

Netflix raises rates, irks subscribers

July 12 2011, By MICHAEL LIEDTKE , AP Technology Writer



In this July 21, 2006 file photo, Netflix customer Victoria Tichenor poses with a Netflix envelope and a DVD in Palo Alto, Calif. Netflix on Tuesday, July 12, 2011 said it is raising its prices by as much as 60 percent for millions of subscribers who want to rent DVDs by mail and watch video on the Internet. (AP Photo/Paul Sakuma, File)

(AP) -- Netflix has provoked the ire of some of its 23 million subscribers by raising its prices by as much as 60 percent for those who want to rent DVDs by mail and watch video on the Internet.

The company is separating the two options so that subscribers who want both will have to buy separate plans totaling at least \$16 per month. Netflix Inc. had been bundling both options in a single package, available for as low as \$10 per month.

New subscribers will have to pay the new prices immediately. The changes take effect Sept. 1 for Netflix's current customers.

Netflix isn't changing the \$8 monthly price for an Internet streaming-only option, which the company began offering late last year. But instead of charging \$2 more for a plan that also offers one DVD at a time by mail, the company will charge \$8 for a comparable DVD-only plan. That brings the total to \$16.

Those who want to rent up to two DVDs at a time with streaming will pay \$20 per month, or 33 percent more. Those wanting three DVDs at a time with streaming will pay \$24 per month, or 20 percent more.

When Netflix unveiled the streaming-only option, it also raised the rates for its most popular DVD rental plans by \$1 to \$3 per month. Those plans included unlimited online streaming too, as had been the case since Netflix began sending video over high-speed Internet connections in 2007. That means longtime subscribers who want both entertainment options will get their second price increase in eight months.

The higher prices could slow Netflix's growth as some customers cancel their plans in protest and potential new subscribers balk at the rates.

Subscribers rankled by the latest price increase vented their outrage in comments on Netflix's blog as well as its Facebook page, where there were nearly 17,000 comments, mostly negative, by late Tuesday.

Many of the posters were vowing to leave Netflix to try out rivals such as Apple Inc., Amazon.com Inc. and Hulu.com, which is currently looking for a buyer. Some of the critical remarks likened Netflix to greedy oil and cable companies, while others blasted it for betraying loyal customers who had been recommending the service to their friends and neighbors long before it became a household staple.

Investors, however, seemed to welcome the higher prices in stride. Netflix's stock rose 53 cents to close Tuesday at \$291.27.

Netflix's market value has increased by seven-fold and created about \$13 billion in shareholder wealth during the past two years, largely because its total subscribers have more than doubled during the same stretch. As of March, Netflix had 22.8 million subscribers in the U.S. - about 34,000 more than the number of households subscribing to Comcast Corp.'s cable-TV service.

The company's willingness to risk alienating subscribers signals that it needs to bring in more money to cover its rising costs.

Netflix's earnings would likely be squeezed if it continued to cover the overhead for buying and shipping the discs while also spending heavily to license more video for its streaming library. In the first three months of this year, Netflix spent \$192 million on streaming rights after pouring \$406 million into the library last year.

Jessie Becker, Netflix's vice president of marketing, wrote Tuesday on Netflix's blog that charging just \$2 more for a bundled plan "neither makes great financial sense nor satisfies people who just want DVDs."

On the flip side, Netflix customers who haven't embraced Internet streaming will be getting a price break. They can now subscribe to a DVD-only plan for just \$8 per month for one DVD at a time, a 20 percent reduction from the current package that included streaming.

Netflix, which is based in Los Gatos, has never said how many subscribers get the streaming-only options, but most households prefer getting both because each has its advantages.

Internet streaming provides more immediate gratification and the

convenience of getting video on mobile devices, but the selections typically don't include the latest theatrical releases. That's where DVD rentals come handy. Netflix cut deals with several movie studios last year to delay sending out some DVD releases for their first 28 days on sale in return for better deals on Internet streaming rights. Far more titles are available on DVD than through streaming though.

Although it's preparing to deliver DVDs through the mail for many more years, Netflix sees Internet streaming as its main lure for new subscribers, as Internet connections become even faster and an array of mobile devices make it easier to watch video on the go. The company is only selling streaming packages in Canada, where it expanded last year, and in Latin America, where it will enter 43 countries by the end of this year.

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Citation: Netflix raises rates, irks subscribers (2011, July 12) retrieved 24 April 2024 from <https://phys.org/news/2011-07-netflix-dvd-online-streaming.html>

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