Amazon buys European movie rental service Lovefilm

January 20 2011, By DANA WOLLMAN , AP Technology Writer

(AP) -- Amazon.com Inc. is buying Lovefilm, a European movie rental service akin to Netflix Inc. The deal announced Thursday heralds Amazon's entrance into a market where Netflix doesn't yet do business, and it left analysts wondering whether Amazon might mount a bigger challenge to Netflix in North America, too.

Terms of the purchase were not disclosed.

Lovefilm operates in the U.K., Germany, Sweden, Norway and Denmark. Much like Netflix, it is a subscription-based service through which people can rent movies by mail or watch them on TV or any other device with a high-speed Internet connection. The company also offers TV shows and games.

Amazon already has an on-demand service that lets people rent movies by streaming. However, it does not send movies in the mail, as Lovefilm and Netflix do.

Netflix so far only offers its service in the U.S. and Canada, with an estimated 19 million subscribers. Now that Amazon has a toehold in Europe, it might be more difficult for Netflix to expand there. Loveflim currently has more than 1.4 million subscribers.

Netflix's subscriber growth has accelerated in the past two years, partly because its Internet streaming feature became more appealing as its availability expanded to video game consoles, Blu-ray players and a

variety of set-top boxes that easily connect to TVs.

Starz Media LLC gave Netflix's streaming library a boost in 2008 by licensing its movie catalog for a relatively inexpensive $30 million a year. Liberty Media Corp, Starz's parent company, is expected to demand substantially more money when that three-year contract expires in October.

The price for the Starz streaming rights could rise even higher if Amazon decides to bid against Netflix - a scenario that Stifel Nicolaus analyst Benjamin Mogil believes is more likely now that Amazon has snapped up Lovefilm.

"Although the service currently is European based alone, we would be surprised if Amazon did not have North American ambitions for the service," Mogil wrote in a note to clients.

Netflix's stock fell $8.50, or 4.5 percent, to $182.37 in early afternoon trading Thursday. Amazon shares fell $4.36, or 2.3 percent, to $182.51.

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Citation: Amazon buys European movie rental service Lovefilm (2011, January 20) retrieved 20 April 2024 from https://phys.org/news/2011-01-amazon-european-movie-rental-lovefilm.html

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