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## Undoing the mess

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NETFLIX, a Silicon Valley firm that sends DVDs through the post as well as streaming films and television via the internet, has gradually built a reputation for two things: superb customer service and great technological foresight. Rather like Apple, it has delighted people by seeming to know what they wanted before they knew it themselves. Following several months of ruinous missteps and reversals, Netflix's aura has dimmed. But the company is beginning to correct its mistakes.



In July Netflix announced that it would charge for its DVD-by-post service separately from its streaming service. People had been able to pay \$9.99 a month for the right to rent any number of DVDs (provided they had only one disc at a time) and stream all the films and television shows in the company's catalogue. Henceforth, customers would be offered a choice: DVDs for \$7.99 a month, or streaming for \$7.99 a month. Anybody who wanted both would pay \$15.98.

The move did not go down well with the firm's 25m subscribers. So in September Netflix's boss admitted that he had "messed up". Reed Hastings concluded that the firm had not been clear about what it was doing. It would therefore separate DVDs from streaming entirely. Netflix would become a streaming service, as it already is in some countries, such as Canada. Old-fashioned folk who wanted DVDs would be shunted into a separate service, named "Qwikster", with its own website and its own billing system.

At that, customers went nuts. Hostile comments piled up on Netflix's website and on its Facebook page. The company was flayed in blogs and newspapers, including *The Economist*. As one of the tens of thousands of hostile online commentators noted, Netflix's boss had made a kind of category error. He had concluded that the firm was engaged in two distinct enterprises: a DVD-by-post business and a streaming business. In fact, Netflix is simply in the home-entertainment business. By forcing its customers to choose between different delivery systems for films and television shows, it had narrowed people's options.

Your correspondent [argued \(http://www.economist.com/node/21530169\)](http://www.economist.com/node/21530169) that Mr Hastings had made another fundamental mistake. An oddity of American law known as the “first-sale doctrine” means that rental outfits such as Netflix are allowed to hire DVDs as soon as they go on sale to the public. To stream content, by contrast, Netflix must do a deal with a studio. Some studios, like Warner Bros, make the firm wait several years for its films. Others, like the pay-TV broadcaster HBO, refuse to let Netflix stream their shows at all. All media firms demand more money as Netflix becomes richer.

As a result, Netflix’s library of streaming content, although instantly available, is far smaller than its library of DVDs. By separating DVDs from streaming, Netflix was effectively offering its customers a choice between two unattractive options. Did they want access to a huge catalogue of content, including recently-released films and TV shows, which would take a couple of days to arrive in the post? Or did they want instant access to a much smaller selection of older content?

Wisely, Netflix has now reversed course. On October 10<sup>th</sup> the firm announced that it was dropping the Qwikster plan. Its stock price has recovered—but only a little. A mistaken decision has been quickly buried. Netflix’s reputation for customer service and technological competence will take longer to repair.

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