

COMPETITIVE STRATEGY

To See the Future of Competition, Look at Netflix

by Bill Taylor

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I've been following Netflix since 2005, when I first visited its headquarters in Silicon Valley and interviewed Reed Hastings, its founder and CEO. I don't think I've learned more about strategy, technology, and culture from any other company I've studied. It's a stretch to claim that everything I know about business I learned from watching Netflix, but there's no doubt that many leaders can see glimpses of the future of competition and innovation by looking at how the company does business.

Despite this week's news that the company had added fewer new subscribers than expected, if there were an Academy Awards show for business performance, Netflix would still sweep this year's categories – the corporate equivalent of “Titanic” or “Lord of the Rings.” Wealth creation? The company, which is barely 20 years old, has a stock-market value of nearly \$165 billion, more than Disney. Cultural sway? Netflix recently got 112 Emmy nominations, the most of any network or streaming service, toppling HBO, which had received the most nominations for 17 years. Management cred? Its reputation is so strong that a simple PowerPoint slideshow about its culture and HR policies has been viewed more than 18 million times.

Here are three lessons from the rise of Netflix that apply to every company:

Big data is powerful, but big data plus big ideas is transformational. Netflix is a technology juggernaut whose analytics, algorithms, and digital-streaming innovations have changed how customers watch movies and TV shows. But this technology has always been in service of a unique point of view – building a platform that shapes *what* customers watch, not just *how* they watch. The company has vast amounts of data on the viewing habits of its 125 million subscribers, from which movies and TV shows they liked or disliked to how long they watched an individual episode or how much they binged a new series. This powerful data system creates a rich *social* system that influences the movies and shows members see, based in part on which shows they've liked in the past what other subscribers see and like.

Here's how Reed Hastings explained it in 2005, when the company had just 3.5 million subscribers. “It's possible to totally misunderstand Netflix,” he told me. “The real problem we're trying to solve is, How do you transform selection so that consumers can find a steady stream of [entertainment] they love? We give everyone a platform to broaden their tastes.” This point of view has driven Netflix from the beginning, and it underscores the power of original ideas in business success. The core takeaway: Technology matters most when it is in the service of a compelling strategy.

If you aim to disrupt an industry, you must be willing to disrupt yourself. Netflix could be the dictionary definition of a Silicon Valley disruptor, a new entrant that reshaped the logic of an entire industry. Yet what's truly remarkable about the company's trajectory over the last two decades is how dramatically it has disrupted *itself* in service of its mission. Netflix began, of course, with a pretty simple innovation – crushing Blockbuster by shipping DVDs by mail and

abolishing late fees. It then transitioned from mailing content to streaming movies and TV shows digitally. Today, Netflix is most noteworthy as a creator of content; it will spend a staggering \$12 billion this year alone on programming.

Here again, Netflix is entering an industry by challenging its conventions. As a recent cover story in *New York* magazine noted, the company's approach to programming "has upended so many norms of the TV business," from eliminating pilot episodes to inventing "the idea of binge-watching" to replacing "demographics with what it calls 'taste clusters' – an approach to niche programming fueled by technology. At every step, Netflix's dramatic strategic moves invited external skepticism and required deep internal rethinking of what had worked before. The key lesson: For companies and leaders alike, you can't let what you know, all your past success, limit what you can imagine going forward.

Strategy is culture, culture is strategy. Most analysis of the rise and reinvention of Netflix emphasize its strategy and technology (as I have thus far). But what struck me about Reed Hastings from the first time I met him is that he and his colleagues think just as rigorously about people and culture as they do about digital streaming and content. When it comes to who it hires and what it promises them, how it makes decisions and shares information, even what it does about vacations, Netflix has invented (and reinvented) a range of practices that are designed explicitly to connect what the company aims to achieve in the marketplace to how it organizes the workplace.

Last year, the company updated its manifesto on Netflix Culture, a detailed statement of its principles, policies, and practices with respect to the human factor in business. What's unusual about the manifesto is how sharp the language is; there is no hint of HR boilerplate. "Many companies have value statements," it begins, "but often these written values are vague and ignored. The real values of a firm are shown by who gets rewarded or let go." So what kind of people get rewarded at Netflix? "You say what you think, when it's in the best interest of Netflix, even if it is uncomfortable," the manifesto says. "You are willing to be critical of the status quo" and "You make tough decisions without agonizing." Moreover, "You are able to be vulnerable, in search of truth." The essential point: Great companies understand that they have to work as distinctively as they hope to compete.

It's always dangerous to try to learn too much from the performance of a single organization – even the most successful companies are bound to experience setbacks and disappointments. (It wasn't all that long ago, after all, that GE was considered a model of world-class management.) Still, as more and more of us turn to Netflix for entertainment, the company bears watching as a source of insights about the future of business and work.



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