

## TEACHING NOTE 9: NETFLIX, Inc.

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#### Teaching Objectives

If used in conjunction with Chapter 9, the Netflix case can be used to meet the following teaching objectives:

- *Understanding the characteristics of strategic innovation:* Strategic innovation, i.e. renewing the firm's business model to create or sustain a competitive advantage, aims to achieve a long-term corporate life. Strategic innovation or renewal is based on change of one or more strategic characteristics, namely: Strategic Reasoning, Strategic Visioning, Strategic Alignment and Strategic Venturing. All these characteristics are touched upon in the Netflix case and their identification helps to gain better insight on the influence of these changes on the innovativeness of the organization.
- *Comprehending business model renewal:* A business model consists of three elements: the product offering, which is to be a superior mix of attributes (e.g. price, reliability, specifications); the value chain, the value adding way to supply the superior product offering; and the resource base that is necessary to perform the value adding activities. The Netflix case shows the evolution of its value proposition from mirroring the traditional brick-and-mortar video stores into the on-demand streaming service as we know it today.
- *Understanding the paradox of exploitation and exploration:* This paradox leads to the question whether the company should renew itself by improving the current organization or by radically rejuvenation the organization through disrupting technologies and processes. Netflix is a case in which they do both.

## Teaching Guideline

Students can learn about business model renewal from Netflix, their ability to change their value proposition and their perspective on strategic innovation. Although strategists cannot predict the future, they know that it will differ from today. Netflix not only reacted to changes, they also initiated changes by innovation activities, effectively creating an environmental misfit for competitors, like Blockbuster. Also, students can learn that it can take bold moves to leapfrog intense competition, and that this can be done with less risk if you know your customers behavior in more detail and if you are able to utilize customer insights. Netflix released its first original series, “House of Cards,” in 2013 for instance, and commissioned two seasons upfront for \$100 million, a bold move that was enabled by Netflix’s detailed knowledge of their customers.

Netflix also faced challenges with Internet Service providers for example, the case shows how to manage external partners in order to strengthen the company’s competitive position with exploitation, Netflix developed its Open Connect system for instance to make interconnection with the ISP’s infrastructure simpler and located their servers near or inside ISPs’ facilities.

## Case Questions

1. *Describe the strategic innovation processes Netflix has underwent*
2. *Describe how Netflix overcomes the inhibitors of strategic innovation*
3. *Describe how Netflix engages simultaneously in Outside-In and Inside-Out renewal*
4. *Explain the dominating Netflix perspective on strategic innovation*