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Independent Case Study Analysis #2

Intro:

In September 2011, Netflix made the controversial decision to raise prices and split into two services, one being the original DVD rental, and the other a new streaming service. This 60% price increase and entire structure change sparked extreme rage and backlash from customers, and Netflix ended up losing 800,000 subscribers and its stock lost half of its value within a day. Additionally, there was no official roll out of this change and only an email to alert subscribers. Customers were angry and confused about the price change and the poor communication before, during, and after said transformation. When Netflix CEO Reed Hastings responded via casual video, it was seen as tone deaf and ingenuine, only making matters worse.

Problem Statement:

- Netflix has trouble retaining customers after their brand trust was broken.

Critical Factors:

- **Widespread Effect –** this change widely affected the price (by 60% margin), and the people (loss of 800,000 subscribers), therefore the scale of effect is extremely large. That being said, Netflix's solutions must be far-reaching.
- **Perceived Customer Value of Self –** the lack of accountability in the Netflix admin led customers to believe that they were not valued nor considered in the abrupt decision. Customers must be assured that they are the first priority.
- **Time** – not only did Netflix's stock lose half of its value in a singular day, the incorrect response by Hastings yielded more backlash. It is imperative that Netflix addresses this situation with urgency.

Alternative #1: "Loyal to You, A Fair Transition"

In response to this crisis, Netflix should release a clarifying and apologetic press release and email, updating customers on the improvements to this roll-out. This alternative will provide a clear apology for the miscommunication, the promise that existing/loyal customers' plan prices will not change, and a method for subscribers to choose if they prefer one plan over the other or if they do want both. To be clear, new customers will have to pay the new monthly price of $15.98, but if they only want one of the two services, they will be able to pay the $9.99 monthly price whereas existing customers will pay $9.99 no matter what they choose. Additionally, Netflix should give out three months of free subscription for existing subscribers to thank them for their loyalty, and one free month for new subscribers, enticing them to join, calling the operation "three free months being loyal to you, and one free month for our new crew!" Lastly, a social media campaign should take place, where influencers share themselves streaming their favorite movies via TikTok, and provide a code for renewing and new customers to join at 10% off per month for the first year of their subscription.

Pros:

Releasing a press release as soon as possible will ensure that the situation is handled in a timely manner and does not get worse while also ensuring that customers are feeling valued by Netflix taking accountability in the aforementioned apology. Addressing this head-on will allow

Netflix to show its customers that they are taking accountability. This email and press release will also reach every subscriber, acting as a widespread blanket apology and price clarification. Next, this free three month new joiner promotion incentivizes new subscribers and can help with lost subscribers, while the free month appreciates the loyalty and shows the value of the existing customers (in addition to not changing their rate). This discount for new customers can in turn potentially increase the customer acquisition rate over time. Lastly, the social media element of this campaign again acts as a widespread method of communication that increases exposure, boosts engagement, and is timely.

Cons:

Conversely, although a press release and adjacent email will address the problem head on, continuing to put the spotlight on the issue might prolong the anger of subscribers rather than letting it fade out. Though it is intended to clear up the business model of Netflix, a press release might instead add to the confusion. Additionally, differing prices for new customers might be discouraging for new sign ups as the gap between new acquisitions and loyal subscribers' rates is 60%. Lastly, although social media is generally quick and wide-reaching, it will take time for influencers to craft and execute their content.

Alternative #2: "Evolving Entertainment Together"

With this campaign, Netflix's goal should be clarity and ease for subscribers to make sure that customers are aware that Netflix has their best interest at heart throughout this transition. With that, the first thing that Netflix should do is combine Qwikster and Netflix together on the website and financially. That being said, the Netflix website will include a Qwikster tab but both subscriptions will be under the Netflix name and the $15.98 will only be extracted from subscribers' accounts once under one name, though one will be physically delivered as "Qwikster" and the other will be the streaming service. The website interface should be extremely user-friendly and straightforward in showcasing how the new subscription works. Next, in order to get customers excited about the streaming addition, Netflix should host a movie review competition to win a free lifelong subscription. The competition will allow subscribers to review movies and shows on the streaming platform and a panel of judges will publicly choose the most creative/compelling review and announce the winner via email and social media. Lastly for this campaign, Netflix should put up billboards and signage in the major cities and sporadically on highways with simple slogans like: "new age" "stream smart, stream netflix" "the future of netflix is here". This will drive people to talk about the changes and get customers excited about the changes to Netflix and the entertainment industry as a whole.

Pros:

This alternative emphasizes the importance of customers feeling valued and prioritized in the execution of the new business model, therefore all three elements of this campaign capitalize on simplicity. That being said, the importance of clarity is seen in the new website interface that combines the Qwikster and Netflix subscriptions and showcases the agreement to simplify the method of charging subscribers' accounts. This positively touches on the scale of effect and the widespread price point change/decrease in stock value. Additionally, the promotional competition will drive subscribers' sense of community and will get users involved and interested in the new streaming platform. The public competition also allows this campaign to be wide reaching and in turn will likely drive new acquisitions as more people want to be involved. Lastly, the simple OOH billboards/signage in heavily populated areas in major cities increases exposure. This combination of interactive activities and simple billboards work in tandem to assure subscribers that their happiness is Netflix's one priority.

Cons:

The entirety of this campaign is not timely, as the competition, though compelling, is not timely in manner. Additionally, the lack of true accountability from Netflix might anger subscribers even more. Not directly addressing the previous issue and poor communication might be seen as ingenuine and intentionally "brushing things under the rug". Lastly, not everyone will want to spend their time rating movies (especially if they are upset), so the campaign might not be as wide-reaching as intended.

Alternative #3: "Netflix Unite"

In this campaign, Netflix's goal should be to unite both customers and the two differing services of Netflix's business model. The first component of this campaign should be a "Bring a Friend" promotion, where if a subscriber gets a friend to subscribe under their name (via sent code) they both get "grandfathered" into the original $9.99 price for a year. This approach generates enthusiasm among both dedicated Netflix members and fresh subscribers, enabling Netflix to not only attract numerous new customers but also to foster word-of-mouth recommendations as existing members persuade their friends to join. The next element of this campaign will be to offer one free month for customers to share their positive experience with the "new and improved" Netflix online via Youtube Shorts, TikTok, Instagram, and Facebook. This provides a more natural way for subscribers to share how they feel about the new business model. Next, the streaming side of Netflix will roll out a line of exclusive interviews and behind the scenes clips of popular movies that cannot be accessed in any other manner. Netflix will partner with the production studios that created these movies in order to get these bits to then share with their customers. The last piece of this campaign is to partner with a popular movie theater, like AMC, to show a commercial before popular movies with the tagline "movie lovers unite – join Netflix today" to drive new subscription acquisitions.

Pros

In this campaign, the importance of Netflix retaining its customers while also obtaining new subscribers is showcased through varying media components. The "bring a friend" promotional element of this campaign allows new customers to get excited about getting their friends to join, building positive word-of-mouth in addition to the promotion on its own driving the acquisition rate. Customer testimonials might help acquire new customers by validating that it is worth it to join, and social media is timely and various platforms reach a wide range of users. Behind the scenes interviews act as a way for members who stream with Netflix to feel like they are included in something special and exclusive, in turn, building a sense of value in themselves through the brand. If AMC agreed to this advertising partnership, the unification of movie-goers and movie-bingers would be emphasized, again reaching wide audiences and replacing anger with excitement. Overall, this campaign is wide reaching as these four elements cover a lot of ground and will provide an integrated and effective campaign.

Cons:

Though it helps with new acquisitions, this "buddy system" promotion does not outwardly help with brand loyalty within existing customers. As customers as a whole feel enraged about the matter at hand and the poor communication, it might seem unlikely, and therefore ingenuine, that other customers would want to vouch for this unknown business plan. Additionally, collecting these testimonials from customers might be too timely to be effective. In regards to the social media outlets to post said testimonials, older users who were likely unhappy about the tech-driven switch might not even be on social media. Lastly, it is extremely possible that AMC (or any movie theater for that matter) might not want to help drive new acquisitions for Netflix, as the streaming services take away from in-theater movie going.

Final Recommendations:

In light of Netflix's need to demonstrate accountability with a response that is comprehensive, prompt, and assures customers of their paramount importance in the company's operations, the optimal choice is Alternative #3: “Netflix Unite”. Though this is not the timeliest of the alternatives listed above, it strikes the most balance by simultaneously engaging new and returning customers and assuring subscribers that there at the forefront of Netflix’s interests and new operations. Additionally, this alternative reaches audiences in a large-scale manner, which will then start to bridge the gap in scale of the lost subscribers and value in stock. It would be advised that Netflix follows through with this alternative, but should integrate these tactics alongside the initial address of the crisis, allowing for a genuine reaction and productive change.