic use of this case. Several potential assignments are laid out and answered, bridging the gap between the theoretical concepts introduced and the information provided on the case, laying out possible strategic moves that could save the company and prevent them from following the footsteps of Nokia and Kodak.

The conclusion of the case is that Netflix possesses several VRIO resources and therefore competitive advantages as well as dynamic capabilities mainly due to their reactive and forward-looking management that has proven its capability of doing what is “best for business” multiple times throughout its history.

Keywords: Strategic Management, Adaptive Management, Crisis Management, Resources and Capabilities, RBV, VRIO, Dynamic Capabilities

Resumo

Título: "Ainda Estás a Ver?" - Uma Análise da Crise da Netflix
Autor: Stefan Flor

Desde a sua mudança para o streaming, a Netflix é considerada um exemplo de uma empresa que se autodestrói. No entanto, no final de 2021, o preço das ações da empresa perdeu mais de 70% do seu valor. Este estudo visa investigar as razões da crise que a Netflix está a enfrentar e avaliar se a empresa tem a capacidade de lidar com os seus desafios atuais e futuros através da utilização dos conceitos RBV, VRIO e capacidades dinâmicas utilizados no contexto da gestão estratégica adaptativa e da gestão de crises para o ensino académico.

A dissertação fornece uma visão geral dos conceitos acima mencionados, bem como informações sobre o mercado, a empresa e a crise da Netflix através de dados secundários recolhidos de entrevistas, artigos de jornais, dados disponíveis publicamente e o livro "That Will Never Work: The Birth of Netflix and the Amazing Life of an Idea" do primeiro CEO da Netflix.

O estudo inclui um capítulo com notas didáticas para a utilização académica. São apresentadas e respondidas várias tarefas potenciais, conectando os conceitos teóricos introduzidos e as informações do caso e apresentando possíveis movimentos estratégicos que poderiam salvar a empresa antes de seguir os passos da Nokia ou Kodak.

A conclusão do caso é que a Netflix possui recursos VRIO e, por conseguinte, vantagens competitivas e capacidades dinâmicas, devido à sua gestão reativa e orientada para o futuro, que provou a sua capacidade de fazer o que é "melhor para o negócio" várias vezes.

Palavras-chave: Gestão Estratégica, Gestão Adaptativa, Gestão de Crises, Recursos e Capacidades, RBV, VRIO, Capacidades Dinâmicas

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In 2014, after having dropped out of my studies twice, I was sure that I would never hold a Bachelor's degree, let alone a Master's degree that I would complete after two years away from home – today, nine years later, after a lot of hard work and sacrifices, I can proudly say that I have proven my former self wrong.
Of course, all this would have been impossible without the help of certain people:

First of all, I would like to thank my parents for their continuous support during the most confusing years of my life, after leaving school and not knowing which direction to take. Thank you for supporting me while finding and following my own path. I know how worried you were when I decided to take a step back and start an apprenticeship instead of pursuing a Bachelor's degree like most of my friends did – today I believe you can say that your son took his time but made the right choice.

I would also like to thank Fabio Squillante and the entire Market & Geo-Intelligence team at Deutsche Telekom for rehiring me when I was in desperate need of an internship to complete my Bachelor's degree when the Covid-19 pandemic started. Without the opportunity to complete my internship in your team, I would not have been able to afford the tuition fees for my Master's degree here at Católica. Thank you for believing in me and giving me the freedom to try and fail before coming up with the forecasting model you are still using today, which I am very proud of. I could not have asked for a better team and environment to grow in, not only as a professional but also as a person.

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To all the friends I made during this unforgettable chapter of my life: I know that life will take us to different places and we will probably never spend as much time together as we did during our months here in Lisbon, but I will always cherish our time as a fond memory.

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Glossary

List of Abbreviations

AI	Artificial Intelligence
APAC	Asia-Pacific
EMEA	Europe, Middle East, and Africa
LATAM	Latin America
RBV	Resource-Based View
R&C's	Resources and Capabilities
sVoD	Subscribed Video on Demand
UCAN	USA and Canada
USP	Unique Selling Proposition
VoD	Video on Demand
VR	Virtual Reality
VRIO	Valuable, rare, inimitable, exploitable through organization

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1. Introduction

Ever since moving to online streaming in 2007, cannibalizing its previous business model of sending DVDs to subscribers and thereby successfully adjusting its product to a market shift, Netflix is considered a poster child of a self-disrupting company (Hartung, 2013). Sixteen years later the company earned more than 31 billion US$ in revenue, more than 26 times of what it generated in 2007 (Netflix, 2023).

As a result of its success, an increasing number of competitors entered the “subscribed Video on Demand” (sVoD) market, including “Big Tech” companies like Apple and Amazon as well as entertainment giants such as Disney and HBO. Especially the recently introduced crackdown on account sharing could result in a significant drop in subscribers sharing accounts with others, potentially resulting in users only paying for a Netflix subscription for several months instead of the full year or even entirely canceling their subscription. The competitive pressure, a slowing growth of new subscribers and other factors such as increasing production prices led to the Netflix share price losing more than 70% in value between October 2021 and July 2022 (Yahoo Finance, 2023). Consequently, the industry pioneer undoubtedly finds itself in hot waters.

To overcome the crisis and stabilize demand the company is forced to not only continuously extend its portfolio by adding more and better original content but also considers adding new features and services such as gaming and live shows (Adgate, 2021; Bramesco, 2023).

1.1 Aim

This dissertation is not an attempt to analyze Netflix on an analytical level. Its purpose is to assess the crisis Netflix is facing based on theoretical concepts in the context of academic teaching of business related topics such as adaptive strategies, crisis management and product management, allowing students to evaluate and develop potential strategic responses.

Motivation for this research centers around the fact that the subscription service business model has gained immense popularity in digital product industries. Today, technology companies offer subscriptions to products such as Microsoft's Office 365, cloud storage from Google or Apple, or streaming platforms for audiovisual entertainment such as Netflix and Spotify. “Not-owning” products like DVD’s or music discs but rather streaming them for a subscription fee has revolutionized the media industry. While the popularity of sVoD grew

massively during the Covid pandemic, several warning signs since 2021 within industry leader Netflix must be considered as a wake-up call not only to the company itself, but also to its competitors, since, according to Professor Barreto: "*what happens to the industry will happen to your company*" (Barreto, personal communication, 2022).

1.2 Structure

First, relevant literature is used to define several key concepts of this study and to elaborate on the topics of strategic as well as crisis management. The theoretical part is followed by a chapter dealing with the case of Netflix, including an introduction to the video streaming market, followed by information about the company, its competitive environment and information on the crisis it is facing as well as its response to date. The fourth chapter provides teaching notes intended for the academic use of this study. The concluding fifth chapter consists of the conclusion and limitations of the study.

2. Literature Review

2.1 Adaptive Strategic Management

Adaptive strategic management influences both, the tactical and strategic decisions of a business and is based on the idea that different approaches are required for different firms in different development stages (Zinchenko, Privarnikova, & Samoilenko, 2022). It requires an evaluation of the external and internal environment, a prioritization of customer satisfaction as well as an organization's willingness to adapt quickly to market challenges (Zinchenko, Privarnikova, & Samoilenko, 2022; Hikmat, Harits, Danial, & Komariah, 2022).

Common methods include scenario forecasting to develop reactive plans to, for example, adjust any part of the firm's marketing mix and to enable the evaluation of any strategy based on the external and internal factors the firm is dealing with (Zinchenko, Privarnikova, & Samoilenko, 2022).

A successful business is therefore considered one capable of flexibly adapting to market shifts, caused by technological changes, changing market tastes, etc. (Hikmat, Harits, Danial, & Komariah, 2022; Sternad, 2012).

2.2 Crisis Management

Crisis management focusses on detecting early warning signs and preparing the necessary conditions within the firm to prevent, mitigate and recover from any potentially occurring crisis (Preble, 2003; Groh, 2014). Crises normally emerge gradually over a period of time and come with several early warning signs, such as a declining sales growth, a loss in market share or an increasing management turnover (Müller, 1985).

The root cause of crises is often found in previous management mistakes and the naive hope that, for example, sticking to "what has worked so far" will keep the company afloat (Müller, 1985). Thus, management often only treats the crisis' symptoms instead of tracking its roots, analyzing them and taking ownership of previously made mistakes, which are the necessary steps to overcome a crisis (Müller, 1985; Khodarahmi, 2009).

However, a large amount of companies is unable to derive strategies based on an analysis of its strengths, weaknesses, opportunities and threats in order to develop "*forward-looking strategic planning systems*" (Müller, 1985), although it is generally considered essential for management to be aware of any problems in the micro- and macroenvironment of the company (Müller, 1985; Smith, 2016).

Generally, three phases have to be considered in the crisis management process (Smith, 2016):

1. Pre-Crisis Phase, including warning signs
2. Crisis impact/rescue
3. Recovery/demise

According to Wenzel, Stanske and Lieberman (2020), a company has four strategic options in dealing with a crisis:

1. **Retrenchment:** Reduce and downsize costs, assets etc. in order to stabilize the decline of performance and create the groundwork for renewal. This often comes at the costs of destroyed synergies, resources and capabilities as well as company culture.
2. **Preservation:** The goal is to maintain the status quo. This option should especially be considered when factors are changing on a daily basis, considering that switching strategies multiple times often leads to not achieving any desired results.
3. **Innovating:** Innovating and exploring other potential sources of revenue is an unavoidable option to ensure the company's long term survival.
4. **Exit:** Leaving the market might be unavoidable if the previous strategies did not succeed or managerial misjudgments are too grave.

To summarize, strategic crisis management is a carefully planned and coordinated response to secure the long-term future of a business rather than an instant ad-hoc response focused on short-term results (Müller, 1985; Papadakis, Kaloghirou, & Iatrelli, 2008; Khodarahmi, 2009).

2.3 Organizational Adaptation

Since finding the optimal solution within a vast amount of options is a difficult task, it requires the use of methods that have previously proven successful, although thereby indirectly contributing to company inertia (Levinthal, 1991).

An organization gathers expertise over the course of time of its operations in its field, which leads to it becoming less likely or considering it less necessary to experiment with several alternative options, resulting in higher performance due to gained experience (Levinthal, 1991). This however comes at the cost of an increased inertia rising within the organization with each year of its existence (Levinthal, 1991). Adapting to changing environments not only includes the risk of the organization failing but also the necessity of having to reorganize structures and processes (Levinthal, 1991). Nonetheless, Amburgey et. al. argue that while the short-term

consequences of adaptation pose a high risk of organizational failure, companies who survived these short-term consequences reduced their risk of failure in the long-run (1990).

Hannan and Freeman however argue that companies rarely manage to implement drastic changes in its structure or strategy, although facing environmental threats (Hannan & Freeman, 1984). They further recommend that organizations should respond to environmental changes in a timely manner and align its response to the pace of the environmental changes, since acting too slow may come at the cost of losing an opportunity, while acting too fast without fully understanding the change may result in a waste of resources (Hannan & Freeman, 1984). Some aspects to consider in adaptation processes are the high resource investments that can only be implemented gradually as they include long delays between the decision to adjust and actually adjusting, therefore often blocked entirely by company inertia (Hannan & Freeman, 1984).

2.4 The Importance of Resources & Capabilities for Competitive Advantage

To understand a company's competitive advantage it is not sufficient to only analyze external opportunities and threats, but to also consider internal strengths and weaknesses, which are shaped by a company's resources and capabilities (R&C's) or its "*financial, physical, human, and organizational assets*" as they are what a company's performance depends on (Barney J. B., 1995).

In contrast to other models that only analyze outside factors of success, like the "Five Forces Framework" by Michael E. Porter, the Resource-Based View (RBV) is focusing on all internal R&C's a company has at its disposal (Wernerfelt, 1984; Porter, 1989). This includes any intangible or tangible asset entailing a weakness or strength that can be used to create unique R&C's to gain a competitive advantage (Wernerfelt, 1984). According to Wernerfelt, firms either possess R&C's that are hard to imitate by competitors, due to their uniqueness for the specific company, or are costly to acquire or transfer (1984).

A sustained competitive advantage can be achieved if a company is capable of leveraging its resources in a way that makes it difficult to be imitated (Wernerfelt, 1984). While these R&C's were developed over time and have proven their value throughout the company's history, there is no guarantee that this value will persist once markets or environments shift (Barney J. B., 1995). Therefore, continuously assessing the value of R&C's is an essential task for strategic managers (Barney J. B., 1995).

Certain R&C's may be essential for the firm's survival and therefore valuable, however if they are shared with several competitors it is unlikely to be a lasting source of competitive

advantage. According to Barney, a sustainable competitive advantage requires R&C’s to not only be valuable but also rare, inimitable and exploitable through the firm’s organization (see figure 1) (1995).

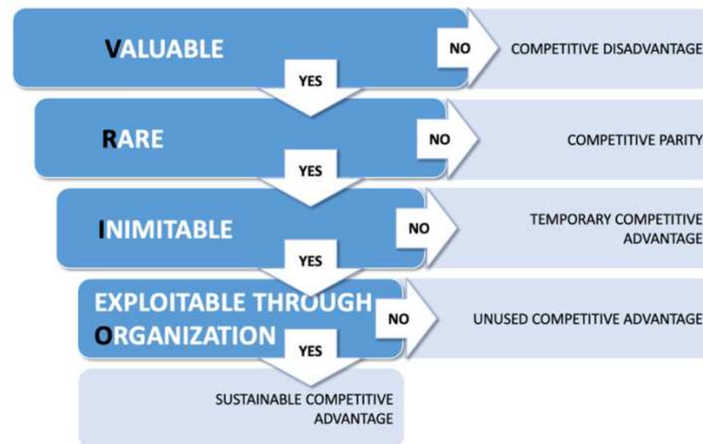

Figure 1: VRIO framework

2.5 Dynamic Capabilities

In today’s hypercompetitive environments it is difficult for companies to preserve their competitive advantage when markets shift, however failing to adjust to these shifts can negatively impact a firms performance (Barreto, 2010; Audia, Locke, & Smith, 2000; D'Aveni, 1994).

Companies with established routines and assets make them more averse to risks than new entrants, limiting innovation within the business through delayed decision making, thereby making it especially hard for established firms to adjust to market shifts (Teece, 2007).

Teece argues that the success of a business lies not in being able to maintain its assets or product quality, but rather in its ability to discover opportunities (2007). To discover opportunities, a firm needs to experiment with technologies and markets that are both, distant and close to its core business (March & Simon, 1956; Nelson & Winter, 1982; Teece, 2007). The focus of corporate adaptability in the aforementioned hypercompetitive environments of today has shifted from core R&C’s as the central determinant of competitive advantage to the concept of dynamic capabilities.

Dynamic capabilities are individual, non-replicable assets generated over time, historically shaped by the processes and the overall direction of a company that are essential in adapting to changes within customers or to new technologies due to their potential to generate new value through new strategies developed by recombining and manipulating the company’s available resources (Barreto, 2010; Teece, 2007; Eisenhardt & Martin, 2000). Barreto defines

dynamic capabilities as “*(...) the firm’s potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base.”* (2010), implying that while it is important to be able to change, it is also necessary to have the accompanying ability to make decisions that help take advantage of those changes initiated (Pablo, Reay, Dewald, & Casebeer, 2007; Barreto, 2010).

Good decisions however can only be made if the organization is effective in sensing and determining opportunities and threats early and is able to make well timed market-oriented decisions based on the gathered information (Gilbert, 2006; Teece, 2007; Menguc & Auh, 2006; Barreto, 2007).

Dynamic capabilities are especially relevant for international enterprises facing technological change, however their value lays not in the individual capability itself, but in the potential recombination of resources and the hereby created value (Teece, 2007; Eisenhardt & Martin, 2000). To accomplish this, businesses must also be willing to “let go” of old assets and routines, in order to free themselves for new ventures and to reduce its biases in decision-making (Teece, 2007). The ability to freely reconfigure and recombine resources through the use of dynamic capabilities is essential in enabling management to sense opportunities, systematically innovate the business from within and thereby create a long-term competitive advantage (Teece, 2007; Eisenhardt & Martin, 2000).

3. The Case of Netflix

3.1 Video Streaming

Ever since the introduction of online-videos, an increasing number of sVoD platforms have emerged, allowing users the option to access what was once tied to schedules on traditional, linear cable TV at any time. All types of content, from self-created short videos on TikTok, longer YouTube videos to professional produced series and movies on Netflix and live sports on DAZN can be streamed online today.

In 2020 Video on Demand (VoD) generated a revenue of more than 27 billion Euros in the US and is forecasted to reach more than 44 billion Euros by 2025, a growth that is also expected across all other major economies (Statista Digital Market Outlook, 2021). Furthermore, by 2025 sVoD services are expected to generate 86% of all VoD revenue worldwide, marking a 7% increase compared to Pre-Covid-19 in 2019 (Statista Digital Market Insights, 2021).

The forecasted number of users for 2025 within the sVoD segment is more than 1,4 billion, more than doubling the roughly 700 million users reached in 2018 (Statista Digital Market Insights, 2021). The growing importance of streaming services for the entire industry is also reflected by the amount of award nominations of shows and movies, such as the Netflix Original “All Quiet on the Western Front” with nine Oscar nominations (Moir, 2023). Forecasts also see an increasing competitive environment with industry pioneer Netflix, Amazon Prime Video and Disney+ expected to reach more than 200 million subscribers each by 2027 (Digital TV Research, 2022).

Given the lockdowns across the world, it comes as no surprise that the demand for video streaming saw an especially sharp increase during the Covid-19 pandemic, with the industry passing one billion worldwide subscriptions for the first time in 2020 (YouGov, 2020; Faughnder, 2021). An example of the massive popularity boost of VoD during the pandemic is Disney+, launched in November 2019, which has reached its 2024 goal of 60 to 90 million global subscribers four years early (Wroan, n.d.). According to a Nielsen study, since the start of the pandemic households have spent 25% of their viewing time streaming content, indicating a shift in media consumption (Nielsen, 2020). By June 2020 almost half (48%) of “online-adults” in the USA owned at least one VoD subscription (Forbes, 2021). While in 2020 more than 40% of subscribers only used one video streaming subscription service, by 2022 65% subscribed to at least two and 29% to three or more platforms (Bitkom Research, 2022).

Moreover, 55% of UK adults that newly signed up for a streaming service due to the pandemic plan on continuing to subscribe to them (BBC, 2020).

Streaming services have not only shifted and accelerated the consumption of regular TV consumers from linear to on demand, but are also increasingly replacing the cinema experience, as evidenced by a 63% decrease in new movie releases in cinemas between 2019 and 2020 and 39% of US consumers liking the idea of new movies being released on streaming platforms (Forbes, 2021; Faughnder, 2021). As the market pioneer and leader, also Netflix heavily profited from the pandemic, reaching more than twice the amount of minutes streamed in the week of March 16th in 2020 compared to the same week in 2019 (Barney C. , 2020).

3.2 Netflix

In 1997, Reed Hastings and Marc Randolph founded Netflix based on the idea of renting and selling DVDs via mail (Dowd, 2020; Randolph, 2019).

Having first experimented with the idea of mailing VHSs to customers, their focus quickly shifted towards the back then newly emerging DVD technology due to lower delivery costs (Randolph, 2019). After several changes in its business model (first selling as well as renting DVDs, then only allowing individually charged rentals to the to this day used subscription model) Netflix managed to send its 1 billionth DVD 10 years after launch and decided to take another bold move by disrupting its own business model and entering the video streaming market in the same year (The Victoria Advocate, 2007; Anderson, 2007; Randolph, 2019). This move to streaming was already discussed internally in the early 2000s but unfeasible due to the lack of fast enough internet connections in the USA, nonetheless the company already positioned itself early and took advantage of this technological opportunity once the market was ready (The Victoria Advocate, 2007; Anderson, 2007; Randolph, 2019). Today Netflix offers several streaming subscription options ranging from 6,99$ to 19,99$ per month (in the US) with different features and benefits for the subscriber depending on the package chosen (see appendix 1).

Current Co-CEO Serendos claims that disrupting their own business was not done for the sake of disruption, but rather an attempt to do what is “best for business”, as they needed to adjust their offering to their customers, who were adapting new technologies (Serendos, 2021). Ever since the company managed to increase its number of subscribers from 7,5 million in 2007 to more than 230 million in 2022 (figure 2) (Netflix, 2023).

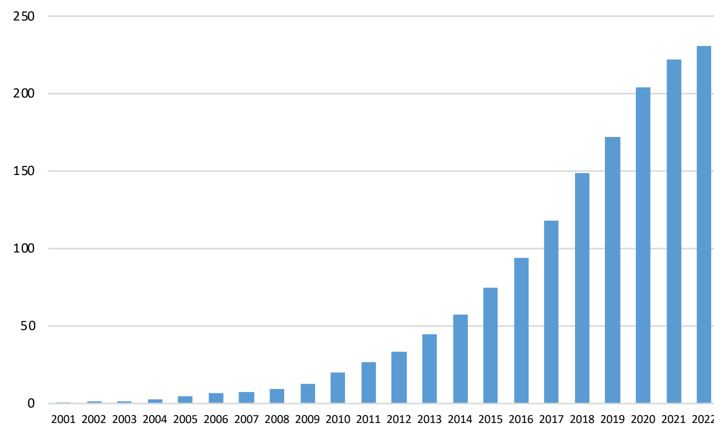

Figure 2: Netflix subscribers 2001-2022 (in millions) (Netflix, 2023)

While the Covid-19 pandemic certainly accelerated the growth of Netflix, the current CEOs explain the company’s success by focusing their efforts on giving customers what they want and their algorithm’s ability to give better recommendations than one’s friends (Shaw, 2023; Serendos, 2021). In 2013 Netflix introduced the first “Netflix Originals” with major hit series like “House of Cards”, which has been developed using data analytics methods making use of the collected customer data in order to predict the likelihood of the series being a success (Satell, 2013). Netflix also allowed its subscribers to “binge” all episodes on release day, introducing a new way of consumption to TV consumers who were used to linear TV schedules with weekly new episodes (Satell, 2013). Although initially having had doubts about original content, Netflix today aspires to provide its customers with the “*most exciting entertainment on earth*” including a vast portfolio of Netflix Originals (Hastings, 2022; Hastings, 2018). In retrospect, the “big bet” on creating its own content paid off, especially considering the development of the company’s revenue and profit (see figure 3) (Netflix, 2023; Netflix, 2023).

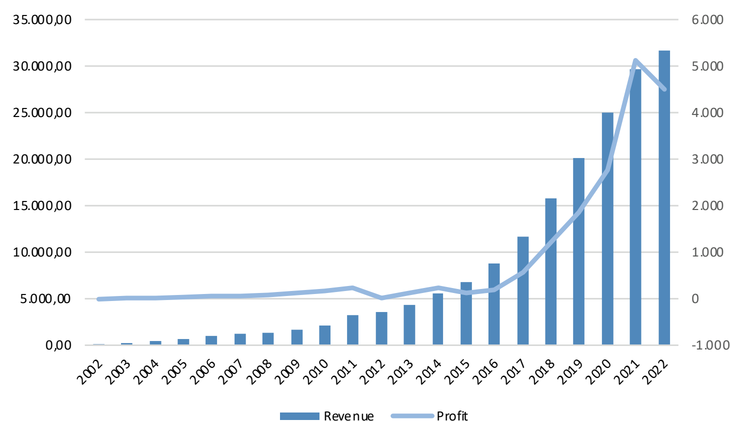

Figure 3: Revenue & profit of Netflix 2002-2022 (in million US$) (Netflix, 2023; Netflix, 2023)

As a consequence of the Covid-19 pandemic, the demand of Netflix spiked, "*compressing what might have been years of growth into a matter of months*" (Shaban, 2022). However, despite currently being the market leader and investing eight billion US$ in originals across the world in 2019, their number of subscribers is forecasted to peak in 2025 and from then on expected to lose more than 23 million subscribers between 2025 and 2027 (Hastings, 2018; Digital TV Research, 2022).

3.2.1 Competitive Environment

While, according to former CEO Hastings, Netflix not only competes with other streaming services but also TikTok, Fortnite, and even their subscribers sleep for the time and attention of their customers, the likes of Amazon Prime Video, Disney+, etc. have to be considered its closest competitors, considering their similarity to the business model of Netflix (Hastings, 2022).

After having reached its goal of "*becoming HBO faster than HBO can become Netflix*", the current CEO's describe the competitive environment as follows: "*There is Netflix and there is everyone else trying to figure out how to do what Netflix is doing*" (Shaw, 2023; Hastings, 2022). Nonetheless, Disney is seen as the company they have the most to learn from, given their track record of successfully entertaining people for decades (Hastings, 2019). While the investments of 70 percent of its revenue in original content were on a similar level to Disney's in 2019, in 2022 Netflix "only" wanted to spend 17 billion US$ on programming, while Disney planned investments of almost twice as much (33 billion US$) (Hastings, 2018; Hastings, 2019; Cho, 2022; Nicolaou & Fei, 2019).

With companies like Disney no longer selling their content to Netflix, the competitive environment today is especially important since customers consider canceling "unnecessary" subscriptions, due to currently high inflation rates (Röse, 2023; Serendos, 2021). In this situation, Röse sees an advantage for companies that are capable of bundling several of its services, like Amazon and Apple who already use a bundling strategy to enhance the perceived customer value of their service (2023). A comparison of the different streaming services Netflix competes with has been added to the appendix (see appendix 2).

Amazon's sVoD platform Amazon Prime Video essentially has to be considered a value added service of the Prime subscription, since it is used as one of many on-top services including music streaming etc., in the hopes of thereby generating more orders through free and fast Prime delivery. "Apple One" on the other hand is yet another attempt of the Californian

company to extend their ecosystem by bundling Apple Music, Apple Arcade, iCloud storage and its streaming service Apple TV+. Disney's entertainment empire also spans beyond only Disney+, offering bundles with its majority owned streaming services ESPN+ and Hulu in the USA or with "Star" in other markets such as Germany. Netflix, in a way, also "bundled" its streaming service by adding mobile games to their portfolio and creating a separate app that can be accessed with the regular Netflix account credentials. However, less than 1% of its more than 200 million subscribers use the Netflix gaming app daily (Stebbins, 2022).

Peters and Sarandos also see other traditional media competitors struggling to build sustainable streaming platforms because of their legacy businesses (Shaw, 2023). While a consolidation within the industry would not be surprising them, their believe is that the position of Netflix is strong enough to withstand the competitor's pressure, claiming that competitors will struggle to keep up with the growth in engagement, revenue and profit of Netflix (Shaw, 2023). Hastings though admits that the increased competition in the market resulted in a "*brawl for streaming premium content*" (2022).

3.3.5 Crisis Analysis

Despite a growing revenue and still being profitable, a closer look at Netflix shows several signs of a crisis, apart from the increasing pressure from competitors (Netflix, 2023; Shaw, 2023; Serendos, 2021).

A first indicator can be found by investigating the annual profits of the company. Compared to 2021, Netflix' profit fell by around 12% from 5,1 to 4,5 billion US$ in 2022 (figure 4) (Netflix, 2023).

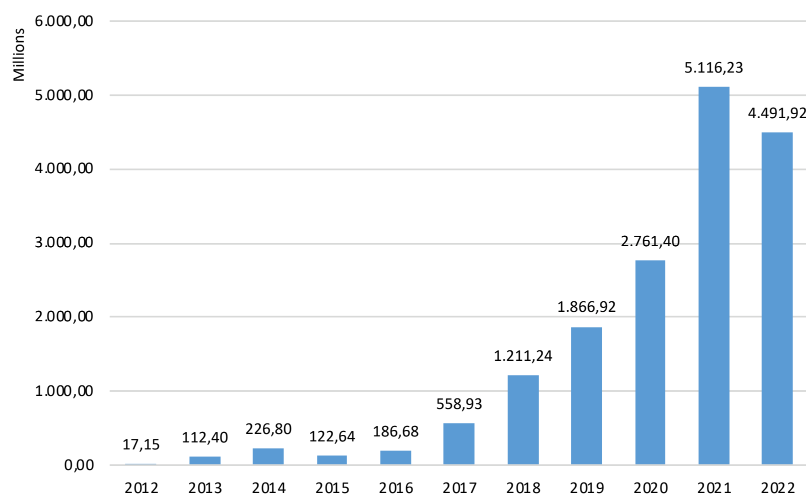

Figure 4: Netflix profit between 2012-2022 (in million US$) (Netflix, 2023; Netflix, 2023)

Furthermore, the company's stock price dropped by more than 70% from 678,80 US$ (19/10/2021) to 179,95 US$ (01/07/2022) (Yahoo Finance, 2023). This drop within the industry pioneer even resulted in a declined stock price for competitors like Disney, Paramount and Warner Bros. Discovery (Bursztynsky & Alessandrini, 2022).

There are several potential explanations for this decline, including (Bursztynsky & Alessandrini, 2022; Sommer, 2022; Shaban, 2022):

- The slowing growth of households with broadband access in the US
- An estimation of 100 million households sharing their Netflix subscription with others
- The company's accumulation of 14,6 billion US$ in debt
- The increasing number of competitors
- A slowing growth in new subscribers
- The loss of 700.000 subscribers after exiting the Russian market due to the Ukraine war

Consequently, Netflix was considered the S&P 500's worst performing stock of 2022, however, several countermeasures, such as the introduction of the ad-based subscription option, resulted in the price rising again (310,06 US$ as of 16/03/2023, figure 5) (Bursztynsky & Alessandrini, 2022; Yahoo Finance, 2023).

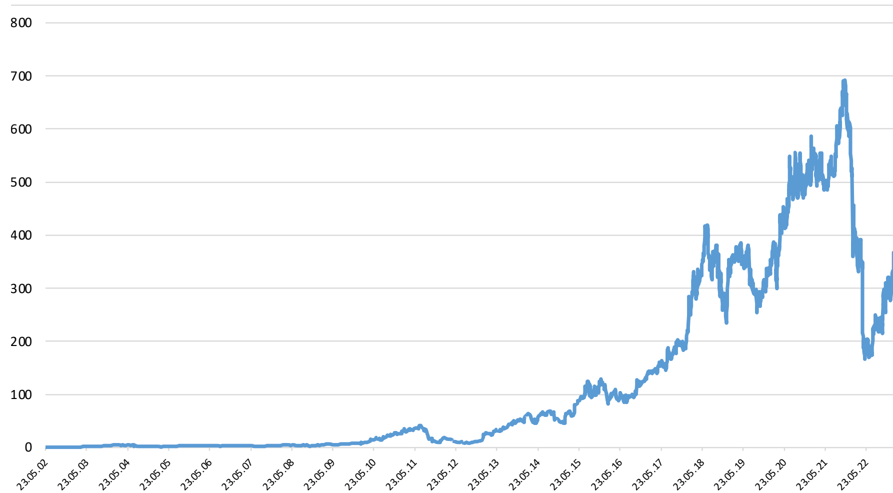

Figure 5: Netflix (closing) stock price between 23/05/2002 and 16/03/2023 (Yahoo Finance, 2023)

Nonetheless, managing how the newly introduced advertising is displayed to customers will be of critical importance and poses a thin line for any streaming platform, since every fifth subscriber claims they would not use ad-based VoD (Deloitte, 2021).

The content quality of a sVoD platform is, in parts, reflected by the amount of award nominations for original content. In this regard, Netflix was the most Emmy and Oscar winning TV network of 2021 (Sommer, 2022). However, both the Emmy and Oscar nominations for

Netflix productions have declined steadily since 2020 or 2021, respectively (figure 6) (Emmy's, 2022; TechCrunch, 2023).

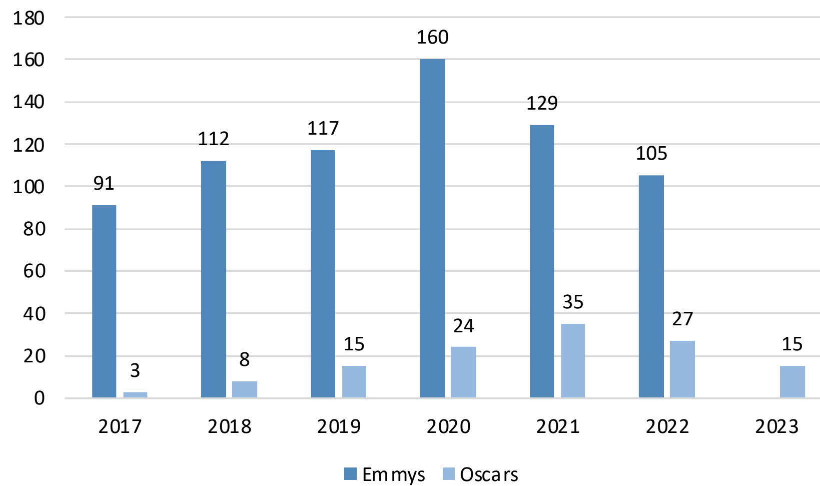

Figure 6: Emmy and Oscar nominations for Netflix productions (2017-2022) (Emmy's, 2022; TechCrunch, 2023)

Another inhibiting factor can be seen in the current inflation, which resulted in increasing production prices caused by supply chain issues for any necessary set-materials like lumber, steel and even gaffer tape or the costs of performing on-set Covid-tests which led to set prices doubling within four years (Cho, 2022). The rise in material prices further comes at a time in which demand for content is as high as it has never been (Cho, 2022).

Moreover, the company’s marketing investments have stalled in recent years and were recently surpassed by its investments in technology (figure 7) (Netflix, 2023). Additionally, a slowed down number of Netflix app downloads and a rise in cancelled subscriptions after price increases have been observed (Cohan, 2022).

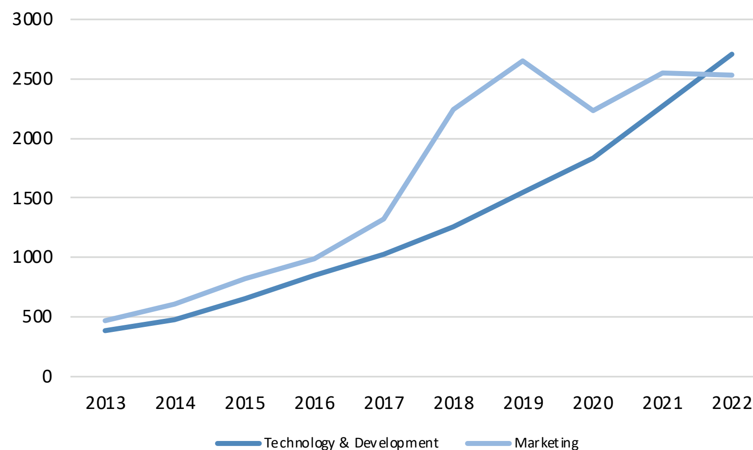

Figure 7: Netflix marketing & technology investments between 2013 and 2022 (in million US$) (Netflix, 2023)

2022 also marked the first time in more than ten years that Netflix recorded a net loss in worldwide subscribers in Q1 and Q2, which in part came due to the decision to exit the Russian market after the Ukraine war started (see figure 8) (Netflix, 2023). Even in its US home market the company faced a loss of subscribers for the first time since 2011 in Q2 2019, with 126.000 churning customers and later only gained half of the expected number of new subscribers with 2,8 million (Nicolaou & Fei, 2019).

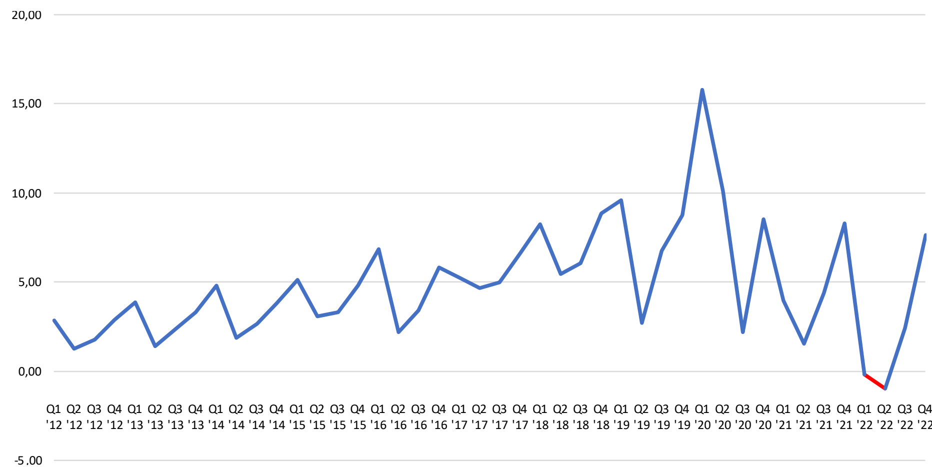

Figure 8: Net growth in Netflix paying streaming subscribers worldwide from Q1 2012 to Q4 2022 (in mil.) (Netflix, 2023)

However, even in other markets, membership growth has been stalling, especially in the UCAN and EMEA markets, indicating a saturation in the two most important markets for the company (see figure 9) (Netflix, 2023).

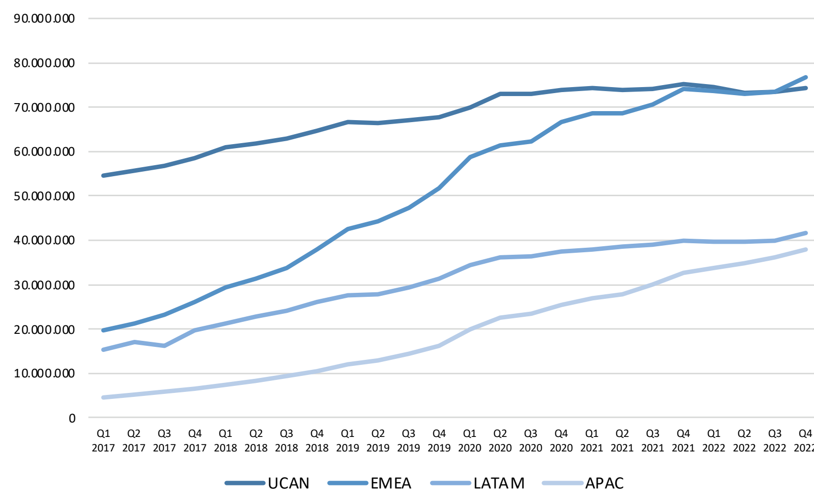

Figure 9: Netflix paying subscribers from Q1 2017 to Q4 2022 by world region (Netflix, 2023)

While Netflix heavily profited from an increased demand during the pandemic, they warned investors early about the expected slowdown of subscriber growth after the initial shock (BBC, 2020). Forecasts increasingly consider this slowing growth: eMarketer expected Netflix to grow by more than 110 million users worldwide between the years 2020 and 2022, but "only"

add another roughly 92 million paying customers in the three following years (eMarketer, 2022). Other forecasts even expect Netflix to reach its peak in 2025 and lose more than 23 million subscribers between 2025 and 2027 (figure 10) (Digital TV Research, 2022).

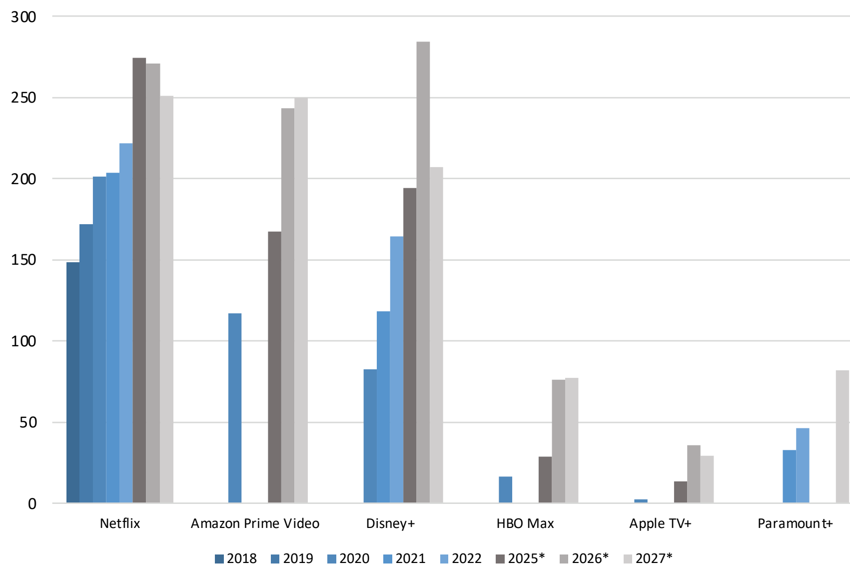

Figure 10: Forecasted number of worldwide subscribers (in millions) per platform and year (Digital TV Research, 2022; Netflix, 2023; Disney, 2023; Paramount, 2022)

Hastings further admits that its current strategy of allowing subscribers to “binge” all episodes of a series upon release might be one of the company’s USPs and is a big part of the Netflix brand, but does not help in stretching memberships across the year (Hastings, 2022; Hastings, 2018).

3.3.6 Crisis Response

Worrying about “What’s next?” is part of the company culture, which is why Netflix was already aware in the early 2000s that sending DVDs was only a temporary solution (Hastings, 2018; Randolph, 2019). Hastings generally warns about unexpected competition that can emerge from a completely different industry, which is why companies need to stay vigilant and open to disruption (Dowd, 2020). The company’s willingness to stay true to its word shows itself in the following examples: After realizing that their business model of sales and rentals of DVDs was too easy to imitate by others, Netflix readjusted its focus to only rentals, although sales made up the largest part of the company’s revenue (Randolph, 2019). After discovering that the subscription model was “their future”, they then again readjusted their focus, although this business model was something that former CEO Randolph never would have thought of when he founded Netflix (2019).

The introduction of "Netflix Originals" can be considered as another smart move to defend and differentiate the company from new entrants. Netflix further demonstrated its responsiveness to competitive pressure when adding the ability to download content in 2016 as a reaction to Amazon, who introduced the feature first (O'Brien, 2016).

Over the years and due to increasing production costs etc., Netflix has increased its subscription fees several times, with the premium subscription today being 67% more expensive than in April 2014 (Molla, 2019). While this has led to an increasing overall revenue, it also came at the cost of losing 600.000 subscribers in the USA and Canada in the first quarter of 2022 (Salinas & Sherman, 2022).

The most recent major crisis response measures were taken by introducing an ad-supported subscription option in late 2022 and cracking down on account sharing in several countries in early 2023, marking the removal of two factors that were once considered a USP and even used to promote its product (O'Flaherty, 2023; Stadler, 2022; Rushe, 2022; Shaw, 2023). Hastings, who in 2019 claimed to be "*very comfortable not doing ads*", now regrets not adding them sooner, considering that Hulu has long proven it as successful (Hastings, 2022; Röse, 2023; Hastings, 2019; Statista, 2023).

While the introduction of an ad-based model is a step towards more price-sensitive customers, the Netflix app has shown further attempts of adjusting and expanding its offerings to general societal trends. The two most prominent features are the TikTok-like content offered in the "Fast Laughs" section and the option to play mobile games within a separate Netflix gaming app, indicating their first attempts at entering the gaming market (Shaw, 2023). Despite huge competitors in the still growing gaming market, the company in fact is currently planning to license third-party as well as develop its own first-party (mobile) games, which is also reflected in the company's consistently increasing technology and development spendings over the past ten years (Serendos, 2021; Netflix, 2023). Further, Netflix introduced new features such as a "double thumbs up" rating for content, allowing users to distinguish between "loving" and "liking" certain series or movies to enhance the recommendation algorithm, also helping them to develop the platform and its content based on the results of data analysis rather than instinct (Pallotta, 2022). Even with regular audio-visual content, the company showed its willingness to experiment by introducing interactive movies like Black Mirror: Bandersnatch, which allows viewers to make decisions and impact the development of the on-screen story (Hastings, 2020). The company also started to offer some of its content live, such as comedy

specials, accepting that some types of content by their nature work better when broadcasted live (Shaw, 2023; Bramesco, 2023).

Regarding the problem of users sharing accounts, the company is aware that cracking down on this issue is a very unpopular decision among its customers and will result in a loss in subscriptions (Shaw, 2023). The idea however is to get those users to resubscribe by adding more must-see Originals and licensing libraries from other media companies (Shaw, 2023). This hope may not be unjustified since, compared to its competitors, Netflix does have a lower churn rate (see figure 11) and the highest resubscription rate within the industry (Carson, 2021).

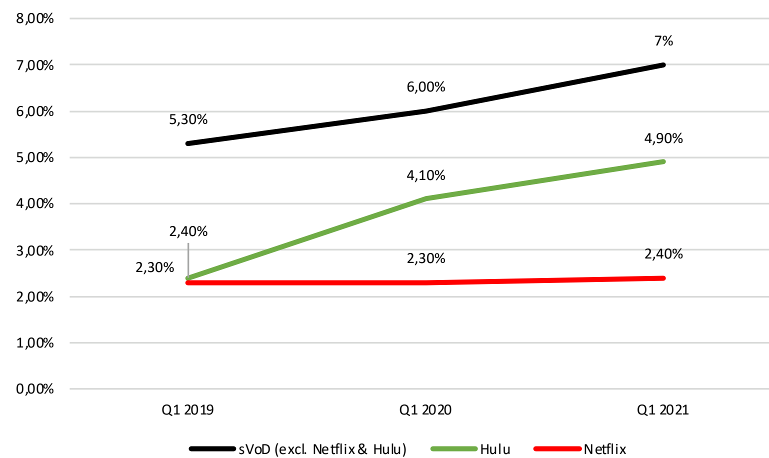

Figure 11: Subscriber churn rate among sVoD platforms (Carson, 2021)

As described previously, the saturation in Netflix’s primary markets is increasing, however, the firm sees untapped potential in several Asian markets, attempting to establish a foothold in India, Korea and Japan through content that is appealing to local customers and ideally also to other markets, as the global success of the Netflix Original “Squid Game” from South Korea has proven (Shaw, 2023).

Considering its accumulated debt, the company managed to successfully moderate its spending, retired 700 million US$ in liabilities in the first quarter of 2022 and attempted to be free cash flow positive for an entire year for the first time in its history (Sommer, 2022).

Throughout its history, Netflix managed to adjust to several market changes within their customers, seizing the opportunity of newly emerging DVDs, managing to readjust its focus from the easy to copy sales and rental business to pioneering the digital subscription service (Randolph, 2019). Netflix celebrates its own “*freedom and responsibility culture*” and does in fact have a track record of doing things it did not consider doing at first (subscription model, ads, original content, foreign language content, games, etc.), therefore the future is very much out in the open with even Co-CEO Peters claiming that “*nothing’s off the table*” (Shaw, 2023; Serendos, 2021; Hastings, 2018; Hastings, 2019).

According to Hastings, the number one rule at Netflix always will be "*No Rules Rules*", which is why Netflix employees are given the freedom to spend however much they deem necessary to act in the company's best interest (Netflix, 2020). According to Randolph, Netflix's culture is about honest discussions, it is a place where "*ideas are more important than chain of command*" (2019). Those honest discussions led the company to where it is today, however also entailed unpopular decisions. In its early years a lot of its original staff was dropped, as they knew they had to let go of the "past" for the sake of the company's future (Randolph, 2019). Even founder Randolph stepped down as CEO after realizing Netflix now needed Hastings skills to grow rapidly (Randolph, 2019). The most recent decision of Hastings to step aside from his role as Netflix CEO after more than 20 years in charge reflects the unchanged company culture and underlines his, in a way "ruthless", willingness to do what is "best for business" and put someone else in place that is more capable of handling the current and future challenges of the company (Cohan, 2022). Whether the new Co-CEO's Serendos and Peters are capable of handling those remains to be seen, but both also seem capable of making unpopular but necessary decisions given the aforementioned changes in Netflix's strategy. Outsiders however argue that Netflix does not need to improve the execution of its current strategy, but requires an entirely new one (Cohan, 2022).

Considering the crisis Netflix is facing and the factors that impacted and led the company to where it finds itself today, the question "where does Netflix go from here?" has to be raised.

4. Teaching Notes

The following chapter is intended to provide guidelines in the context of academic teaching. After a general synopsis of the case study on Netflix, teaching objectives are laid out, including potential assignments as well as possible solutions. The goal of this chapter is to connect the concepts presented in the literature review with the information given in the case chapter.

The proposed questions and answers have to be considered of generic nature. Professors and students may have various perspectives on the topic and might present concepts that differ from the solutions proposed. Nonetheless, an open discussion of the case in its historic context should be able to provide business administration or management students on the Bachelor’s or Master’s level valuable knowledge in the context of crisis, strategic and product management.

4.1 Synopsis

Netflix was the first mover in the sVoD market and successfully disrupted its own business model. While profiting immensely from the pandemic and still being a very profitable business, several events such as its crashed stock price, its slowing growth, its first net loss in subscribers in more than ten years, the generally increasingly competitive environment, and the forecasted loss of more than 20 million subscribers between 2025 and 2027 etc. are clear signs of a crisis that forced the company to implement several countermeasures. Those came primarily in the form of increased subscription prices, the started crackdown on account sharing, the introduction of an ad-based subscription option and the company’s increasing investments in gaming. The company’s stock price may be recovering, however it is nowhere near of where it used to be in its peak in October 2021.

The following subsections will outline the teaching objectives as well as potential assignments and discussions for the in-class use of this case study.

4.2 Teaching Objective

Following a thorough analysis of the case and the theoretical frameworks, students are expected to bridge the gap between the two chapters by applying the concepts of strategic adaptive crisis management and make use of the VRIO, RBV and dynamic capabilities concepts introduced in chapter 2 to derive strategies that would allow Netflix to cement its competitive advantage and its position as the market leader.

The skills students are expected to develop and apply in this case include:

1. Analyzing the internal and external environment of Netflix.
2. Assessing the company's R&C's through the RBV, VRIO and dynamic capabilities perspective.
3. Identifying key bottlenecks in the business model of Netflix.
4. Using the generated results to derive adaptive strategies and developing their ability to allocate their ideas based on effort required and expected impact.
5. "Thinking outside the box" by applying the "No Rules Rules" principle of the Netflix company culture.

4.3 Teaching Approach

In the suggested approach to this case study students are supposed to imagine themselves as the new CEO of Netflix. After making themselves familiar with the concepts of Porter's Five Forces, SWOT analyses, VRIO, RBV and dynamic capabilities, students are expected to read the provided chapter on the case of Netflix and do additional research on the company and the market on their own. After this, they are expected to be able to develop and critically question strategic options on the basis of the theoretical frameworks and the collected information.

Depending on the classroom size and other factors, it might be beneficial to split students into several groups in which they conduct the analyses and derive their own strategies to present and discuss them with the class. It is further suggested that each group should prepare the presentation of all tasks, however the presentation of each task is done randomly and only by one group to avoid overlaps. This would not only allow students to develop their teamwork skills but also their ability to give a presentation and encourage an in class discussion with immediate feedback and challenging questions raised by the audience and the professor.

4.4 Suggested Assignments & Solutions

The following questions and their proposed solutions are not intended to be an adequate reflection of all the dimensions of the crisis Netflix is and has been dealing with. Given the historic context of the time this case study is used in class, the described perspectives may need to be updated and adjusted to potential new developments in the VoD market. Nonetheless, it is recommended to follow the suggested order of assignments, since they gradually become more complex and build upon each other. Furthermore, it has to be emphasized that the assignments are based on the application of practical rather than scientific tools.

As discussed in chapter 2, an essential task for strategic managers is to be fully aware of the company’s external and internal environment. Therefore, the first assignment is based on creating the necessary environmental awareness, using an essential and popular concept most students are most likely already familiar with: The SWOT analysis. Since it is a rather easy and straightforward framework, it provides an excellent introduction to the topic as it allows students to familiarize themselves with the arguments presented in the case and use their own research results. Moreover, students should be encouraged to consider “Porters Five Forces” when analyzing the weaknesses and threats of Netflix.

Once the groundwork has been completed, students are expected to apply the more complex RBV, VRIO and dynamic capabilities concepts. This is followed by a critical analysis of the thus far implemented countermeasures and the final task of deriving their own strategies in order to overcome the crisis.

The suggested assignments are as follows:

1. Analyze the internal and external environment by conducting a SWOT analysis. Elaborate on every strength, weakness, opportunity and threat – consider Porter’s “Five Forces” in your answers.
2. Analyze the resources and capabilities Netflix has at their disposal to successfully manage the crisis using the RBV, VRIO and dynamic capabilities concepts.
3. Critically analyze Netflix's measures taken so far. Focus on timing as well as impact of the decisions made.
4. Derive further adaptive strategies for Netflix in order to overcome the crisis. Consider the impact of and effort required for each strategy.

4.4.1 Strengths, Weaknesses, Opportunities, Threats

A SWOT analysis is one of the core tools in the context of strategic analysis and therefore part of any business students education. The framework is based on an internal analysis of a company’s strengths and weaknesses and an assessment of its external opportunities and threats. The results of the analysis can help identify business bottlenecks that need to be addressed to properly respond to a crisis.

In the following, an internal analysis of Netflix’s strengths and weaknesses is succeeded by an external analysis of the company’s opportunities and threats. The arguments are based on

the presented case of Netflix and combined with several minor additions reflecting students' own potential research results.

The suggested SWOT analysis is combined with an assessment of the "Five Forces" suggested by Michael E. Porter (1989): Threat of new entrants and substitutes, bargaining power of suppliers and customers as well as rivalry among existing competitors. A table summarizing the arguments mentioned below has been attached to the appendix (appendix 3).

Strengths

Netflix's reputation as the industry pioneer and leading provider of sVoD content results in a strong brand recognition and high reputation (Digital TV Research, 2022). The growing demand for video streaming helped the company expand its operations to more than 190 countries with more than 200 million subscribers able to access a strong content library that is tailored to individual markets with a mix of original and licensed content (Netflix, 2023; Randolph, 2019).

Management quickly realized it requires exclusive content to differentiate their offering from competitors. The company has a track record of releasing originals that became worldwide hit series like "House of Cards" (2013) or movies like "Roma" (2018). This move towards exclusive content not only paid off in revenue and profit but the continuous output of high quality series and movies allowed Netflix to "tie" customers to their service, who do not want to miss out on the next big (exclusive) hit (Netflix, 2023). Additionally, its originals are not only popular among its subscribers, but also recognized by industry experts, which is why Netflix became the most Oscar- and Emmy-winning TV network in 2021 (Sommer, 2022).

Furthermore, the amount of subscribers and even higher amount of users allows Netflix to analyze user data and deliver a tailored recommendation to each individual user and even enables the company to accurately predict the likelihood of a series becoming a success (Satell, 2013). Today, Netflix content can be streamed anywhere and at any time customers desire, increasingly replacing both linear TV as well as cinemas. Thanks to their recommendation algorithm and their original content, the company is a profitable business with a growing revenue, the lowest churn ratio and the highest resubscription rate among its competitors (Netflix, 2023; Netflix, Gewinn bzw. Verlust von Netflix in den Jahren 2000 bis 2022 (in Millionen US-Dollar) [Graph], 2023; Carson, 2021).

Netflix management has proven its ability to adjust to changing market conditions multiple times, as its move from mailing DVDs to video streaming or its current investments

in the rise of mobile gaming show (Anderson, 2007). All this would not have been possible without a strong team and its ability to anticipate and respond to disruption paired with the company culture of innovation that allows it to stay ahead of its competition. Even in times of crisis, the management decision to introduce an ad-based subscription helped them recover from the suffered stock price drop (Stadler, 2022).

Generally, Netflix does not shy away from experimenting or responding to competitive or supplier pressure, as the introduction of new features such as downloads, “fast laughs”, interactive movies, live content and its willingness to raise prices when deemed necessary proves (Bramesco, 2023). The management’s financial expertise has further been proven through successfully moderating the company’s spending, retiring a significant amount of its debt and becoming free cash flow positive for a full year for the first time in its history (Sommer, 2022).

Weaknesses

While the original content is a differentiating factor for Netflix, the company is still heavily dependent on licensed content of third parties that it might lose due to expiring agreements. Those agreements usually have to be renegotiated for individual markets, resulting in a high administrative burden and confusion among subscribers, who might not be able to finish a series they were in the midst of. The loss of content from previous suppliers such as Disney could therefore lead to customers churning. This however underlines the importance of continued investments in original content, which are costly and not without risk.

Previous increases of the subscription prices though show that the company may also have reached the maximum willingness to pay of their customers, considering the churn in its home UCAN market after the latest price increase while simultaneously facing financial risk due to its accumulated debt (Salinas & Sherman, 2022; Bursztynsky & Alessandrini, 2022; Sommer, 2022; Shaban, 2022). The financial pressure manifests itself in cost-cutting measures such as the stalling marketing investments or cancelling series (Netflix, 2023; Tassi, 2023).

Netflix further did not manage to increase profitability in 2022, due to a slowing growth of new subscribers in its key markets and faced a net loss of subscribers in two quarters in 2022, which resulted in its stock price crashing by more than 70% within less than a year (eMarketer, 2022; Netflix, 2023; Yahoo Finance, 2023; Digital TV Research, 2022). Consequently, unpopular strategies in the form of ad-supported subscriptions and a crackdown on account sharing were introduced, thus losing two features that were once considered key parts of their

product and thereby risking further subscription losses (Shaw, 2023; Stadler, 2022; O'Flaherty, 2023). Some may argue that these changes should have come earlier, since other competitors already proved that an ad-based subscription can be successful, if executed correctly (Hastings, 2022).

Moreover, Netflix is relying entirely on an internet connection, in case the company, the customer or the internet provider experience any troubles, there are no non-internet channels customers can use to access content, which also limits market reach in regions without a (good enough) internet connection. Data privacy regulations can be considered another weakness of Netflix they cannot do anything about, limiting, for example, their ability to monetize the available user data.

Opportunities

Netflix has been the first mover in the sVoD market and established itself as the market leader. The demand for streaming videos is still increasing due to more and more consumers moving away from traditional television, a globally increasing availability of fast internet and the rising adoption of mobile devices and home entertainment systems across the world (Statista Digital Market Outlook, 2021; Statista Digital Market Insights, 2021).

While its growth in its primary markets is stalling, there is untapped potential in several Asian markets, whose disposable income is increasing, which the company is already looking to exploit by delivering original content tailored to these markets while simultaneously ideally also appealing to others (Shaw, 2023).

The company further already attempts to diversify its product with the introduction of games, however for now the focus lays only on the growing mobile gaming market (Stebbins, 2022). The success of Xbox Game Pass and the open spot left by Google Stadia shutting down could present an opportunity to enter the cloud gaming market on a larger scale.

Other strategic partnerships with cable providers or streaming services targeting a different market like Spotify could further increase access to untapped customers.

Threats

Undoubtedly, the increasing number of competitors in the sVoD market and Netflix's tendency to release all episodes of a series at once make it more difficult to stretch monthly cancellable memberships across the year, especially considering todays limited budgets due to inflation and economic downturns and the shorter attention span of customers (Hastings, 2022; Hastings,

2018; Röse, 2023). The competitive pressure further leads to “bidding wars” for premium content, driving the already high acquisition costs for exclusive streaming rights even higher and thereby also increasing the risk of acquiring an expensive “flop”. This reliance on having to create new original content that continuously appeals to a majority of customers is a massive challenge, since already established top-shows and movies cannot be dragged on forever as otherwise they sooner or later become stale.

As one of the biggest profiteers of the pandemic, the company’s growth may have been boosted artificially, which could result in a slowing growth for the post-pandemic-era of Netflix. This slowing growth is already considered in several forecasts and showing in its primary markets in North America and Europe (eMarketer, 2022). Another threat is the incautious management of the amount and length of ads displayed to customers, considering the strong correlation between the ads displayed and customer dissatisfaction (Deloitte, 2021).

The rise of (mobile) gaming, virtual reality or other technologies and their potential to change the way media is consumed is another threat Netflix has to consider and observe, just like it has been the case before shifting from mailing DVDs to streaming. Entering the gaming business also entails the risk of the company losing its focus (Randolph, 2019).

Cultural differences, increasing concerns of customers in the context of data privacy and content regulation imposed by third parties pose another threat to the company and their plans of expanding into new markets. The latter already occurred when Saudi Arabia among other countries demanded from Netflix to remove certain content due to the violation of Islamic values (Turak, 2022). Unforeseen circumstances can occur at a moment’s glance, as the sad example of the start of the Russian invasion of Ukraine shows, which for Netflix resulted in a loss of 700.000 subscribers after exiting the Russian market, not to mention the unnecessary and tragic losses of life on both sides involved in this conflict.

4.4.2 Analysis of Resources & Capabilities

To assess whether Netflix “has what it takes” to make their business ready for the future, continuously assessing the company’s R&C’s is essential. In the following, an attempt is made to bridge the gap between the theoretical frameworks of the RBV, VRIO and dynamic capabilities concepts, outlined in chapter 2, and the information given on the case of Netflix in chapter 3.

Analysis of Competitive Advantage using VRIO

The primary resource of Netflix is its extensive content library filled with exclusive originals as well as third-party content. Considering the more than 200 million subscribers worldwide, this resource has to be considered valuable, despite content offerings differing among geographic locations (Netflix, 2023). Considering the package as a whole, the content offering is also rare and inimitable, thanks to the exclusive content offered and, as the company's overall profitability shows, is also exploited successfully by its organization.

However, one might argue differently when only considering content individually and not in its entirety. Content differentiation is certainly one of the most effective moves in the industry, providing the company with an ideally exclusive asset that is valuable, rare, inimitable and exploitable through the company's organization (VRIO). Nonetheless, it lays in the nature of audio-visual content that the "hype" around, for example, a new season of a series is not a sustainable competitive advantage over time, unless the company manages to regularly deliver new content that the vast majority of its subscribers enjoy. While Netflix and its competitors do release new content regularly, not all of them are generally considered "blockbusters". As mentioned previously, other content differentiations within the industry are achieved through the exclusive rights to certain third party content. However, the rights for those are often only purchased temporarily or only exclusive to certain geographic markets.

Aside from its content, streaming platforms have different approaches to distinguish itself from the competition. Some platforms attempt to differentiate their product through certain technical features, such as the streaming resolution, the amount of parallel streams, or the recently introduced "Spatial Audio" feature of Netflix (Weatherbed, 2023). However, technical features cannot be considered VRIO since they are easy to imitate, as has been the case with the download feature that is now included on all major streaming platforms.

While none of the bundles introduced can be considered VRIO either due to the lack of rarity or inimitability, Amazon, Apple and Disney nonetheless managed to increase the value of their streaming platform by combining several services, whereas Netflix only relies on its core product and an underperforming mobile gaming app and is therefore in this context facing a disadvantage (Stebbins, 2022).

Other strengths or resources of Netflix that cannot be considered VRIO are the brand and its financial resources. The Netflix brand undoubtedly is globally recognized and associated with high quality content. But despite having the lowest churn rate among its competitors, its brand cannot be classified as rare considering competitors like Disney, Amazon, Apple and

HBO who due to their size and/or history may have a different, but therefore not necessarily less valuable brand than Netflix (Carson, 2021). Its financial resources can neither be considered VRIO since money itself is neither rare nor difficult to imitate and therefore not a source of a sustainable competitive advantage, especially considering that Disney has a historically bigger library and invested almost twice as much as Netflix in original content in 2022, but has yet to catch up in subscriptions (Hastings, 2018; Hastings, 2019; Cho, 2022; Nicolaou & Fei, 2019).

Another VRIO resource for Netflix is its recommendations algorithm that allows them to give more valuable recommendations than ones friends (Serendos, 2021). While the algorithm itself is not rare and inimitable, since different recommendation algorithms exist or can be copied, it does have to be considered rare and inimitable in combination with the available customer data, which allows Netflix to accurately predict customer preferences and even produce original content meeting those through the use of data analytics techniques, therefore also making the algorithms capabilities exploitable by the company organization.

Generally, the company culture as well as its vigilance and focus on future trends and encouraged spirit of experimentation is another valuable resource that paved the way for the success of Netflix for more than 20 years and established the business in over 190 countries (Hastings, 2022; Hastings, 2018; Anderson, 2007; Netflix, 2023; Randolph, 2019).

Its management further allowed Netflix to establish itself in a very competitive environment dominated by the likes of Disney, HBO etc. who may all have launched their own service by now, but only managed to do so more than a decade after Netflix made the switch to online streaming. Despite their head start and success in the sVoD market, its management gives a very down to earth impression, continuously emphasizing how important it is for them to learn from competitors like Disney (Hastings, 2019). Its move towards streaming and its thereby attested ability to adjust to market shifts underlines the low company inertia back in 2007. Even more impressively, its following big bet on original content and focus on delivering what customers want testifies to the quality of its management and the relatively low inertia within the company to this day. Of course, a certain inertia within a company of the scale of Netflix cannot be ruled out, however after reviewing past decisions, the management's ability to respond to competitive pressures (download feature), their willingness to do what is necessary even if unpopular (dropping staff, raising prices, ads, crackdown on account sharing), their ability to question the status quo of its product (introducing live events for comedy, gaming shows etc.) and their willingness to continuously adapt to new developments in the way

customers want to be entertained (Fast Laughs in response to TikTok, gaming) underlines the immense value of the ones taking the decisions at Netflix (O'Brien, 2016; Molla, 2019; Shaw, 2023; Bramesco, 2023; Pallotta, 2022; Randolph, 2019). Consequently, since the individuals of the Netflix management team are rare and also inimitable and drive the organizations ability to exploit and live this open culture, it has to be considered another VRIO resource.

Analysis of Dynamic Capabilities

As described in chapter 2, whether or not a firm possesses dynamic capabilities is determined by different characteristics within the firm. To answer whether or not Netflix possesses these dynamic capabilities, several questions need to be answered:

1. Is the company capable of discovering new opportunities through experimentation with technology and markets close and far to its own current business?
2. Is Netflix able to recombine and manipulate its available resources to create a competitive advantage?
3. Are they capable of solving problems through timely and market-oriented decisions?
4. Is Netflix willing to change its resource base and "let go" of old assets?

The history of Netflix is built on its spirit of discovering new opportunities. When the first idea of sending VHS via mail turned out to be too expensive due to their size, their focus quickly shifted towards the newly emerging DVD's which allowed them to mail at a lower cost and consequently a more profitable price. Although back then DVD's have been far from established in US households and management not being sure that it would end up replacing VHS sets, their first experiment in the end undoubtedly paid off. (Randolph, 2019)

Ten years later, facing an increasing adaptation of online videos among their customers, another bold move towards streaming content online was made, marking the kickstart of the worldwide success of Netflix (Anderson, 2007).

Realizing the potential threat of its business model several times (selling and renting, relying on streaming third party-content), the company branched out and decided to introduce the subscription service and purchased exclusive rights for content labeled as "Netflix Originals". The purchase of "House of Cards" marked the first major TV show release bypassing regular, linear TV, the first series to launch all episodes of a season upon release and the first programming developed using the assistance from big data (Satell, 2013).

As the company was establishing itself across the world, an increasing number of competitors arose, forcing Netflix to extend its portfolio, considering that these competitors often offer their streaming service bundled with other services while Netflix essentially only relies on audio-visual content. Although its moves from physical to digital and third-party to first-party content have been close to the company’s core business, its current attempts of expanding into gaming have one thing in common with the “original” Netflix product: The focus on entertaining its customers.

The efforts of Netflix in the areas of interactive movies and gaming further highlight its ability to recombine and manipulate its resources. Interactive movies like Black Mirror: Bandersnatch show the company’s attempts at a gamified version of a regular movie, while still relying on scripted scenes that are tied together based on whatever action the user chooses to take. However, in the end these interactive movies are still based on the core product of watching a movie/series but extended by selectable options at the end of some scenes.

The move towards gaming however marks a bolder move away from its core product, although currently only tied to mobile games. Here Netflix again not only relies on third-party content, but also develops its own games that are related to some of its established Netflix Originals like “Stranger Things”. Games on a surface level may also “just” be audio-visual entertainment, however it requires a vastly different set of skills than the on-set produced content normally found on Netflix, testifying the company’s ability to recombine and manipulate its resources to create a new competitive advantage. Arguably, the move into gaming can be considered its boldest move yet, considering that the market is already dominated by companies like Sony and Microsoft.

Content as well as business model wise, Netflix has proven multiple times that it is willing to change its resource base through the aforementioned gaming and gamification of its offered products and services, through its adaptation from VHS to DVD, its dropped option of selling DVDs alongside its rental business, the move to streaming as well as the most recently introduced ads, adding another source of income to the company. The dropped option to buy DVDs in the early years of Netflix, its layoffs (including the CEO’s) and the amount of cancelled programming throughout the history of Netflix Originals further underline the company’s willingness to “let go” of old assets that are no longer valuable to them (Randolph, 2019).

Netflix “perfect timing” track-record is another ability that accompanied the company for years. Whether it is going “all-in” on the newly emerging DVDs in the late 1990s or the

switch to online streaming 10 years after launch: All these moves have been led by market orientation and sensing opportunities that others did not (Randolph, 2019). The company further continuously raised its prices throughout the years, which left them in a relatively comfortable position when confronted with increasing production costs and inflation.

Summarizing the above, all the moves mentioned underline that Netflix possesses dynamic capabilities since they were able to discover new opportunities through experimentation with technology and markets close and far to its current business, while also highlighting the company's ability to recombine and manipulate its resources, its capability of solving problems timely and market oriented as well as its willingness to change its resource base.

4.4.3 Analysis of Measures Taken

Netflix ability to adjust to market shifts brought the company to where it is today. Nonetheless, it is also essential to critically analyze the company's most recent strategic moves.

As Hasting's admitted, the introduction of the ad-based subscription should have come sooner, especially considering that other competitors like Hulu demonstrated its success for a long time (Hastings, 2022). This hesitation or stubbornness whether to introduce advertisement or not shows that Netflix may (understandably) not be as quick on its feet as it used to be in its lean startup days.

The same goes for the crackdown on subscribers sharing accounts. For years rumors circulated that "it may happen", indicating that Netflix was unsure whether this move is a smart one considering the expected loss of subscribers and especially users (also resulting in less data to analyze). While Netflix has the lowest churn and highest resubscription rate in the industry, their plans of gaining churned users back through new high quality content are risky in times of inflation, high production costs and an increasing amount of competitors with bundled products (Carson, 2021).

Partly in response to the competitors bundled offerings, Netflix branched out into the gaming industry, offering third and first party games. For now the focus solely lies on mobile games within a separate app. Considering the dominance of PlayStation and Xbox in the console gaming segment alone, this move is a rather bold one, even if Google Stadia recently closed down, leaving an open spot for a cloud gaming platform. The gaming industry is undoubtedly growing and especially cloud gaming could prove as an interesting expansion for Netflix (see figure 12 and 13), however, considering the current lack of activity on its games

app, the questions have to be raised whether enough Netflix subscribers are also gamers, whether they are not interested in the games offered, or only not interested in mobile games (Stebbins, 2022).

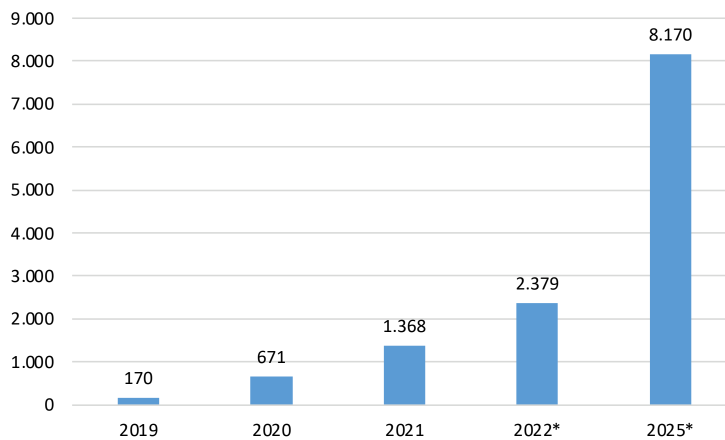

Figure 12: Cloud gaming revenues between 2019 and 2021; forecast for 2022 & 2025 (in mil. US$) (Game World Observer, 2022)

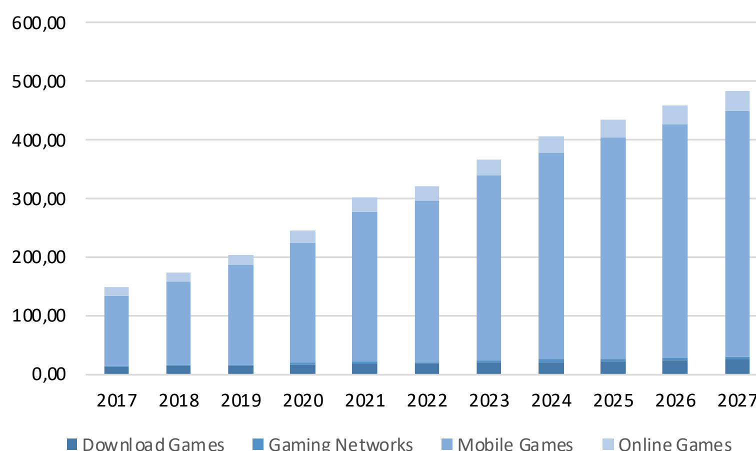

Figure 13: Expected revenue in the gaming industry by segment (2017-2027) (in billion US$) (Statista, 2023)

Interestingly, the move into gaming also contradicts the “focus” that former CEO Randolph emphasized continuously in the early years of Netflix, when, for example, the option to buy DVDs instead of renting them was removed so as not to confuse customers about what Netflix was all about (Randolph, 2019). Whether or not Netflix has what it takes to develop blockbuster games on the level of what customers associate with “Netflix Originals” remains to be seen, the vastly different set of skills required to develop high quality games compared to high quality series and movies might end up being a classic case of a “cobbler better sticking to his craft”.

Lastly the biggest bottleneck of Netflix has to be its stubbornness considering its “binging culture” and consequently not tackling the usage frequency issue. Releasing all episodes at once puts the company under enormous pressure of continuously releasing

(expensive) high quality content to make subscribers not consider canceling. It would not have to deal with a problem of that magnitude if it released episodes on a weekly basis, allowing the company to stretch subscriptions from one to several months with just one blockbuster series.

4.4.4 Strategic Options

Students as well as professionals have a number of tools and frameworks at their disposal when asked to come up with and evaluate strategic options for a company. The impact/effort matrix used in the following presents one of them. It is a useful tool that allows its user to classify ideas and projects based on the perceived effort and impact. Since the matrix is only split into high/low on each axis, it is not based on exact mathematics but rather follows a "rule of thumb" approach.

In the following several strategic options will be described and classified according to the impact/effort matrix (see figure 14).

Figure 14: Impact/effort matrix

Easy Wins

Netflix has proven several times that it is willing to do what it "never considered to do". An example for an "easy win" strategy would be to abandon the "release all episodes at once" approach and copy the weekly episode releases of competitors like HBO. Undoubtedly, this move would require a thorough analysis, however the benefits of stretching memberships across at least three months (given an average length of 13 episodes per season) and thus "only" having to release four "must see" seasons of a series for the average Netflix customer to stretch a subscription to a full year should outweigh the cons of dissatisfied binge-watching-fans.

The company could further attempt to introduce an annual subscription that is offered at a discount. A 12-month-plan is already offered by Disney and the sports streaming platform

DAZN, offering them at a discounted price since the customer essentially pays for 11 months at once, but receives access for the full year.

Another potential easy win is a personalized “linear live TV emulation” of Netflix in which the user, if unsure what to watch, can just start certain channels that offer “Documentaries”, “Comedy” etc. with programming created based on what the user watched previously. This allows users to leave their TV on playing Netflix content to “have something to listen to in the background” and restart the programming in case he/she is really interested in what is shown, thus potentially allowing subscribers to discover new Netflix content that keeps them from unsubscribing. This 24/7 Netflix channel could further be implemented in the overall live offerings the company is working on. The “live TV” offering could even be extended towards a regular linear TV channel. While the costs and efforts associated with this move are on the verge of making this strategy a “big bet”, it could serve as a promotion channel for Netflix and its content as well as another distribution channel for older generations or people without a fast enough internet connection and consequently also serve as an additional revenue stream through ads in between shows, that would mostly feature older Netflix content like “House of Cards”.

Incrementals

Unlike Disney+, Netflix does not offer a “group watch” feature through which several users on one account watch content together from different locations simultaneously. Despite its initiated crackdown on shared accounts, the company should figure out a way to implement this feature to be on par with one of its main rivals, making it an incremental feature.

Another low effort/low impact addition would be the introduction of more subtitle languages to all content offered. Currently the available subtitles differ greatly between content, however, since Netflix is offering its service in 190 countries, adding at least subtitles in all languages of countries the company is present in could increase customer satisfaction and, in times of Artificial Intelligence (AI), should not be as costly as dubbing all its content, especially since YouTube already offers the option to add dynamically AI generated translated subtitles (Randolph, 2019).

Big Bets or Money Pits?

Netflix’s struggles to stretch memberships for its users that are used to binging content is a major bottleneck for the company. The proposed weekly release of episodes or annual

subscriptions would be a simple solution to increase subscription durations without losing sight of the "focus" Marc Randolph constantly emphasized (2019). Nonetheless, several potential big bets could be of great aid in stretching memberships but also result in a money pit:

The first big bet and potentially major win for the company could be to offer live sports, similar to Amazon Prime and DAZN. Since the appeal of sports lays in live broadcasts and not rewatching it days after, it could be a major factor in stretching memberships. The recently introduced live comedy formats and plans to broadcast other shows live can be interpreted as a first move in that direction (Shaw, 2023; Bramesco, 2023). The fascination for sports, be it the regular season of the NBA, the NHL playoffs or the FIFA World Cup ties millions to their TV and would stretch Netflix subscriptions across the entire year given the annual schedule of each season. This move may very well pay off, considering that the global sports industry revenue is expected to grow to more than 700 billion US$ by 2026 (see figure 16) (GlobeNewswire, 2022). Additionally, the top five European football leagues are forecasted to generate a revenue of more than 18 billion Euros this year (figure 17) (Deloitte, 2022). Netflix could further use its expertise to develop engaging documentaries similar to its Formula 1 show “Drive to Survive”.

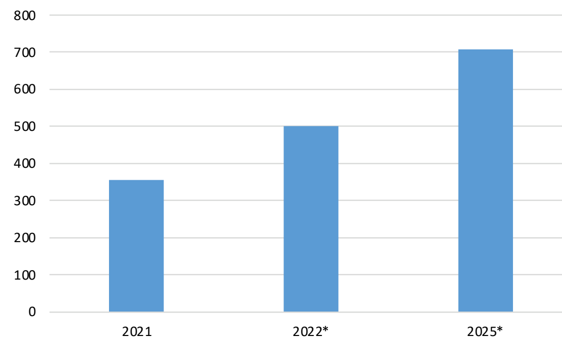

Figure 15: Sports industry revenue worldwide in 2021, with a forecast for 2022 and 2026 (in billion US$) (GlobeNewswire, 2022)

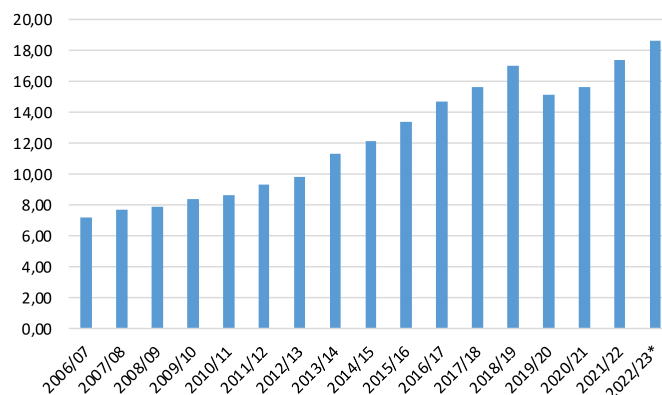

Figure 16: Revenue of the Top five European football leagues between 2006/07 and 2020/2; forecast for 2022/23 (in billion Euros) (Deloitte, 2022)

The second big bet would be the introduction of a music streaming service, similar to Spotify. Considering that Amazon already offers its own music streaming service with the Prime subscription that also includes its sVoD offering Prime Video, the introduction of "Netflix Music" would not only help the company to get closer to the bundle offered by one of its major competitors, but also introduce a service of on-demand music that most likely is used more frequently that on demand video (see figure 18), thus stretching memberships (Bitkom, 2022). Netflix could further create synergies between its video and audio content by adding, for example, podcasts with stars of its Netflix Originals talking about the most recently (weekly) released episode. Some further statistics underlining the potential benefits of entering in music streaming have been added to the appendix (see appendix 4).

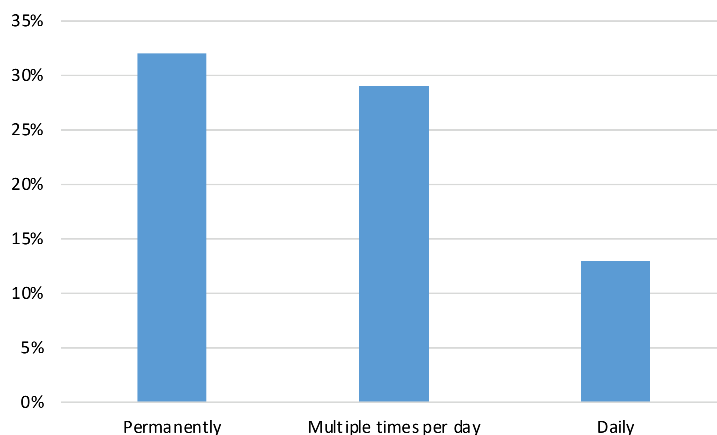

Figure 17: Usage frequency of audio streaming in Germany (Bitkom, 2022)

While the financial spectrum of all the proposed strategies is unclear, it would also have to be discussed and analyzed which way of implementing the services is the best. Acquiring the rights to music and sports can also be seen as an easy way of stretching memberships, since music "never gets old" and both products, in contrast to its original content, wouldn't require any creative risks on the side of Netflix.

Adding "Netflix Sports" and "Netflix Music" to the regular Netflix subscription would most likely result in even higher prices on the overall subscription, given the costs associated with the acquisition of licenses for both services. However, adding them as an optional package might not result in the expected number of new subscriptions and thus also not stretch memberships for the regular products. Forcing customers to subscribe to higher prices with services that certain ones are potentially not excited about (due to a lack of interest in sports or already having a Spotify account) might also backfire and result in a massive loss of subscriptions. Furthermore, it would have to be discussed whether building all the services from

scratch is a better option than acquiring existing players in both markets, like DAZN for sports or Deezer for music streaming.

Figure 19 below shows the classified strategies in the previously introduced impact/effort matrix:

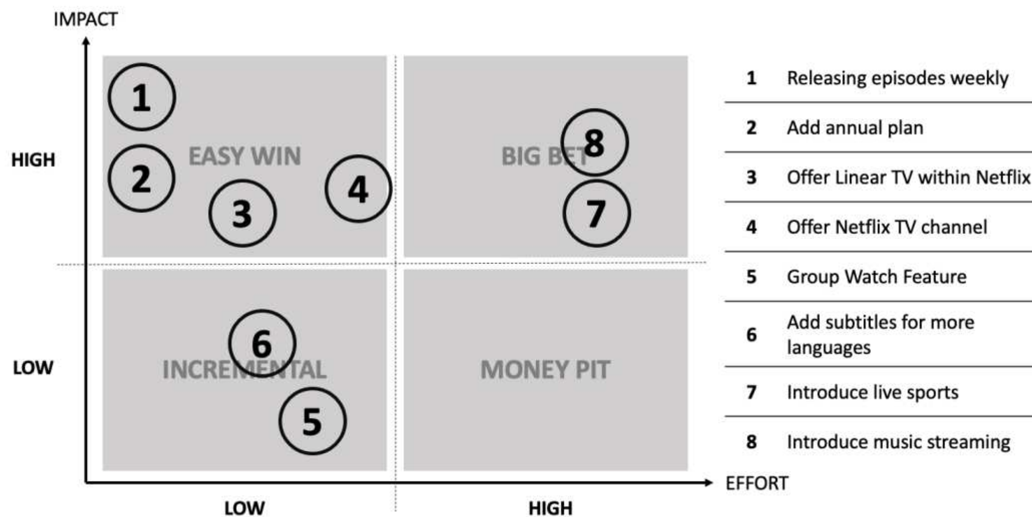

Figure 18: Impact/effort matrix including the proposed strategies

All the proposed strategies can undoubtedly be perceived as risky not only in its financial and customer relationship context but also as a "loss of focus", potentially resulting in a money pit. Nonetheless, the loss of focus depends on how the "focus" is defined. The history of Netflix shows that the company sharpened its focus several times by deciding to only concentrate on one core product to not confuse customers (Randolph, 2019). While it can be argued that the proposed addition of live sports and music are not aligning with the core product of Netflix in the context of movies and series, former CEO Hastings' vision of Netflix's future providing customers with the "*most exciting entertainment on earth*" can be interpreted as an expansion of the company's portfolio into currently untapped markets (as its ambitions of entering the gaming industry show) and therefore include the proposed options (Hastings, 2022; Hastings, 2018). Adding one or all of the services suggested would further underline those ambitions and also be in line with the company's freedom and responsibility culture and Co-CEO Peter's claim that "*nothing's off the table*" (Shaw, 2023; Serendos, 2021; Hastings, 2018; Hastings, 2019).

5. Conclusion & Limitations

The presented case of Netflix provides an insight into the crisis management of arguably one of the most adaptive companies today. The rigorous “No Rules Rules” spirit of the Netflix culture continues to live on, even though the former startup today serves 230 million subscribers and is the world’s biggest sVoD platform (Netflix, 2023; Digital TV Research, 2022). Nonetheless, the company is currently facing its biggest crisis due to several factors, including the steadily growing amount of competitors and an increasing saturation in its primary markets.

The strategic response of Netflix aligns with the company’s past and can be described as focused, consistent and in parts even ruthless, since its management never hesitated to take risky and unpopular decisions (Randolph, 2019). Throughout its history Netflix also never shied away from laying off deserving employees and even its CEO (twice) due to the realization that a different set of skills will be required to ensure that the company is well prepared for its future challenges (Randolph, 2019). Interestingly, its current investments in videogames indicate a redefinition of the company’s infamous “focus”, expanding its offering beyond series and movies (Randolph, 2019; Shaw, 2023).

The question whether Netflix will go from a posterchild of a self-disrupting company to nothing but an old nostalgic photograph alongside the likes of Nokia and Kodak can only be answered by the future and depends on the strategic direction chosen by its new CEOs. Unlike other former market leaders in their respective industry, Netflix thus far has not only managed to correctly forecast future trends but also timed its entrance perfectly multiple times (Randolph, 2019). Therefore, it might have taken note of the previously mentioned failed former industry leaders. As the collapse of Netflix's stock price and the subsequent losses of other competitors on the stock market show, Professor Barreto's statement that "*what happens to your industry will happen to your company*" is proving true (Barreto, personal communication, 2022). Consequently, whatever happens to Netflix should also be closely monitored by its rivals.

All in all, the case of Netflix presents a perfect example of a company that, thus far, responded perfectly to market shifts. The company undoubtedly has various VRIO resources and dynamic capabilities at its disposal that can increase, but not guarantee, Netflix’s chances of successfully managing this crisis. Therefore, combining the case with the introduced theoretical concepts and suggested frameworks serves as an ideal real-world example for the in class usage in any business students education.

Nevertheless, several limitations of this study have to be considered: The first one being the lack of primary resources, since all attempts at interviewing current and previous employees

of Netflix have been unsuccessful. Furthermore, no internal company data was available, thus the case and presented data is entirely based on secondary research including journalistic articles, interviews, publicly available data and the book "That Will Never Work: The Birth of Netflix by the first CEO and co-founder Marc Randolph" (2019).

The proposed strategic options must be considered at a superficial level, as no financial data or studies assessing the effect of each potential decision were available nor carried out. A detailed analysis of the potential impact of the proposed options are therefore suitable for future research and could enrich the overall case.

Additionally, the case would benefit from a more detailed comparison of Netflix to one of its main competitors such as Disney+ or platforms focusing on other markets such as Spotify or DAZN in order to assess similarities and differences in its strategic as well as crisis management approach.

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Appendix

Appendix 1: Netflix subscription options (USA)

	Basic w/ ads	Basic	Standard	Premium
Price	6,99US$	9,99US$	15,49US$	19,99US$
Parallel streams	No	No	2 devices	4 devices
Content	Some content unavailable	All content	All content	All content
Resolution	HD	HD	Full HD	Ultra HD
Ads	Yes	No	No	No
Downloads	No	1 Device	2 Devices	6 Devices
Spatial Audio	No	No	No	Yes

Appendix 2: Netflix comparison to other streaming services

	Neflix	Disney+	Amazon Prime	Apple TV+
Monthly Price	6,99-19,99US$ (see table above)	7,99 (w/ads) /10,99US$ (without ads)	8,99 (Only Prime Video) /14,99US$ (Regular Prime)	6,99 US$ (Only TV+)/ 16,95-32,95US$ (Apple One bundles)
Annual Plan	N/A	109,99 US$	139US$	N/A
Parallel streams	Up to 4	Up to 4	Up to 3	Up to 6
Ads	In cheapest subscription plan	In cheapest subscription plan	Yes	No
Bundled w/	Netflix Games	Star/ESPN (partly included in certain geographic areas)	Regular Prime subscription: Prime Delivery, Prime Music, Prime Gaming, Amazon Photos Exclusive Offers Etc.	Cheapest Apple One bundle: Cloud storage, Apple Music, Apple Arcade

Appendix 3: SWOT analysis results

Internal		External	
Strengths	▪ Strong brand & reputation ▪ Operations in more than 190 countries ▪ More than 200 million subscribers ▪ Reactive management ▪ Proven ability of identifying and purchasing rights for top content ▪ High revenue and profit ▪ Customers are locked-in due to fear of missing out ▪ Most Oscar & Emmy winning TV network of 2021 ▪ Massive data on customers used for tailored recommendations ▪ Content is streamable from anywhere at any time ▪ Lowest customer churn and highest resubscription rate among competitors ▪ Culture of innovation, experimentation and the ability of anticipation of management ▪ Financial expertise to reduce debt	**Opportunities**	▪ Increasing demand for video streaming ▪ Untapped potential in Asian markets ▪ Game streaming is a relatively open field after Google Stadia exit ▪ Potential of strategic partnerships by bundling, for example, Netflix and Spotify to increase user access
Weaknesses	▪ Dependency on third party content ▪ Administrative burden of negotiating third party licenses for different markets ▪ Customer churn due to new competitors ▪ Costly and risky investments in original content ▪ Possibly maxed out willingness to pay of customers ▪ Financial risk due to accumulated debt ▪ Stalling marketing investments ▪ Annual profitability not increasing ▪ Slowing growth of new subscribers ▪ Loss of USPs with ads and crackdown on account sharing risking customer churn ▪ Too slow to introduce ad subscription ▪ Dependency on internet connection ▪ Cannot monetize user data due to privacy concerns and regulations	**Threats**	▪ Increasing amount of competitors ▪ Customers may only subscribe for a couple of months instead of the whole year ▪ Bidding wars for premium content ▪ Slowing growth due to Covid having accelerating growth expected over several years ▪ Slowing growth in primary markets ▪ Reduced growth in households with broadband access ▪ “Overdoing it with ads” thus losing subscribers ▪ Customers changing media consumption towards more interactive and short content ▪ Losing “focus” by entering gaming ▪ Cultural differences and regulations in certain markets, potentially resulting in censored content

Appendix 4: Music streaming market statistics

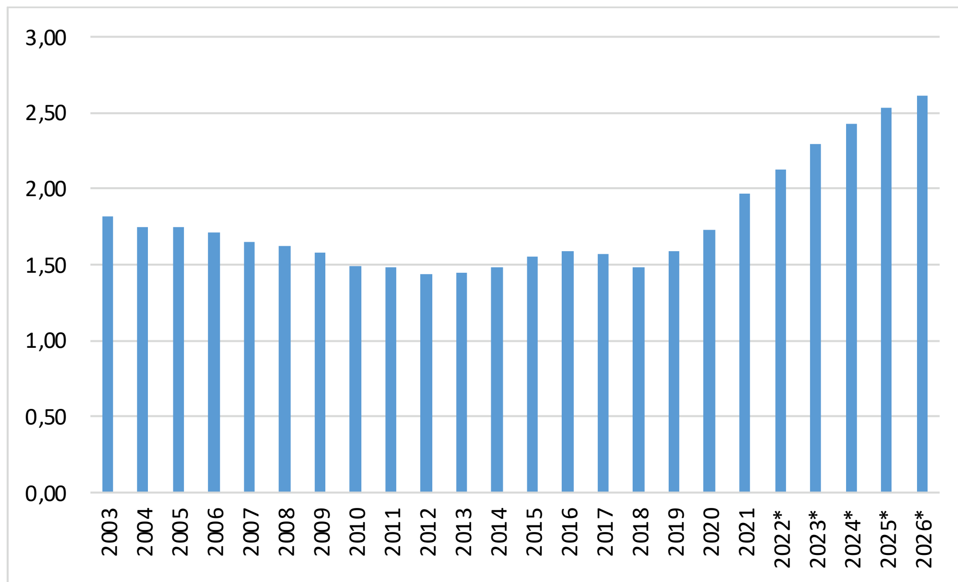

Figure 19: Music market revenue in Germany from 2003 to 2025 (in billion Euros) (PwC, 2022)*

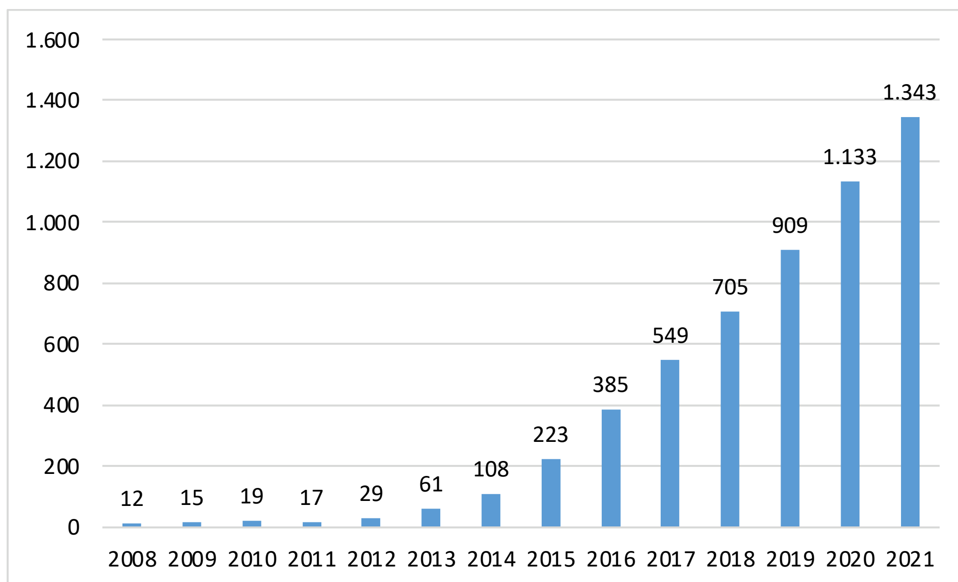

Figure 20: Revenue from music streaming (subscription services) in Germany from 2008 to 2021 (in million Euros) (Bundesverband Musikindustrie & GfK Entertainment , 2022)

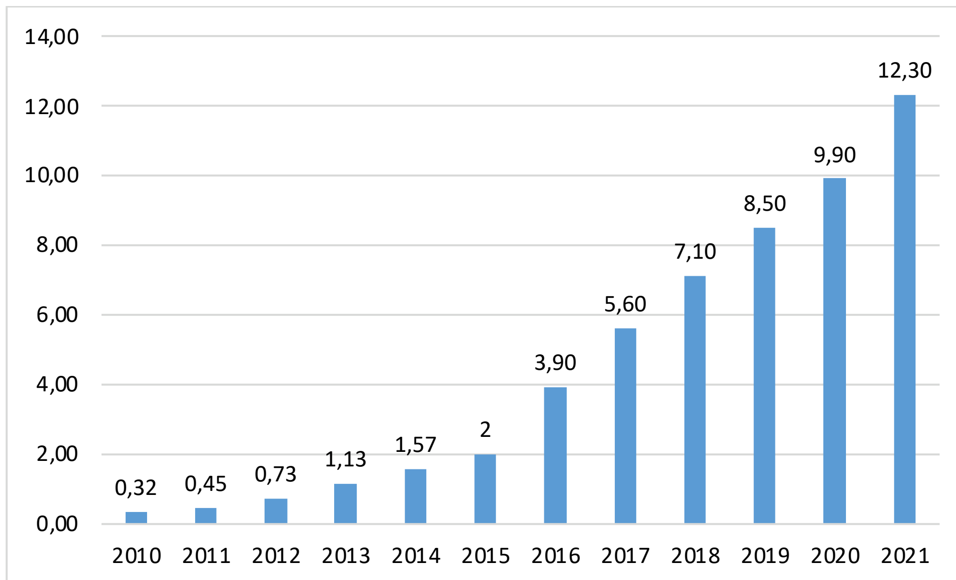

Figure 21: Revenues from music streaming subscription services worldwide from 2010 to 2021 (in billions of US$) (IFPI, 2022)

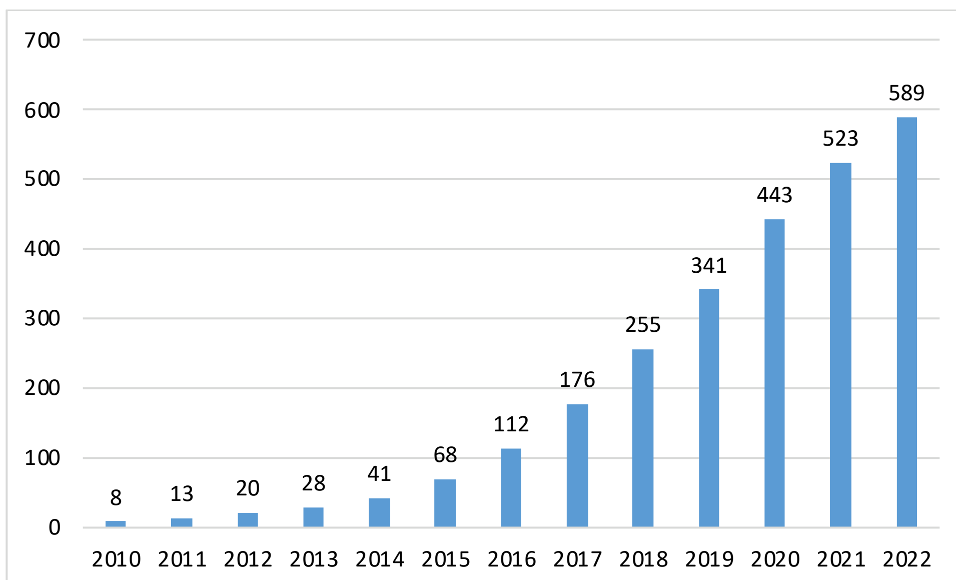

Figure 22: Estimated number of paying subscribers, paid accounts on music streaming subscription services from 2010 to 2022 (in millions) (IFPI, 2023)