

Netflix's days without competition may be numbered

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Netflix has attracted more than 20 million subscribers, more than 20,000 movies and television shows for its online service, and more than its share of headaches in Hollywood.

There's one thing it has yet to attract: competition. [Netflix](#) is the only company that streams a large selection of movies and TV shows online for a monthly fee.

That will probably change. Retail giants such as Wal-Mart Stores Inc., Amazon.com Inc., and [Best Buy Co.](#), [Internet television](#) provider [Hulu](#), and satellite broadcaster [Dish Network](#) Corp. are weighing plans to launch online subscription video services or expand nascent ones to take on Netflix, people with knowledge of the matter said.

Such moves would win cheers in Hollywood, where many are worried that Netflix is amassing too much clout. Some also believe that Netflix's fast-growing customer base is buying fewer DVDs and watching less television, contributing to the financial struggles of studios.

"This is a battleground that's just starting to brew," said Dave Sanderson, head of the global media practice for Bain & Co. "Over the next two or three years you're going to see a proliferation of options, and then a handful of winners emerge."

But it had better happen soon. Observers believe that once Netflix surpasses 30 million subscribers - a goal that analysts say the company

could achieve as soon as 2012 - it may become difficult to unseat the Los Gatos, Calif., company.

International expansion will further broaden its reach. Netflix is already available in Canada, and people briefed on the company's plans say it is gearing up to launch in Latin America and Great Britain. A Netflix spokesman declined to discuss the matter.

So far, none of the company's potential competitors has started writing the nine-figure checks necessary to secure a library of movies and TV shows to rival Netflix's.

The studios hope a bidding war for streaming rights to content will help to offset declining DVD sales.

"A lot of companies seem to be looking at Netflix and thinking the grass is potentially greener over there," said John Calkins, head of digital distribution for Sony Pictures. "We welcome that, as more customers wanting to buy our product is a positive."

Blockbuster Inc.'s new owner, Dish Network, intends to use the struggling home video company's brand name and technology to launch an Internet [video service](#), people with knowledge of the plan said. A Dish spokesman declined to comment.

Wal-Mart and Best Buy, the No. 1 and No. 2 DVD sellers in the U.S., have acquired digital video businesses to help make up for plummeting revenue from discs. Wal-Mart's Vudu and Best Buy's CinemaNow are considering shifting from a pay-per-view system to one offering a Netflix-like subscription service, people familiar with the matter said.

A spokeswoman for Vudu said, "At this time, we are focused on a pay-per-content, transactional model." A Best Buy spokesman declined to

comment.

Amazon.com in February launched a Netflix-like service called Prime Instant Videos with about 2,300 movies and TV shows online. That's miniscule compared with Netflix. But a spokeswoman acknowledged that Amazon is prepared to spend more to beef up its library.

Hulu, the popular free TV website, has also talked to the studios about increasing the number of movies on its subscription service Hulu Plus, people briefed on the matter said. A spokeswoman declined to comment.

Some cable companies are gunning for Netflix as well, although their online services are tied to pricy TV subscriptions. HBO has a Web version of its cable network called HBO Go. Similarly, iN Demand, a video-on-demand venture whose co-owners include Comcast Corp., Time Warner Cable and Cox Communications Inc., is said to be looking to expand its tiny Web movie offering Vutopia, which has only about 200 titles. A spokeswoman said Vutopia will "ramp up slowly."

Google Inc.'s YouTube and Apple Inc.'s iTunes Stores could also pose a serious threat to Netflix if they moved into subscriptions, but neither company has signaled an intention to do so.

Netflix has a number of advantages that make it difficult to challenge, such as sophisticated software to recommend what users might like to watch and a brand name that's becoming as familiar as Starbucks.

But retailers and cable companies have their own marketing strengths and reach huge audiences, including many who don't live in affluent urban communities where the lack of a Netflix subscription can elicit gasps of surprise.

In addition, Netflix's online library has a limited number of recently

released movies, as many of those rights are locked up by HBO and other pay cable networks.

Netflix has been around for more than a decade but became a powerhouse only recently, as its subscriber count has more than doubled in the last two years and its market capitalization has more than quintupled to \$12.5 billion. That's largely because of its online service, which is becoming increasingly popular on Web-connected TVs as the company's original mission - shipping DVDs through the mail - declines. Last year consumers streamed about 329 million videos from Netflix, according to IHS Screen Digest.

The company is projected to increase its spending for online content from \$180 million last year to nearly \$2 billion in 2012, according to Wedbush Morgan Securities. It has been on a deal-making frenzy, agreeing to pay cable channel Epix nearly \$1 billion over five years for movies from Paramount Pictures, Lionsgate, and Metro-Goldwyn-Mayer Inc. and about \$75 million for rerun rights to "Mad Men," as well as ordering its first original series, "House of Cards," starring Kevin Spacey.

Studios can't scoff at that money, but some fret that it's a deal with the devil, trading short-term gains for a long-term erosion of their other businesses as consumers come to rely on Netflix. They worry about a future in which Netflix gains even more power over how movies and TV shows are sold to consumers and are eager for competition to prevent that from happening.

Netflix spokesman Steve Swasey expects the studios will get their wish. "We've always said a big, growing market attracts competition," he said.

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