

## Memo

**To:** Dr. Bonita Kolb

**From:** Ben Brody

**Date:** January 29, 2012

**Subject:** NetFlix Regains its Subscribers after Price Increase

The article “Netflix Recovers Subscribers” in the Thursday, January 26, 2012, issue of *The Wall Street Journal* shows the year in review—the good and bad—that the company Netflix experienced. Netflix is expanding internationally, so this article raises the question, “Does Netflix show top leadership to make it a great company when undertaking this strategy of expanding?”

### Article Summary

Netflix has long been a supplier of DVD rentals via mail. It recently started offering streaming video and DVD rentals via the internet to customers’ homes. This cuts out the middle man—the mail carrier—and the precious time it takes for rentals to arrive in customers’ mailboxes. This strategy brought the company millions more customers. Last summer Netflix boldly raised its prices, which caused the company to lose millions of its 24.59 million subscribers. However, Netflix gained 610,000 subscribers in the United States in the fourth quarter of last year. Even with this gain of revenue up 47%, profit still slid down 13% due to the price raise.

Netflix has undertaken a strategic change and transitioned from a DVD-by-mail company into an online movie streaming business. This is causing total DVD business to shed customers every quarter, which is expected. While losing DVD-by-mail customers in the U.S., it is expanding in Europe and has acquired 380,000 new international subscribers in the fourth quarter. Netflix will soon have to compete with Amazon.com due to the launching of Amazon’s online streaming video site, which is similar to Netflix.com.

### Correlation Between Chapter Content and Article

Chapter two of *Strategy: A View from the Top* discusses important issues within business strategy closely related to the leadership and implementation aspects. In chapter two, the conceptual framework model suggests that any change in purpose, strategy and leadership will lead to change in five different aspects of the business. The five aspects that can be affected by these changes are structure, systems, people, culture and processes. If there are any changes in the five aspects of business, then performance/control will be affected.

Netflix changed its strategy last summer when raising the price of its service as well as slowly changing to online streaming only. Netflix is using an evolutionary business strategy by phasing out DVD-by-mail and slowly transitioning to online streaming only. This will cause the systems, processes, people, and culture to change because the company’s strategy has changed. When all of these parts are affected, the performance

and control of the company change. The performance has already changed, as evidenced by how the number of subscribers has differed from quarter to quarter, which has affected revenue and profits. Revenue and profits are directly correlated with performance and control. Netflix used a strategy that was not useful in the third quarter of last year when raising its prices; however, this strategy paid off in the long run when Netflix gained its customers back. This strategy was implemented by the leaders of the company in order to become more profitable over the long run and maintain its competitive advantage overall due to a rising surge from Amazon.com.

### **Recommendation**

The leaders at Netflix are looking to go forward with the company and not become a casualty of business much like its competitor Blockbuster. Leadership changed the strategy, which changed all other aspects of the business. I believe that as a result, Netflix will benefit in the long run when changing from the DVD-by-mail system to online streaming. Online streaming is the future; fortunately, the leaders of Netflix have recognized this.

The decisions by the leaders of Netflix will ultimately keep the company growing. By branching out overseas into the international market, the company will maintain growth in performance and a competitive advantage over its competitors.

If you have any questions about this memo, feel free to contact me by e-mail at [brobenj@lycoming.edu](mailto:brobenj@lycoming.edu).