

Behind the increase: Why Netflix is raising prices

July 14 2011, By CHIP CUTTER , AP Business Writer



FILE - In this photo provided by Netflix Inc., a representation of the Netflix one-click remote available on many consumer electronics devices is shown. Netflix has provoked the ire of some of its 23 million subscribers by raising its prices by as much as 60 percent Tuesday for those who want to rent DVDs by mail and watch video on the Internet. New subscribers will have to pay the new prices immediately. The changes take effect Sept. 1, 2011, for Netflix's current customers.(AP Photo/Netflix Inc.)

(AP) -- Why is Netflix raising its prices? In part, because the company miscalculated how many people still want to receive DVDs by mail each month, a more expensive service to provide compared to its streamed Internet videos.

Netflix has been trying to lure [subscribers](#) away from its DVDs by offering cheaper plans that include movies and TV episodes delivered

over its Internet [streaming service](#). In November, it began offering a streaming-only plan for \$8, its cheapest option at the time. Yet Netflix customers aren't flocking to Internet video as quickly as some analysts said the company expected.

Many consumers are unwilling to give up the trademark red envelopes. DVDs feature newer titles and the latest theatrical releases that aren't available through the company's streaming service.

So the company is adjusting its pricing to reflect the cost of its DVD business and to help bring in more money to cover growing expenses for streaming content.

Under the new plan, customers who want to rent DVDs by mail and watch video on the Internet will need to pay at least \$16 per month. Netflix had been bundling both options in a single package for as low as \$10 per month. But that bundled plan "neither makes great financial sense nor satisfies people who just want DVDs," wrote Jessie Becker, [Netflix Inc.](#)'s vice president of marketing, on a company blog Tuesday.

The price hike serves multiple purposes, analysts say. It will likely push more people into the streaming service, which will help Netflix to lower its postal expenses. The cost of shipping a DVD can be as much as 75 cents per disc, while analyst Mike Olson of Piper Jaffrey estimates that it costs just 5 cents to 10 cents to deliver a movie over the Internet.

At the same time, Netflix needs additional revenue to build up its streaming service. In the first three months of this year, Netflix spent \$192 million on streaming rights after putting \$406 million into the library last year. Licensing costs are expected to jump to \$1.3 billion to \$1.4 billion next year, said Arash Amel, research director for digital media at IHS Screen Digest.

"Netflix is under enormous pressures from the content owners to write bigger and bigger checks," Amel said. "It had to find the money from somewhere."

Netflix had 23.6 million subscribers in the U.S. and Canada at the end of March, double the amount from the same period two years ago. Its stock has risen 147 percent over the past year, compared to a 21 percent gain for the Standard & Poor's 500 index.

Movie studios and television networks want to capitalize on Netflix's success by getting the company to pay more for content.

In an example of the growing tension, Sony movies were pulled from the Netflix online streaming service last month because of what Netflix described as a "temporary contract issue" between Sony Corp. and its pay TV distributor, Starz. The issue remains unresolved.

Netflix's contract to receive content from Starz ends next year, and analysts say Netflix will likely pay a significant amount to renew it. Netflix CEO Reed Hastings said it "wouldn't be shocking" if Netflix paid more than \$200 million per year for Starz' service, far more than the estimated \$30 million a year it is paying currently.

Netflix also wants to bring in more money because, as the company has grown, it is making less per subscriber. It got a monthly average of \$11.97 per subscriber in the first quarter of this year. At the end of 2006, before Internet streaming was launched, the average amount paid per subscriber was \$15.87 per month.

Still, the increased pricing has alienated Netflix's customers, who have taken to Facebook and Twitter to complain about the company's move. Amel, of IHS Screen Digest, said Netflix had tarnished its brand image by surprising customers with the pricing change. But he said [consumers](#)

should expect Netflix to push them toward Internet streaming going forward.

"Netflix's future is not in the DVDs," he said. "Netflix's future is in the business of premium pay television delivered over the Internet."

©2011 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

Citation: Behind the increase: Why Netflix is raising prices (2011, July 14) retrieved 26 April 2024 from <https://phys.org/news/2011-07-netflix-prices.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.