How Netflix Is Changing The TV Industry

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Updated Oct 19, 2018
Netflix (NFLX) is currently the dominant company in the relatively young on-demand media industry. By providing on-demand content, creating compelling original programs, using user data to better serve customers and letting customers consume content in the way that they prefer, Netflix is the first major disruption of television, forcing cable companies to change the way they do business. It is even making the vaunted Nielsen television rating system obsolete. In the long run, Netflix's success may be viewed as the first step in the unbundling of cable.

In the video clip below, from The New York Times-sponsored Dealbook conference on November 2, 2015, Netflix CEO Reed Hastings Reed discusses the company and its unique corporate culture: "Ultimately, flexibility is more important than efficiency over the long term."

Crushing The Competition
Netflix is essentially a storehouse of content, including movies, documentaries, TV series (both pre-existing and its own). For a flat monthly fee, subscribers can consume any program at any time from whichever platform they prefer.

It's a far cry from the company's humble beginnings. Netflix started in 1997 as a website service, allowing people to rent DVDs online and get them through the mail. While it competed to some extent with TV for people's entertainment time, it was competing more directly with established brick and mortar video rental stores.

In 2007, Netflix came out with streaming services. Customers could watch a TV show or movie on a computer, TV screen, tablet, phone or gaming device. Offering programming on-demand made it superior to physical stores and television in many ways, as consumers were able to watch what they wanted, when they wanted and how they wanted – without being limited to a certain time frame or even to return a DVD in the mail.

This innovation helped end the video rental business (RIP, Blockbuster) and made it more important for cable companies and TV networks to begin offering on-demand content of their own.

In 2013, Netflix began competing with TV networks and cable directly for original content. Its terms were generous. While most networks only approved shows based on pilots hitting certain metrics, Netflix offered series producers and showrunners upfront contracts to create an entire season or two. Additionally, showrunners were given creative leeway to develop their programs without notes or approval from Netflix. As a
result, many of the most critically acclaimed and popular new series came out on Netflix instead of the established networks, including "House of Cards," "Orange Is the New Black" and "The Crown." By creating a loyal user base, this original content has been a key source of Netflix's success and the appreciation of its stock.

Around the same time, Netflix also started uploading entire seasons of established TV series at once, essentially creating the binge-watching atmosphere, in contrast to broadcast and cable TV's once-a-week programming model. Many TV networks are now experimenting with this model, even if it means sacrificing ad revenue. Netflix's production methods have forced TV networks to be more aggressive in recruiting and retaining talent by paying more generously and offering more creative freedom.

Innovating to Stay on Top
Another innovation of Netflix has been to mine for user data aggressively. This data was initially sought to serve customers and help them find content that would appeal to them. However, Netflix also uses this data to determine what type of original content the company should create, and what genres and talents it should pursue. This has led to Netflix having a high success rate in manufacturing hits.

Netflix also forced the TV industry to change its ways by giving customers the flexibility to consume content in the exact way they desire based on their needs.

The Bottom Line
Just a few years ago, most television programming could only be consumed on television. This has changed largely due to Netflix, whose success has been deemed an existential threat for the entrenched TV industry. Many consumers have already cut the cord from existing cable, as the cost of a Netflix subscription is about 20% of that of most cable packages. Further, there are no annoying ads. Unbundling of cable services is the TV networks' worst fear; they would no longer receive regular revenue from being part of a cable package. Many are working to overtake Netflix, and the company faces competition from other digital operators like Amazon and Google. But that's further proof that Netflix has broken the mold for how television is made, watched, rated – and how ratings influence future content.