



Netflix: Reinvention across multiple time periods, reflections and directions for future research

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Introduction

A modern start-up's initial success and long-term viability depends upon its overcoming a series of increasingly challenging obstacles. First, it needs to evaluate and modify its product or solution to ensure fit with an intended market. Assuming it truly addresses a pressing customer need, the firm must then create commercial viability. The offering's feature set, positioning, distribution, pricing, partnerships, and branding all need to be not only established but generate a positive market reaction (Greiner, 1998). In addition, it must ensure that it has the internal capabilities, resources, and business model to manage the business effectively on a day-to-day basis (Zott & Amit, 2008).

If all goes well, the path forward becomes even more difficult. Building upon initial successes, the firm's leaders look to scale up the business (Picken, 2017). Capital, resource allocation, staffing, and other key decisions all come to the forefront. The firm may test its capabilities via a small-scale regional or partner-based experiment and then attempt a full-blown scale-up. As it does this, early investor pressure for accelerating scaling builds because that is the path to a quick and profitable exit for them. This, however, creates a dilemma for the firm's founders and leaders. Should they focus on further refining the product or solution that generated the initial momentum, thus solidifying the small-scale success (O'Reilly & Tushman, 2011)? Or should they focus on new products and new markets as paths to faster growth?

Focusing on refining the existing product or solution and deepening ties with current customers may limit growth and dash investor expectations, whereas focusing on new products and markets may take attention and resources away from what made the firm successful in the first place.

Founded in 1998, Netflix has not only defied the start-up odds but has been consistently able to successfully alter its business model and commercial offerings numerous times over more than two decades. Moreover, it has expanded its market from a single country to 190 in 10 years. In the face of large, entrenched competitors (Blockbuster, Wal-Mart, HBO, and filmed entertainment of all categories), Netflix has been able to pivot and win at each turn.

Perhaps Netflix exemplifies what Schumpeter (1942, 82–83) labelled “creative destruction”—the “process of industrial mutation that continuously revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one.” Netflix has created new structures on the backs of its old ones at least ten times, leveraging its learnings from prior incarnations. Netflix co-founder Marc Randolph, former Chief People Officer Patty McCord, and former Chief Product Officer Neil Hunt, along with their colleagues, created a company capable of incessantly creating new versions of itself, seemingly facing and overcoming monumental risk at each stage. As Randolph shared with Jaworski, “If you're overly obsessed about upsetting your legacy business, you're screwed to begin with.”

The question we address in this commentary on Jaworski's interviews of the three members of Netflix's original leadership team is what enabled the company to prevent itself from being yet another “dot com” company littering Silicon Valley in the late 1990s and transition to a global leader in entertainment. Its two founders were successful tech entrepreneurs, but so were countless other company leaders that we have not heard of since. Netflix had the support of leading venture capital firms, but so did hundreds of other companies that did not survive the dot-com crash

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of the early 2000s. The company had brilliant engineering talent but so did Netscape, Yahoo!, and Groupon, all Silicon Valley companies that helped create new markets but were unable to significantly scale-up long-term. What makes Netflix different?

By nearly every measure, Netflix is a wildly successful company. Subscriber base, revenue, Net Promoter Scores, share price appreciation, Golden Globe, Emmy, and Oscar awards, and a global reputation for innovation. To the average United States resident, it may appear as though Netflix successfully made a single pivot in 23 years, from ordering DVDs online and having them delivered in the mail to streaming content on virtually any device. But by looking deeper into the company's detailed history, we can see that in fact the firm has made several significant and meaningful changes since its formation, each developed on the learnings of its prior self (see Table 1).

Three distinct themes emerging from the interviews with the former Netflix leaders shape the remainder of this commentary. First, the concept of organizational ambidexterity, the ability of a firm to simultaneously pursue both exploration and exploitation strategies. Second, the notion of scaling up—the actions, processes, and priorities that enable an organization to grow while retaining the qualities that made it successful in the past. The third theme, customer centrality, addresses the approach of creating value by placing the customer at the heart of key business and organizational processes.

Ambidexterity

Organizational success demands that companies be responsive to current markets while also preparing for new opportunities on distant horizons (Judge & Blocker, 2008). If an organization only focuses on today's customers and needs (exploitation), the organization's future is placed at greater

risk. However, if that focus is placed exclusively on future efforts (exploration), today's customers and company performance suffer. A balance of the two is required to be able to effectively serve today's customers while cultivating customers of tomorrow. This is the essence of organizational ambidexterity (Levinthal & March, 1993; O'Reilly & Tushman, 2013).

Structural vs. contextual ambidexterity. Scholars have long debated the ideal approach for simultaneously managing exploration and exploitation. There are two competing schools of thought—structural ambidexterity and contextual ambidexterity (Brinkshaw & Gibson 2004). Structural ambidexterity, also known as architectural ambidexterity, embraces the creation of dual, separate structures within an organization—one focused exclusively on exploration and the other focused exclusively on exploitation. Due to the inherent differences between the two efforts, it is argued, they cannot effectively coexist and therefore require different structures, mandates, time horizons, and cultures (Maclean et al., 2020).

Contextual ambidexterity, in contrast, emphasizes behavioral and social means of integrating both exploitation and exploration housed under a single structure (Andriopoulos & Lewis, 2009). It is the collective orientation of employees towards thinking and acting ambidextrously on an ongoing basis—the same teams and people do exploration as well as exploitation. Supporting and extending this company-wide orientation are social processes—shared values, socialization, recognition and communication practices, interpersonal relationships, culture, and the unwritten routines that develop and permeate within organizations (Ghoshal & Bartlett, 1994).

Contextual approach facilitates knowledge sharing between exploration and exploitation teams. One clear challenge with a structural approach is the likely loss of critical

Table 1 History of Netflix Development

Development Phase	Commentary
Selling & renting DVDs	original concept, sales of DVDs were more than 90% of revenues
Renting DVDs only	a la carte model, one at a time for one fee and specific number of days
Subscription DVD model	initial model, 4 DVDs/month for \$16 (and \$4 for each additional DVD)
Subscription Unlimited DVD model	max. of 4 DVDs at a time, no limit on monthly total, \$16/mo
Episodic content on DVD	origin of "binge watching"
Streaming content (1)	initially only PC computers, limited content selection
Streaming content (2)	expanded platforms including smart phones, tablets, gaming platforms, wifi-enabled TVs, and more
Netflix and DVD.com	decoupling offerings and positioning Netflix as streaming, DVD.com as online DVD rental
Original content	"House of Cards" was first breakthrough
Localized original content	Netflix's original local content leads in-country content consumption in India, Korea, Turkey, UK, for example (Yahoo! Finance, 2020)

knowledge between exploration and exploitation teams. Due to their unique roles and different expertise, the teams struggle to become aligned. Those responsible for exploration, for example, may not fully seek all pertinent customer and competitor information from their exploitation counterparts. Conversely, in their focus for scale and optimization, exploitation teams may not seek or be open to supporting possible areas of future growth, the domain of their exploration counterparts. Even assuming no malice or ill will between teams, their fundamentally different skills and areas of focus may result in a lack of knowledge capture, transfer, and use. The knowledge transfer problem is mitigated in the contextual approach in which the same teams and people do exploration as well as exploitation.

Structural approach facilitates leveraging unique skills needed for exploration and exploitation. A contextual approach poses its own, though different, challenges. While the linkage and continuity between explore and exploit functions may be stronger and more comprehensive due to the same individual or team conducting both types of work, the efficacy of each may be questioned. The mindset, skills, and processes required to fully investigate and evaluate highly speculative future opportunities are fundamentally different than the skills required for business process or line optimization and scaling. With a contextual approach, both explore and exploit activities will take place but the efforts and results may not be optimal for either owing to the lack of specialization and expertise.

Netflix adopted a contextual approach. Based on Jaworski's interviews, it can be argued that Netflix was birthed out of the necessity to explore. Its core concept in the late-1990s was to use two nascent consumer technologies—the internet and DVD—to connect early adopter DVD owners to rent content from the company's website and have it delivered via the United States Postal Service (USPS). It is important to recall that in 1999 U.S. household internet penetration was approximately 25%, ecommerce was still in its infancy, consumer online credit card comfort was extraordinarily low, and DVD ownership less than one-half of one percent. Blockbuster Video established the cultural norm of movie rental in the U.S. with nearly half of all households in its customer database. Despite this, DVD owners had limited content options as video rental stores, including Blockbuster, had virtually no DVD inventory; it was simply too early in the technology's adoption curve to migrate from VHS. Despite Netflix's seemingly significant advantage—it had the largest library of DVD content available—the firm's business model violated the norms of movie rental, namely, going to the video store to rent a movie. Perhaps most importantly, nothing Netflix sought to build had ever existed. There was no model for creating a DVD rental

service on the internet. Everything had to be hypothesized, tested, re-hypothesized, tested again, and so on, eventually to be launched if promising.

An organization-wide mindset of "survival depends on exploration" helps contextual approaches. Netflix leadership knew that it had to constantly evolve to not only identify and optimize for initial product-market fit that would allow for mass commercialization but also must maintain focus on the future. The nascent enabling technology known as the internet would no doubt—although unclear exactly how—allow for future business opportunities. The firm was named Netflix, not Dvd-by-mail.com, because its leadership knew that a successful future was linked to a broader range of digital content delivery options, not just DVDs. As all three company leaders shared a constant theme throughout their interviews—"we made it up as we went."

Functional teams had to explore how to do their jobs in support of a "new-to-the-world" category, let alone a new company. Engineers had to integrate front-end web ordering systems with back-end operations processing and delivery systems, marketers how to educate and entice users to try a service no one had ever seen, operations staff had to learn how to order DVD inventory and not buy too many or, worse, not buy enough. This theme of "make it up" as you go proves to be constant through the firm's history. One can safely say that Netflix embraced a framework of contextual ambidexterity rather than structural. Once a model of each function's efforts received positive traction, the same team then shifted focus towards exploitation—how could it be made better, scaled, and optimized?

Resources are scarce in most start-up environments, and Netflix was no different. It lacked the resources to have separate teams focus on exploration and exploitation activities. If a team was responsible for a specific business function, it had the responsibility to identify a positive path and then "version" that path for optimization. The "new user signup experience," critical for customer acquisition, reportedly has had thousands upon thousands of hours and countless experiments conducted on it, utilizing marketing, design, and engineering support. A fraction of a percent increase in conversion rate on the sign-up experience could equate into hundreds of millions of dollars due to the subscription nature of the business.

Pure vs. hybrid approaches to ambidexterity. While structural and contextual approaches are pure forms of approaches, complex businesses may call for what we term a "hybrid approach." In particular, a significant exception to Netflix's contextual approach to ambidexterity is its legacy DVD-by-mail business. In July of 2011, Netflix announced that its core business would transition to online streaming.

If customers wanted to continue receiving DVDs through the postal service, they would have to select and pay for that option separately. The firm's initial model—ordering DVDs online and then receiving and returning them via the mail—was to be a run-off business. The future focus was decidedly on streaming content. No longer the driver of growth for Netflix, the DVD business line found itself with very different goals: continue to serve the current customers extraordinarily well, reduce operating costs, and do not attract new subscribers. If the future of Netflix was to be streaming, its resource focus had to be on it as well.

Resultantly, the team required to manage this shrinking business line needed to have exceptional exploitation-oriented skills, not exploration skills. Unlike the rest of the company, employees managing the slightly more than 2 million DVD customers (end of 2019) were asked to focus on operational excellence and cost reduction while delivering a high-quality customer experience. Is this exception to the contextually ambidextrous nature of the rest of the organization a challenge? The leaders say clearly, “no.” By establishing clear goals for the team and alignment to the overall strategy—deliver profits to fund the growth of streaming—team members are fully aware of the goals, choose to “buy in” and fully commit to them, and are allowed to apply their specific optimization skills.

Having a sizeable team managing an exploitative-focused team is not a rare occurrence. Contextual and structural approaches to ambidexterity are not necessarily alternatives, says Brinkshaw and Gibson (2004), they should be complementary. Structural separation may at times be essential, they add, but it should also be temporary, as we suspect it will eventually be in the case of Netflix's DVD business line.

To address the risks of being employed by a shrinking business, DVD business line employees are compensated extraordinarily well—generous, above market salaries, large retention contracts, and personal stakes in future line earnings and contributions. As Patty McCord shared, “you set that team up for incredible success for the time that they're going to be there... it's a matter of understanding the skills and talent in that very successful business with a (limited) lifespan and being honest with people about it.” Addressing their passion for this ever-shrinking business line, she adds they “love that business. They're really good at it. They're still shaving off a quarter of a cent whenever they can because that's that business.”

Cost–benefit of a contextual approach. At its core, organizational ambidexterity is about resource allocation, the appropriation of valued assets and capabilities towards the areas of focus that allow an organization to appropriately balance the needs of today with the needs of tomorrow. An intriguing question posed in the literature is the degree to

which this is required throughout an organization. Might it be the case that operations and commercialization functions (sales and marketing) should focus on exploitation and NPD and innovation functions focus on exploration? Hughes (2018) proposes that it is risky to have every employee allocate time and effort to both exploring and exploiting as it may not be sensible or necessary and may result in unintended coordination challenges or costs. This argument focuses on the potential downside of a contextual approach. What is ignored in this argument are the potential benefits of increased participation by a wider, more diverse set of employees. A key to Netflix's success appears to be the generation of ideas for doing new things, and the belief among leaders that great ideas are more likely to emerge when more employees focus their creative energies on serving customers better. As the co-CEO Reed Hastings shared with TED, “What matters to the success of the company over multi-decades are the new ideas” (TED Studios, 2020).

While each employee has a specific role and goals to focus on, there is also an obligation to spend time and energy on the customer experience as well as general opportunities for improvement across functions, and to share observations and ideas. Similarly, Randolph indicates, “everyone's a contributor to what direction we go. Some of the most incredible insights could come from any place in the organization.” To support this focus, Netflix has given each employee extraordinarily broad access to virtually all company data. Seemingly risky, there has been no report of violation of company insider information in the more than 18 years as a public company. Variability of new ideas—from everyone in the company—is what fuels Netflix, not a fear of inevitable errors. To quote Reed Hastings again, Netflix is “going to have some mistakes but they don't really matter in the success of the company over multi-decades” (TED Studios, 2020).

Research opportunities

A number of research questions are triggered by the nature of Netflix's business (primarily digital content), and its practices revealed in the interviews with Jaworski. For example, to what extent is a contextual approach to ambidexterity more appropriate for digitally oriented firms versus traditional manufacturing organizations? Is it the case that in digitally oriented firms the skills and resources for exploring and exploiting are more similar whereas in traditional manufacturing companies the skills required are more varied? What role does clarity and transparency of mission, vision, and values play in successfully managing a contextual strategy? What employee skills, if any, are helpful for successfully managing a contextual ambidexterity strategy?

For example, is mental agility for switching from thinking exploration to exploitation and back important? To what extent do clarity of strategy, goals, and alignment of rewards offset the competing objectives of business units pursuing exploration and exploitation in a firm pursuing structural ambidexterity?

How does a firm's life stage impact the appropriateness of a contextual strategy? One might hypothesize that young firms have little option but to pursue a contextual strategy, but once they grow beyond a certain size most firms may be better off with a structural ambidexterity strategy. This hypothesis flies in the face of the Netflix experience, but perhaps Netflix is an exception. If so, why is it an exception? Might it be the firm's unwavering emphasis on hiring the very best and pruning the workforce when its skills no longer match the firm's direction?

As a firm using a contextual strategy becomes global, should it continue with its contextual approach or migrate to a geography-based hybrid approach—contextual in some markets and structural in other markets? Under what conditions, if any, is this desirable?

What actions and incentives can be put in place to encourage the continued contribution of growth ideas from employees in designated run-off businesses (termed “cash cows” in the 1970s)? Or does encouraging this continued contribution to future looking ideas cloud the optimization focus of team members? Is it the case that at its core ambidexterity is about being innovative but in two distinct domains—exploration and exploitation? While the relevance of innovation in exploration is obvious, there may be room for innovation while exploiting current businesses as well.

Finally, it would be interesting to study larger, privately held firms that have successfully reinvented themselves over decades (Koch Industries, Cargill, for example). Due to their private structure and minimal public disclosures, visibility into their operating models are limited. Perhaps the methods and processes utilized by this category of firm could generate new insights and inspire alternative approaches to ambidexterity.

Scaling up

Thornberry (2001) suggests that successful start-up entrepreneurs do three things very well: identify real opportunities, develop and shape these opportunities, and then create business structures to convert the opportunities into successful, growing businesses. Clearly the demands, priorities, resources, and capabilities of an organization dramatically change as it traverses the three phases laid out by Thornberry. Regardless of industry or market, the one thing shared by all start-ups is the desire to scale.

Netflix has successfully scaled (and continues to grow). It has over 200 million subscribers worldwide, more than 9,000 employees, operates in 190 countries, and has a market capitalization of \$246 billion. It is the clear global leader in streaming entertainment. So why is it that over 20 years after launch, Netflix co-CEO Reed Hastings states “we are very much still in challenger status” (Financial Times, 2020)?

In general, as start-up companies grow and move through the stages of development, the entrepreneurial ethos that once drove them dissipates. The realities and complexities of scaling a business results in different foci and approaches. However, as we have seen in Jaworski's interviews, Netflix did not follow this path. While the firm has clearly navigated several developmental stages, its entrepreneurial focus has been sustained, not dissipated. This was by design, not happenstance. As co-founder Marc Randolph shared, Netflix demonstrates that “it is possible to basically build a large organization which consists of people who all are empowered to think like they're in a start-up.”

What is it about the process of scaling a business that may dramatically reduce the entrepreneurial spirit and how does Netflix counter these natural forces? We first share our observations concerning how typical businesses thematically depart from their entrepreneurial foundations based on literature, case studies, and our first-hand direct experiences with hundreds of organizations. We then share comments regarding how Netflix maintains its strong entrepreneurial focus.

It's all about context, not control. As companies grow, measures of control flourish (Stevenson & Jarillo-Mossi, 1986) at both the functional and corporate levels. Policies, procedures, and regulations swell in an effort to provide clarity, drive conformity in behavior, and to minimize variance. Netflix seeks to remove rules and procedures and place judgements in the hands of its employees. The firm hires “fully formed adults” who don't require tactical prescriptions to be able to make decisions that are in the best interest of Netflix. Examples include no vacation policy, no travel or expense policies or approvals, and employees empowered to independently approve multi-million-dollar projects within their domains (New York Times, 2020).

The future is where growth comes from. Once finding success in endeavors, organizations are likely to prefer exploitation over exploration (Audia & Goncalo, 2007) as it is more probable to generate continued, albeit smaller, positive results with less risk. Long term prospects are deemphasized as short-term opportunities are prioritized as the “tyranny of the served market” takes hold (Hamel & Prahalad, 1994). Netflix was created at the intersection of two emerging yet unproven technologies, the internet and DVDs. Leadership knew that if it could find product-market

fit, it would be short-lived: future delivery platforms would emerge over time. To be prepared for these unknown future opportunities, the firm focused on identifying and creating them while also optimizing for current customers. Netflix demonstrates “industry foresight” (Hamel & Prahalad, 1994), an organization’s ability to move beyond short-term customers and competitors and anticipate and possibly influence the trajectory of markets. As Patty McCord shared, the business is “evolutionary, but it’s always, always, always forward thinking.”

If you can’t make decisions, are you really a professional?

Decision-making actors and processes change as companies expand and move through development phases. Meaningful decisions often evolve to the domain of the executive, consensual amongst relevant bodies, and become overly complex. At Netflix, decision making authority is broad and in the hands of the employee: approval and authorization processes have been eliminated and the employee is entrusted with doing what is best for the firm. The view is that management involvement in this process is detrimental to long-term success. As Randolph shared “your role as a manager is not to make all the decisions. Your role is to make sure the right people are in the right seats and to make sure they have all the information they need to empower them to make decisions on the front lines.” Perhaps more profound is this remark by Hastings, heralded as one of the smartest leaders in business today—“A great year for me is one where I make no decisions” (TED Studio, 2020).

Future success is based on everyone’s ideas. Over time, innovation tends to focus on incrementality versus disruptive or breakthrough innovation due to three reasons. One, it is more stable and predictable, representing less risk. Two, due to the emergence of specializations of roles, broad thinking becomes more challenging. Three, firm history and industry dominant logic strongly frames the nature and evaluation of new ideas. Ideas that could evolve into breakthrough or disruptive innovations are rejected because they do not represent “the way things are done.” Imagine what may have happened if Blockbuster Video had chosen to eliminate late fees and due dates prior to 1998. Netflix’s embracement of contextual ambidexterity enables nearly every employee to spend time and effort on both exploration and exploitation activities. Participation in the innovation process is not the domain of a select few but the expectation of all employees. Says Randolph, “Some of the most incredible insights could come from any place in the organization. That was a really interesting, interesting observation, concept, and eventually strategy.”

As Audia and Goncalo (2007) point out, creative ideas are the raw material necessary for innovation. Beyond broad

participation in the ideation process, Netflix also developed a rigorous yet rapid process for evaluating and developing ideas. Randolph continues, “...it wasn’t about having good ideas. It was about building this system and this culture and this process for trying thousands of bad ideas.” The ability to identify potentially transformative ideas requires two enabling capabilities: the acquisition of countless varied ideas and the creation of system that can rapidly vet and evaluate them. Netflix successfully developed both capabilities.

Calculated risks mean mistakes, but how else do you find paths to growth?

While organizations may continue to engage in exploration activities as they grow, the natural proclivity is to shift primary focus to more stable and predictable areas. Reward structures often incent risk mitigation activities. Additionally, fear of failure and mistakes often results in individual employees self-limiting exploration of possible rich veins of opportunity. As O’Reilly and Tushman (2011) summarize, managers regularly minimize future threats and focus on short-term gains at the expense of riskier long-term opportunities with potentially larger payoffs. Although all start-ups face significant risk, Netflix was birthed in 1998 into a highly speculative and risky environment that required its customers to adopt two enabling technologies beyond the firm’s control—the burgeoning internet and DVD technology. As Randolph shared, “We had no certainty. Netflix still has no certainty in what the future is. That is the key to this. If we had waited until we knew that rental was going to work, we never would’ve started. Someone would’ve gotten there way before us. You can’t wait until you know enough.”

Failing is the cost of success. Over the firm’s history, Netflix has consistently embraced risk taking as a key driver of future performance (Putniņš & Sauka, 2020). It has inculcated risk taking throughout the organization. Says co-CEO Reed Hastings, the role of leadership is to “inspire people to take risks and take chances because the winners are so much more important than the ones that don’t become big” (TED Studios, 2020). Successful strategic decisions, in hindsight, nevertheless represented significant risk at the time: changing the business model from DVDs in the mail to streaming, or current co-CEO Ted Sarandos’ moving forward with a \$200 million investment in “House of Cards” with just a casual nod from Reed Hastings who relied on Sarandos’ conviction rather than the script. These significant successes are far outnumbered by equally risky yet unknown endeavors that were evaluated and eventually terminated prior to full commercialization. Examples include a 2004 United Kingdom expansion that, after a year of development and in-market testing, was cancelled three days prior to the public launch. Another is the termination of Netflix’s social feature, “Friends,” in 2010 after 5 years of driving user adoption and

reaching only 2% user adoption (Betanews, 2010). Calculated risk taking is rewarded and celebrated at Netflix as it has learned through experience that failure is not optional to learning, it's an integral part of creating value and producing success (Edmondson, 2011). At Netflix, it can be said that when it comes to exploratory activities, LOI trumps ROI; “learnings on investment,” not “return on investment.”

Hire the best, pay top of market, get out of the way.

Staffing requirements change in size and focus as organizations scale. Specialty roles are required, pressures to hire accelerate as project and initiative timelines compress and assessing potential hires for cultural fit may no longer receive as much importance. As a result, maintaining a once high-caliber employee base becomes more challenging as “settling” and mediocrity in hiring and employee retention becomes more common. Netflix has committed to preventing this slippage in employee quality and focuses on “talent density”—having the best possible person in each and every role companywide. During the firm's formative first few years, it learned that a few exceptional employees can do the work of dozens of merely “good” employees. Stevenson and Jarrillo-Mossi (1986) identify that better growth companies inherently recognize that compromise on employee quality is always a bad decision. To support this goal, the firm not only pays top of market salaries but has created an environment where employees have “freedom and responsibility,” independence with decision making authority. To maintain its talent-dense staff, Netflix also employs a “keeper test” each and every quarter: if a manager is unwilling to fight to retain an employee as best-in-class, the solution is a substantial severance package. Finally, Netflix incentivizes future behavior, not past behavior, with a unique compensation strategy. Employees are able to select a percentage of compensation in the form of fully vested stock (issued monthly at a market price).

Scaling a company represents countless challenges and a need to seemingly alter an organization's processes, resources, focuses, and capabilities as it moves through the various stages of development. Netflix has forged a unique and interesting alternative that has clearly served it well as it has scaled from its extraordinarily risky origins to its current market peak. Netflix's approach to scaling may be summarized as follows. First, identify the firm's start-up genetic code, its organizational DNA. Second, create the structures, practices and values that clarify and support these DNA elements across the organization. Finally, ensure and encourage constant, visible, and vocal reiteration of these expectations by leaders and employees, and accept no deviation from these genetic markers.

Research opportunities

The general elements outlined above and passionately embraced by Netflix are not entirely new; they have been discussed in the literature for decades. Yet most firms lose their start-up DNA as they scale up. Netflix appears to be a dramatic outlier. A key research question is why has Netflix managed to scale up to as many as 9000 employees and still retain its entrepreneurial spark? Why do other firms not embrace these themes in order to capitalize on their empirically demonstrated benefits? And when firms do attempt to establish these themes, why do most appear to be unable to sustain the original spark?

A possible explanation may be the role top leaders accord to themselves—advocates and preservers of the start-up DNA, more so than stewards of organizational strategy, operations and people. It is telling that co-CEO Reed Hastings considers a year as great if he makes no decisions! If this is in fact the case, a related question arises—can non-founders of companies who may not have the same level of credibility with employees, adopt the same role successfully? What conditions must be true for this to be successful?

Another possible explanation for Netflix's ability to preserve its entrepreneurial spirit as it scales up may be an unrelenting focus on “talent density”—an enterprise-wide commitment to creating and maintaining a world-class employee base. Might it be the case that practices such as evaluating employee actions thru the lens of “Netflix's best interests” rather than pre-ordained policies, welcoming failures as a requirement of success, emphasis on new ideas from all, calculated risk taking, and so on, work because the caliber of Netflix's employees is absolutely world-class? If yes, what implications does this have for the vast majority of firms that do not, and by definition cannot, have the best employees in the world?

What other values and practices, not undertaken by Netflix, could prove successful in maintaining an entrepreneurial ethos as a firm scales up? For example, it is unclear whether “promote-from-within” policies are superior at preserving an entrepreneurial culture as compared to hiring “fresh blood” from the outside. Finally, we have speculated on the causes of entrepreneurial decline as a start-up scales up. It would be useful to formally hypothesize and empirically test antecedents of entrepreneurial decay over time, and moderators of their effects. Research along these lines is likely to be useful to businesses in identifying what they can do to thwart the decline.

The leadership required to start a company often lacks the skills and abilities to successfully scale a company. Reed Hastings and his initial leadership team exhibited both, a rarity in modern business. What is the right

composition of a firm's top management team to enable it to scale? What backgrounds, personalities, beliefs and values, and management philosophies align with enabling an organization to successfully scale up?

Customer centricity

Drucker (1954) writes “it is the customer who determines what a business is, what it produces, and whether it will prosper.” Businesses allocate valuable and limited resources towards the creation, promotion, sales, and servicing of products and services that seek to meet customer needs. And since it is the customer that decides whether or not a business will succeed or fail on these fronts, does it not behoove every business to deeply understand its customers?

Start-ups require timely and regular market feedback in order to improve virtually every element of their unproven and untested products, services, or business models. This is especially critical for market-shaping businesses like Netflix that have significantly more obstacles to overcome. Despite a disdain for late-fees and due dates, consumers accepted the cultural norms of movie renting—a trip to the neighborhood Blockbuster store for a VHS tape. This “lack of responsiveness” by Blockbuster enabled Netflix to become an “emerging alternative” (Baker et al., 2019) by offering something very different and entirely unproven in 1998—ordering DVDs online, receiving and then returning them via the USPS, all from a company they never heard of.

To aid in the development and refinement of its offerings, Netflix engaged frequently with members of its target market—early adopters of DVD technology. Nearly every aspect of the business was regularly evaluated by prospective customers, iteratively improving each area of focus and helping Netflix improve its commercial offerings. Qualitative, quantitative, and behavioral methodologies generated actionable insights for every function in the business. As Wah (1999) writes, the only way to propel a business into a market that does not yet exist is by understanding customer value.

As companies grow, organizational focus on the customer often wanes, despite the logic of Drucker's words above and the direct value of customer input experienced earlier in a company's development. Contrary to most scaling organizations, Netflix deliberately maintained its deep customer focus as it expanded. For our purposes, we will label this relentless focus on a deep, authentic understanding of the customer of today as well as tomorrow, customer centricity. This is defined as the extent to which an organization understands and delivers the value sought by target customers (Kohli et al., 2019).

Why do companies stray from customer centricity as they grow, despite deriving great value from it in earlier stages? We first share our observations concerning how this waning

manifests itself in typical businesses across multiple categories. Our observations are again based on literature, case studies, and our first-hand direct experiences with hundreds of organizations. We then share comments regarding how Netflix maintains its customer centric focus in the same categories.

Do what we say and do. Once deeply engaged with and dependent on customer input for decisions in earlier stages, leaders of mature firms rarely interact with customers outside of fielding the occasional angry (large) customer call or engaging in requisite account relationship activities. Customer knowledge is relegated to summary reports and metrics packages. Deep customer learning, if it takes place at all, is less critical to the exploitative nature of the firm and is buried deep within the organization, several layers removed from leadership. Finally, and unfortunately, it is not uncommon to have this capability serve in a true validation capacity; utilize customer knowledge to support exiting hypotheses, not to inform them.

Leadership at Netflix, however, embraced an engaging, respectful approach to the crucial role of the customer and uses all methodologies to be informed. This may have been influenced by the backgrounds of the firm's original leadership team—former Proctor and Gamble brand manager, mathematician, direct-mail expert, doctorate of computer science, executive of subscription music network, Music Choice, to name a few. All were experienced and oriented towards the customer and the value of data. These leaders fully embraced customer input and data and established departmental expectations for decision making requiring the voice of the customer. They would regularly attend usability sessions, focus groups, and seek frequent updates on critical research project, modelling behaviors to reinforce and grow the organization's customer focus (Gebhardt et al., 2006). Supported by leadership, Netflix also established a fully funded internal insights capability to serve each and every department with staff that could expertly employ nearly every methodology imaginable. The goal of this investment was to remove any possible barriers internal partners may have—time, budget, or methodological constraints to customer learning.

Let everyone play with live ammo. Earlier in an organization's lifespan, simple experiments are conducted largely out of necessity—companies lack the resources to do anything more rigorous. But as they mature, companies become more risk-averse, have more resources, and as such conduct experiments or A/B tests, at least insofar as digital properties are concerned. Usability experiments may also be undertaken, thanks to the proliferation of Agile, Lean, and Design Thinking methodologies. As Day (1994) points out,

organizations take actions aimed at improving effectiveness, efficiency, and customer satisfaction but often lack the discipline to fully implement the learnings. Moreover, due to perceived internal and external risks, organizations often fear larger scale experiments such as new business lines or business models. Ironically, firms unwittingly embrace more risk by not leveraging an experimental philosophy to reduce the risk of new business frames and practices (Birkinshaw & Gibson, 2004).

Driven by its strong customer centricity, Netflix has established a culture of experimentation, constantly improving the firm's process and systems (Kumar et al. 2011) for both exploitation and exploration. Nenonel et al. (2019) define experimentation as not only the ability of an entire organization to systematically probe a market's receptiveness to new ideas but to, importantly, embrace the often-unexpected results generated. A recent company presentation documented how Netflix is running a multi-variate experiment regarding how content options are displayed. The experiment has more than 500 test cells. Beyond digital experiments, employees across the firm utilize and contribute to experimentation as part of the idea development and vetting processes. This could be in content creation or acquisition (House of Cards), product feature development (Direct, a real-time TV channel populated with shows and movies being tested in France), marketing and campaign development (promoting a new show), or anywhere in the firm.

Says Patty McCord, "Almost any idea that would benefit the consumer was testable. That became a mantra inside of the company. For me, I just became enamored with the business because my observations were as valid as anybody else." An example of a significant yet largely forgotten experiment, Netflix offered streaming content for nearly five years (for free) prior to seeking monetization as a standalone offering in July of 2011. During those five years, this "free" component of a user's subscription allowed Netflix to safely experiment with content presentation and quality, compression algorithms, marketing and positioning of the offering, and customer usage patterns. It allowed Netflix to learn with minimal risk, fine tuning its future-facing product prior to launch.

Democratize data. As companies mature and grow in scale and complexity, several structural limitations emerge. Organizational silos restrict information flows across functions and geographies. Data governance and compliance concerns grow and data and its access, the lifeblood of an organization, become severely restricted to most. At Netflix, data are democratized and available for all to freely access. This includes customer usage data, content consumption data, customer acquisition and retention data, and financial

data. The firm understands that for its employees to create the maximum value, access to all information that creates a comprehensive view of the customer is required. While not all companies are likely to be comfortable with this degree of openness, Netflix adopts it because of its talent density of "fully-formed adults."

"Are we there yet"? key metrics show the way. Customer-facing functional projects or company-wide initiatives establish success criteria and in-flight key performance indicators (KPIs). These likely include measurements such as interest, likelihood to purchase, brand preference, and so on. Small scale experiments—A/B testing on digital platforms, for example—are common but tied to campaign performance. Additionally, larger organizations may have a monthly or quarterly "brand tracking" study, giving the organization insights into how historical efforts impacted customers. Finally, organizations may attempt to regularly measure company-wide customer sentiment in the form of a quarterly or annual satisfaction or Net Promoter Score survey. Helpful for longitudinal tracking or annual report content, studies of this nature are less useful for informing tactical and timely executions.

Netflix, because of its digital nature and strong sense of customer centricity, embraces a rigorous focus on measuring customer-facing efforts' impacts on two fronts. First, as the customer experience is the product—how to access, select, and watch which content on which screen type—key measures of engagement and usage are well established. Second, Netflix is relentless at creating solutions that improve the customer experience in a way that also positively impacts its economic drivers—customer acquisition and retention. The ultimate measurement of a positive customer response is whether they sign-up at a higher rate (acquisition) or remain a subscriber longer (retention). A fraction of a percentage increase on either of these two metrics equates to hundreds of millions of dollars due to the compounding nature of subscription economics. Neil Hunt summarizes, "We would monetize the product team by delivering happiness to consumers measured in terms of their willingness to keep spending money on a subscription." Reinforcing this point while commenting on the run-off DVD business, Randolph shared that in addition to seeking further operational excellence, "They still are worried about keeping customers happy."

It's the customer, stupid. Despite industry's transition towards customer-focus from a deeply entrenched product-focus over the past few decades, companies largely relegate the "ownership" of the customer to commercial functions—sales and marketing. This results in several unfortunate outcomes. First, a holistic view of the customer journey

and each function's role—and impact—is never developed, limiting opportunities to improve. Second, as a result, non-commercial functions focus on operational metrics with limited consideration of customer impact. Third, the commercial functions lack the capability to address customer pain points or opportunities that are outside of their domains. As Day (1997) summarizes, lack of coordination in product centered organizations often results in missed growth opportunities. The “true north” for employees in such organizations is their function's goals in support of the organization's goals, not the customer. While Netflix clearly has corporate goals, each function is unified around one true north—sustainable success is attainable only through the customer. As such, the strategies and tactics employed to accomplish the company's goals are originated, refined, developed, tested, and launched with direct and indirect customer input (see also Shah et al., 2006). Each employee understands the critical role that customers play in the continued success of the business and commits to it as the way of working (Harris, 2000). Patty McCord summarizes the human resources department's application of this philosophy: “We're here to put together an organization that can create an incredible experience for your Aunt Martha so that she never stops paying us.”

Netflix has developed a robust customer focus that (1) spans and unifies the entire organization, (2) enables learning from all customer types utilizing multiple methodologies, while (3) maintaining a keen eye on external factors in the macroenvironment. While co-CEO Reed Hastings would be the first to proactively share “It's impossible to know where a business like ours will be in five years” (Wall Street Journal, 2020), his firm's customer focus has shown to be a key enabler of its successful strategy development and execution over the past 23 years—a true sustainable advantage (Kumar et al., 2011; Harris, 2000; Shah et al., 2006). This foundation will continue to be crucial as Netflix seeks continued growth in international markets with a local content strategy, where its country-level knowledge must “be both broad and deep, extending across political, institutional, regulatory, technical, cultural, consumer, and competitor domains.” (Brennan, 2018).

Research opportunities

The importance of customer centricity for a business to succeed is well accepted. Yet, most firms tend to become less customer focused over time. Netflix, however, has not slipped up on its customer centricity. The levers it pulls to ensure customer centricity appear to be well known—leader emphasis on customers, experimentation and other forms of learning, use of customer input to guide all functions, and

metrics for tracking progress or slippage. What is it about Netflix that enables it to maintain a steadfast focus on customers?

As alluded to earlier, it may be the case that at least a subset of the firm's founders continue to be at the helm of the company, and they take it upon themselves to incessantly focus on all employees using customer input to guide their actions regardless of their functional affiliations. In contrast, later leaders perhaps do not understand the centrality of customers at a visceral level?

Relatedly, it would seem that no matter how charismatic a leader, connecting with 9,000 employees on a daily basis in a meaningful, deep way to underscore the importance of customer centricity is impossible. Rather, the value system builds without employees even being conscious of it. It would be interesting to assess the influence of peers' words and actions on each other, as well as upward influence on their superiors. Conversely, how much laxness on the part of peers does it take for the value system to degenerate?

Netflix has an almost entirely digital relationships with its customers. This enables easy connectivity, fast access to customer input, adaptation to customer preferences, and easier experimentation with new products and offerings. Might the digital nature of Netflix explain its sustained customer centricity? Are there equivalent methods available for traditional businesses where digital connectivity may be but a portion of the customer experience? What might be good ways to make salient the links between the work of non-customer-facing functions in traditional organizations and customer acquisition and retention? Relatedly, what might be effective ways of addressing perceived conflicts between customer satisfaction and operational efficiency? Between investing for long-term customer satisfaction and the next quarter's profits?

Another issue of interest is data access by virtually all employees. To what extent does this by itself, and the implied transparency and candor, contribute to Netflix's customer centricity? Data access and security is of paramount concern to business leaders today. What is it about Netflix's culture and approach to broad data access by virtually all employees that has not resulted in data breaches? Is talent density required for complete data access and security to co-exist?

In considering the influence of business models on an organization's customer centricity, the following question also emerges. Are subscription businesses (versus outright sales businesses) more oriented towards customers due to the greater pressures of retention and recurring revenue?

Finally, is it possible to over invest in or act too quickly on exploration? In 2011 Netflix repositioned itself—and its offerings—as a streaming content company, despite the fact that its DVD business had tens of millions of customers and was a financially healthier operation. Was its July 2011

decision to split the firm premature or was it the right time? Could it have generated even more cashflow for investing in its streaming platform if it had delayed the pivot? What role do competitors exert on decisions regarding the continued monetization of current businesses versus launching new businesses?

Conclusion

The picture that emerges from the interviews with the three Netflix executives is one of cohesion, focus, and clarity. Interestingly, these are in the face of perpetual uncertainty and increasing competitive threats. Netflix has inculcated several operating themes into its culture as well as created competences that seem to account for its ambidexterity, a start-up mindset at 9,000 employees and an unrelenting focus on customers. Its practices provide much food for thought and opportunities for future research. We hope this commentary serves to stimulate more research that can help firms to compete effectively for today while positioning for tomorrow.

Declarations

Disclosure One of the co-authors, Joel Mier, worked at Netflix from 1999 to 2006 as Director of Marketing.

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