The Netflix Case

Teaching Note

Blockbuster laughed at a $50 million offer. You take the chair at Netflix and make four decisions that built a $200 billion company.

NÍVEL	B1 em diante (o texto do caso é curto; a discussão sobe com a turma)
DURAÇÃO	30, 45 ou 60 minutos de discussão + 15 minutos de jogo
FORMATO	Aula individual, dupla ou turma; presencial ou online
OBJETIVO DE LÍNGUA	Argumentar e discordar em inglês (I'd rather..., The risk is..., If we..., we'd...), vocabulário de negócios
OBJETIVO DE NEGÓCIO	Canibalização, gestão de crise de marca, licenciar × produzir, velocidade × lucro

Como conduzir

1. **Abra com a abertura (5 min).** Mostre o vídeo de abertura. Pergunte: o que você sente? O que faria nos primeiros cinco minutos?
2. **Uma decisão por vez.** Leia o briefing em voz alta (ou deixe o aluno ler), faça a pergunta e peça um voto antes de qualquer debate. Registre o voto de cada um.
3. **Discuta com as perguntas-guia.** Uma por vez. Cobre: “Why?”, “Give me a number.”, “Defend the other option.”
4. **Revele o que aconteceu só no fim de cada decisão.** Nunca antes do voto: a graça do caso é decidir sem saber.
5. **Feche jogando.** Os alunos jogam o caso sozinhos (15 min) e comparam o resultado deles com o real ($240B).

> **Correção de inglês:** não interrompa o aluno no meio da frase. Anote os erros e corrija no fim de cada decisão, em bloco. O caso funciona porque o aluno se arrisca a argumentar.

Versões de tempo

30 MIN	45 MIN	60 MIN
Abertura + decisões 1 e 2. Prós e contras só da opção escolhida pela turma.	Abertura + as 4 decisões, 2 perguntas-guia em cada. Debate final com 1 pergunta.	Abertura + as 4 decisões completas, com prós e contras de todas as opções e o cenário alternativo. Debate final com 3 perguntas.

DECISION 1 · 2007

How do you launch streaming?

BRIEFING (READ ALOUD)

Los Gatos, January 2007. Your red envelopes go out by the million every day. DVD by mail is profitable, and it is the whole company.

The rival. Blockbuster just launched Total Access: rent online, return in any store. For the first time, it is taking your customers.

The bet. Google just bought YouTube for $1.65 billion. Half of American homes have broadband. Your engineers can stream a movie in minutes, but the studios license only 1,000 titles.

DVD subscribers: 7.5M · Titles to stream: 1,000

THE OPTIONS

OPTION	PROS	CONS	IF THEY HAD CHOSEN IT
Sell it A new $7.99 plan.	• New revenue from day one • Investors see streaming pay for itself	• 1,000 titles is a weak product to sell • Most customers never try it, so the habit never forms	Streaming stays a niche for early adopters. By 2010 you have a small paid service and a DVD company that is still most of your revenue, while a rival gives streaming away and owns the habit.
Give it away Free in every DVD plan. WHAT NETFLIX DID	• Every subscriber tries it at zero risk • Streaming becomes a reason to stay, not a new bill	• It costs money and brings no new revenue • Customers learn to expect streaming for free	This is what Netflix did. By 2010, streaming was the main reason people joined, and the DVD had become the extra.
Wait 18 months, for a better catalog.	• Launch with a catalog people actually want • Protect DVD profits a little longer	• Broadband and YouTube won't wait • Someone else teaches America to stream	Apple, Amazon and Hulu all push online video in 2007 and 2008. You arrive in late 2008 as one more option, with the same studio problem and no head start.

GUIDING QUESTIONS

1. Who are your customers in 2007, and how many of them have broadband?
2. What does Netflix lose if streaming is free? What does it gain?
3. Why would a company attack its own most profitable product?
4. What would you need to know before you decide?

What really happened: January 2007: “Watch Now”, free for every subscriber.

Vocabulary: to bundle (vender junto, no mesmo pacote) · to cannibalize (lançar algo que rouba vendas do seu próprio produto)

DECISION 2 · 2011

What do you do with DVDs?

BRIEFING (READ ALOUD)

The rival is gone. Blockbuster went bankrupt. In July your stock hits $300. You are the most admired company in media.

The cost. Every disc still needs postage, warehouses and people. Streaming rights are getting expensive. One $9.99 plan pays for both.

The fear. You believe DVD is a dying business. You want to move before the market forces you.

> *"Companies rarely die from moving too fast, and they frequently die from moving too slowly." — Reed Hastings, 2011*

Subscribers: 25M · Share price: $300

THE OPTIONS

OPTION	PROS	CONS	IF THEY HAD CHOSEN IT
Split the price Two plans, $7.99 each. One Netflix.	• Each business pays for itself • One brand, one website, one account	• A 60% price rise for people who want both • Some customers still cancel	Netflix did split the price in July 2011, and it hurt. Without Qwikster on top, the damage would likely have been a bad quarter, not a lost year.
Split the company Two plans, and DVDs get a new brand. WHAT NETFLIX DID	• Streaming is free to move fast • A clean exit from DVD later	• Two websites, two bills, two queues • Customers hear: we don't want you	This is what Netflix did. Qwikster lasted three weeks. Netflix lost 800,000 US subscribers in one quarter and about 75% of its market value.
Change nothing Keep $9.99. Keep the goodwill.	• No backlash, no churn • Time to plan the move to streaming	• DVD costs eat the money you need for content • You delay the problem, you don't solve it	Customers stay happy, but you have less money for streaming rights just as their price goes up. You still have to raise prices in 2012, at a worse moment.

GUIDING QUESTIONS

1. Is DVD by mail a business to protect or a business to leave?
2. Why is a price change different from a brand change for customers?
3. Hastings was right about the future. Why did customers still revolt?
4. How would you announce this change? Write the first sentence of the email.

What really happened: Netflix created "Qwikster", killed it three weeks later, and lost 800,000 US subscribers in one quarter. The stock fell about 75%.

Vocabulary: churn (clientes que cancelam) · backlash (reação negativa forte do público)

DECISION 3 · LATE 2011

How do you get content?

BRIEFING (READ ALOUD)

September 2011. Starz ends the talks. In a few months its Disney and Sony movies leave Netflix. The studios have noticed: you are not a customer anymore. You are a rival.

On the table. A producer is selling a political drama. David Fincher directing, Kevin Spacey starring. HBO and AMC are interested, but they want a pilot first.

Your data. Millions of your members watched the British House of Cards, Fincher's films and Spacey's films. Nobody else knows that.

Subscribers: 26M · Shows you own: 0

THE OPTIONS

OPTION	PROS	CONS	IF THEY HAD CHOSEN IT
Pay up Renew every licence, at any price.	• Known shows, known audiences • No production risk	• The studios set the price every year • They can take the shows back for their own services	You keep paying more for the same shows. When Disney, HBO and NBC launch their own services in 2019 and 2020, they pull their content and you have nothing of your own.
Buy a studio A Hollywood library, overnight.	• A library you own on day one • Producers and know-how in house	• With your stock down 75%, you pay with debt • Old contracts and a culture that isn't yours	Your company is worth about $4 billion, so you can only afford a small studio. You spend years integrating it while competitors move.
Make your own Original series nobody can take away. WHAT NETFLIX DID	• Shows nobody can take away • Your data tells you what people will watch	• About $100 million for one show, with no pilot • One expensive flop and investors panic	This is what Netflix did. House of Cards premiered in 2013, and original shows became the reason to subscribe.

GUIDING QUESTIONS

1. Why do the studios now treat Netflix as a rival?
2. What is the risk of paying $100 million for a show with no pilot?
3. How can data reduce that risk? What can't data tell you?
4. Licence, buy or make: which one builds a moat? Why?

What really happened: Netflix bought two seasons of House of Cards for a reported $100 million, without a pilot. It premiered in 2013.

Vocabulary: licensing (pagar para usar o conteúdo de outra empresa) · moat (fosso: vantagem difícil de copiar)

DECISION 4 · 2015

How do you go global?

BRIEFING (READ ALOUD)

Late 2015. Original shows work. You are in about 60 countries, but most of the world still can't buy Netflix.

The clock. HBO launched its own app. Amazon is growing. Every month you wait, someone else becomes the streaming habit in India, Korea or Turkey.

The cost. Each new country loses money for years: rights, subtitles, dubbing, servers. Your international business has never made a profit.

Subscribers: 75M · Countries: 60

THE OPTIONS

OPTION	PROS	CONS	IF THEY HAD CHOSEN IT
Step by step Ten countries a year.	• Learn each market before the next • Losses stay small	• It takes a decade to cover the world • Local rivals and Amazon get there first	By 2020 you are in about 110 countries, profitable abroad, but a smaller company. In many markets the habit belongs to someone else.
All at once 130 countries in one day. **WHAT NETFLIX DID**	• You are first almost everywhere • Every original show now has the whole world as its audience	• Years of heavy cash burn • Thin catalogs in many countries at launch	This is what Netflix did, on stage at CES 2016. By the end of 2019 it had 167 million subscribers.
Use partners License Netflix to local telecoms.	• Fast and cheap • Local partners know local customers	• The partner owns the customer and the data • Your brand becomes a channel on someone else's box	You reach many countries fast, but as a supplier. The telecoms push your price down every year and keep the relationship with the customer.

GUIDING QUESTIONS

1. What does Netflix gain by being first in a country?
2. Each new country loses money for years. How long would you wait for a profit?
3. Why is a partner deal fast but dangerous?
4. Which country would you be most worried about? Why?

What really happened: January 2016, Las Vegas: 130 new countries in one day. By the end of 2019, 167 million subscribers.

Vocabulary: rollout (lançamento de um produto em novos mercados) · to burn cash (gastar mais caixa do que entra)

Final debate

1. In 2000, would you have bought Netflix for $50 million? What would you need to know first?
2. Netflix gave streaming away for free. When is it smart to give away your best new product?
3. Qwikster was a logical plan that customers hated. Why are logic and trust different things?
4. Is it better to rent what you sell or to own it? Use House of Cards to defend your answer.
5. Netflix chose speed over profit in 2016. When is being first worth losing money?

> **Depois da aula:** jogue o caso sozinho antes de levá-lo à primeira turma. Faça as decisões de formas diferentes para ver os cenários alternativos que os alunos vão encontrar.

Fontes: Relatórios da Netflix à SEC (2007–2020), Associated Press (2011, 2021), Fortune (2011), Yale School of Management (caso Netflix e Qwikster), Marketplace (2020). Os números do caminho do aluno são simulação.