

# Guide: Developing a product strategy from a former Netflix VP

5-6 minutes

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## What is product strategy?

Product strategy answers the question, “How will your product delight customers, in hard-to-copy, margin-enhancing ways?”

When I join a company as a product leader, advisor, or board member, I brainstorm ideas to answer three questions:

1. **How will the product delight customers?**
2. **What will make the product hard to copy?**
3. **What are the business model experiments required to build a profitable business?**

The answers to these questions provide high-level hypotheses for your product strategy.

## How to define your product strategy

### 1. Identify and brainstorm how you delight customers

Take a moment to jot down how your product delights customers today, then add a few ideas about how you might delight them even more in the future.

At this point, you should have a list of hypotheses to delight your customers, create hard to copy advantage, and experiment with price/plan combinations and business models.

## Make your product delight users

Think about how your product delights customers, both now and in the future. As an example, think about how Netflix delights you today. How could it deliver even more in the future?

Netflix has explored most of these ideas. Some delighted customers, others didn't. For your product, what's your list of “delighters”?

## Create a hard-to-copy advantage

What makes it hard for companies to compete with Netflix? Hamilton Helmer's book, [“7 Powers,”](#) outlines seven hard-to-copy advantages. Below I describe each of these seven powers and how they apply to Netflix:

How will your product build a hard to copy advantage?

## In margin-enhancing ways

**How will your product generate margin?** You'll need profits to invest in innovation to build an even better product in the future. Below, are the many business experiments Netflix executed:

You'll need to experiment to evaluate different prices and business models over the life of your product. You'll never be “done.”

STEP 1 OF 3

## Choose the plan that's right for you

Downgrade or upgrade at any time

	Basic	Standard	Premium
Monthly price after free month ends on 7/14/19	\$8.99	\$12.99	\$15.99
HD available	×	✓	✓
Ultra HD available	×	×	✓
Screens you can watch on at the same time	1	2	4

## Articulate testable theories that tie together delight, hard-to-copy, and margin together

You have ideas to delight customers, to build hard to copy advantage and experiment with your business model. Now what?



In 2007, Netflix's exclusive content effort, "Red Envelope Studios" failed. But by 2012, with its economies of scale, Netflix had a hard to copy advantage through its original content.

The next step is to tease out high-level hypotheses that combine delight, hard to copy advantage, and margin. Achieving two or three of these objectives with a single strategy is at the heart of good product

strategy.

## Netflix's strategy hypotheses

Below, I outline a dozen high-level theories that Netflix explored over fifteen years, along with a brief description of each. Half of these strategies failed. But many of the winners combined delight, hard to copy advantage and margin-enhancement.

All of the efforts above are motivated by the desire to improve customers' experience in ways that build a hard to copy, margin-enhancing experience.

## Netflix's strategy results

Here's a quick summary of what worked, and what didn't, along with analysis against the DHM model. (An "X" means it accomplished the goal.) Note the strategies that deliver against a combo of delight, hard-to-copy advantage, and margin — these are the ideas that are building substantial long-term value for Netflix.

Strategy	Delight	Hard to copy	Margin
Personalization	X	X	X
Simple/easy	X		X
Social			
Movie-finding tools			
Price & plans	X		X
Ads/Used DVDs			X
Next day DVDs	X	X	
Streaming	X	X	X
Entertainment			
Open APIs			
Device ecosystem	X	X	
Exclusive DVDs			
Original content	X	X	X
Interactive stories	?		
Video & sound quality	X	X	X

Fifteen high-level product strategies and an evaluation of each strategy's ability to delight, provide hard to copy advantage and deliver margin.

Netflix did not test all of the ideas above in parallel. Each year Netflix took on about 4–6 product strategies. Here were the significant efforts in 2005:

Each of these efforts had a dedicated "pod" made up of engineers, designers, product, and data leaders.

## Articulate projects to test the strategy and metrics for their success

In 2005, Netflix explored six key product strategies. For each strategy, we had a team focused on experiments to prove or disprove each theory. Here's the 2005 high-level product strategy for Netflix, coupled with metrics and projects:

2005 Product Strategies	Metrics	Tactics/projects
Personalization	% members who rate at least 50 movies by end of six weeks	Ratings Wizard, star widget
Easy/simple	% members who add $\geq 3$ titles in 1st session	Simplify Day 1 experience
Social	% members who connect to at least 1 member	Friends network
Margin-enhancement	Gross profit per member	Used DVD sales, ads, price & plan tests
Unique movie-finding tools	% of members who add $\geq 1$ title/month via Previews	Personalized previews, previews on synopsis
Next day delivery of DVDs	% of first choice disks delivered the next day	Automated hub expansion,

Each of these strategies had a clear proxy metric to determine if the high-level product strategy delivered, or not. And there were typically two to three projects — think of these as tactics — that worked to deliver against the strategy.

In retrospect, we know that four of the high-level product strategies worked, and two failed (social, movie-finding tools). Over the years, we learned to double down in areas where we moved our proxy metrics and demonstrated retention improvements. We also learned to cut our losses when projects didn't deliver.

## Further reading

- [Gibson Biddle on product strategy, career building, and management](#)