

THE HUB

THINKING MARKETING FOR BUSINESS VISIONARIES™ | January / February 2006

BEST PRACTICES

Netflix Clicks

Getting consumers to go online and mail-order DVDs from Netflix represented a huge behavioral change. How did you pull that one off?

You're quite correct that the change from store-based rental to renting DVDs online represented an enormous behavior change. The core marketing strategy at Netflix—in fact, the company strategy overall—is to provide a great customer experience. We don't want our customers *liking* the service; we really want them *loving* it.

When our subscribers love the service they actually become our single-best marketing channel because they talk about the service with their friends, family members and colleagues—and that brings on that next generation of subscriber growth. It sets up a virtuous cycle.

How do you make sure that Netflix sustains its talk value?

It all comes back to investing in the customer experience on a 24/7 basis. That's the number-one thing that Netflix invests in. We not only want our existing subscribers to be happy and to stay with the service, but also to evangelize the service.

While our paid channels—such as television and direct-response vehicles like direct mail, online banners and search—work extremely

hard for us, word-of-mouth is our best channel. It's a combination of costing the least and performing the best. You can't over-invest in it.

We've been very successful. Eighty-five percent of our new subscribers say that an existing subscriber recommended Netflix to them. Ninety-three percent of our subscribers say that they evangelize Netflix to friends, family members and colleagues. We've had a track record of enormous success in this area.

Are there different types of Netflix customers?

At the core, what appeals to our subscribers is the ease and convenience of using Netflix. That cuts across a couple of different dimensions. First, it's obviously the convenience of not

having to pay late fees and having free, fast shipping to your home. Ninety-two percent of our subscribers live within one business day of a Netflix shipping center.

Then, of course, there's the revolution of having a queue of movies. When you return one movie, we automatically send you the next available movie on your list. The queue is incredibly revolutionary in that way. In addition to that, there's enormous value that our subscribers place on our collection. We have more than 50,000 titles, whereas a typical video store ranges from a few hundred to at most a couple of thousand➔



Having changed the way more than four million Americans watch movies, CMO Leslie Kilgore reflects—and projects what's next for Netflix.

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← There might be different aspects that appeal to different people a little bit more than others. On the whole, the incredible ease and convenience of renting movies online and having them delivered to your home is fairly universal in its appeal. Across the board, what we're trying to do is make enjoying movies quite easy and to put the joy back into watching movies.

You've recently started to do some television advertising. Does that have any impact on your word-of-mouth strategy — do you lose any cachet?

The two actually work well together and are in harmony with one another. At the end of the day, our hardest working and our best channel is word-of-mouth. The television advertising reinforces the experience that our subscribers talk about with their friends, family members and colleagues. The advertising helps raise awareness and reach people.

One of the realities of subscriber acquisition is that consumers don't join based just on one impression from one channel. One banner ad doesn't create a new subscriber; nor does seeing one television ad. But the combination of a TV ad and a friend talking to you about Netflix might — or, a combination of an online banner and a person talking about Netflix might. So the advertising and the word-of-mouth are very complimentary; they reinforce one another.

What is the potential of Netflix as an advertising medium unto itself?

We ended 2005 with between 4 million and 4.2 million subscribers. We've also indicated that we plan to reach 20 million subscribers in the next five to seven years. So a subscriber base of 20 million subscribers focused on the movie industry, which is an incredibly large industry, would make us a very attractive advertising vehicle.

You've started to carry ads on your return envelopes for the DVDs. Have you been able to assess any consumer response to that?

To date, the response from our subscribers has been enormously positive.

There are paid advertisements for movies, which is obviously in their sweet spot. Our subscribers are very much enjoying what we have to show them.

Why did you pick the color red for the envelopes?

When people think about movies they often think about the red carpet and curtains in a movie theater. Red is a wonderful color to evoke the emotional response around movies. Movies are all about escape and fantasy and projections.

You have the e-mail addresses of subscribers to notify them when movies are sent and received. Are those e-mails fair game for promotions?

The reality is that we keep our communication with our subscribers very simple and focused on movies and the enjoyment of movies. The vast majority of our communications with our subscribers are limited to acknowledging that we've received a movie or have shipped a movie to you.

How do you see the potential of blogs as a medium for marketing?

Right now we don't do anything actively in the blog community. Having said that, I really view blogs as just another extension of word-of-mouth. So, I come back to my core belief that the cornerstone of the marketing strategy is providing a great customer experience. Again, we want our subscribers loving the service, and when that happens, some portion of them will choose to evangelize us in their blogs and we think that's great.

Do you envision any circumstances under which it might make sense to have Netflix stores?

I don't. One of the reasons Netflix has been so successful is that we really have put the joy back into movie watching because there's none of the traditional hassle associated with rental — things like late fees, trips to and from the video stores, empty shelves and lines. Instead, Netflix is all about ease and convenience. So, moving back into an old model that includes late fees and empty shelves wouldn't be for us.

Netflix almost seems to have Google-like potential for line extensions.

I very much appreciate the kind words around the Google-like potential! The reality is that we have pioneered and are leading an incredibly large and explosive market. If we were an industry that was experiencing slow growth, where we didn't have a large market, then extending the brand would make sense. But we're in an industry that's growing at an incredibly rapid clip; we've had 20 quarters now where ending subscriber growth has been greater than 50 percent.

There are more than 90 million homes that not only have the interest but also have the economic wherewithal to routinely pay for home entertainment—whether that comes in the form of cable or a subscription to a product like HBO. Then, when you think about how many people have internet access and DVD players, there's a huge addressable market. So, given the explosive growth that we're experiencing and the enormous market potential that's in front of us, we will continue to focus on online DVD rental.

Do you see a movie-making business in Netflix's future?

In terms of the actual production of movies from a creative and casting standpoint—no, I don't. It's a different competency. However, we are very focused on providing our subscribers with a com-

prehensive, unsurpassed collection of movies. So, we will continue to seek out all of the film entertainment titles that are available on DVD. We're very active with the film community and we really do want to enable each film to have its moment with our subscriber base. We'll continue to be active in that way, but we really see our role as enabling distribution.

What does the CMO title mean at Netflix?

It means a couple of different things.

On a day-to-day basis, it means coming to work to effect a behavior change in America—leading the transformation of the way Americans watch movies. Obviously it means leading a staff of incredibly talented and dedicated people who are focused on providing an unparalleled customer experience. And then, at a very high level, it's about being accountable for rapidly growing the top and bottom lines of the company.

How does technology come into play?

At the end of the day, I would say that Netflix is a technology company. Everything we do is sitting on the back of homegrown software that is focused on improving the customer experience.

Since marketing and customer satisfaction are synonymous, obviously marketing embraces technology in its various forms. We have a very engaging website,

for example. Our subscribers routinely rate movies and, as a result, we have more than a billion movie ratings in our database. This enables us to provide each subscriber with a personalized website experience because we can recommend movies to subscribers on an individual basis.

We also have homegrown software that runs our distribution system, that allows us—every morning when movies are returned to us—to turn those movies back around and get them back out to our subscribers so they can get the next available movie on their lists.

Which marketing problems keep you awake at night?

The reality is, I don't have that many sleepless nights! I am very blessed with having an amazing team of people who are incredibly dedicated and talented. Because I have this amazing team, to be honest, I *can* sleep at night! As a company, what we focus on is providing that great experience 24/7. What I worry about is that we are relentless on that focus.

We've recently won some awards and been recognized for our great experience. There's a company called Foresee Results—we were rated the number-one online retailer, ahead of companies that are known for having great customer experience, such as Amazon and L.L. Bean. *Fast Company* magazine recognized us as being best in customer service and customer experience.

Because we've done a great job, and it's been core to our success, I consider it critical that we continue to do it, and in no way, shape or form rest on our laurels. I don't think we have a company that would be oriented toward complacency, but it's always good to remind yourself of what made you successful and to try to improve on your personal best in that way.

Where does Netflix go from here?

We're going to continue to focus on building an iconic brand, a brand that provides our subscribers with a superior experience. So, pragmatically that means my team and I really need to be focused on anticipating trends and behaviors and continuing to improve on the great experience we provide. ■



Leslie Kilgore has served as chief marketing officer at **Netflix** since 2000. She came to the company with more than a decade of consumer products and e-commerce marketing experience in packaged goods and online retailing.

Previously, as a brand manager for The Procter & Gamble Co. from 1992 to 1999, Leslie oversaw the \$600 million Pantene and the \$150 million Head and Shoulders brands. From 1999 to mid-2000, she served as director of marketing for Amazon.com—responsible for increasing the size, loyalty and profitability of the customer base—during a time in which online retailing enjoyed explosive growth and established itself as a mainstream consumer channel.

Leslie has a Master's degree from the Stanford University Graduate School of Business and a Bachelor's degree from The Wharton School of Business at the University of Pennsylvania.