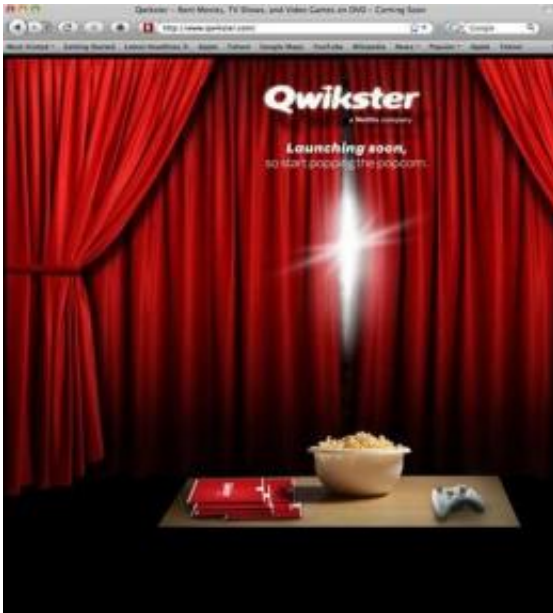


# Netflix says it's sorry, then creates new uproar

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This screen shot shows Qwikster.com, a new website service available soon from Netflix. Netflix Inc. plans to separate its DVD-by-mail service and streaming video businesses. CEO Reed Hastings said on Sunday in a blog posting that the DVD service will be called Qwikster while the streaming business will be housed under the Netflix name. (AP Photo/Netflix Inc.)

(AP) -- The CEO of Netflix said he was sorry for mishandling a recent price increase that caused customers to cancel the service in droves. But the apology was drowned out by a decision that angered subscribers all over again.

The company will split into two services - one with an odd new name that offers the familiar discs in red envelopes and another for online streaming of [TV shows](#) and movies.

The DVD service will be called Qwikster, a name that is supposed to signify a commitment to fast service but quickly became an object of ridicule Monday on the Internet. The [streaming service](#) will keep the Netflix name.

Netflix, which had 24.6 million U.S. subscribers at the end of June and is the nation's largest [video subscription service](#), redefined [home entertainment](#) over the past decade with its DVDs by mail. Now it's trying to prepare for the day when watching movies on a disc goes the way of driving to the video store to pick up a VHS tape.

But lately, it has bungled the transition. The company has lost half its market value since July, when it announced that customers who wanted DVDs and streaming had to pay for them separately - and pay up to 60 percent more.

The decision to rebrand the best-known part of Netflix's business left some experts wondering whether CEO Reed Hastings is losing the touch that established him as an influential figure in technology and entertainment.

Others see the logic in trying to make sure Netflix keeps a thriving business as customers abandon DVDs and shift in greater numbers to beaming movies and TV shows into their living rooms over high-speed Internet connections.

It's going to be a painful transition, as Hastings acknowledged as he cut loose the DVD service.

"It's hard for me to write this after over 10 years of mailing DVDs with pride, but we think it is necessary and best," Hastings wrote on a Netflix blog. The [CEO](#) of the rechristened Qwikster service will be Andy Rendich, a longtime Netflix employee.

Hastings found little sympathy among the more than 10,000 people who commented on the blog posting.

Most of them lambasted him for making life more difficult for about 12 million customers who get both streaming and DVD rentals. Those people will have to visit two websites to make requests and update their billing information.

Other critics questioned the sincerity of his apology for the recent price increase and ripped him for giving DVD rentals a different identity - and for the name Qwikster in particular.

"It's a really dumb name," said Scott Devine of Burbank, Calif., who dropped the DVD service after the price increase was announced two months ago. "You would think they would choose something that at least had 'flick' in the name."

The split may seem like the natural next step to Hastings, but he appears tone deaf to subscribers, said John Tschohl, president of the Service Quality Institute, a consulting service, and author of the book "Achieving Excellence Through Customer Service."

"I don't think Netflix is listening to its customers at all," he said. "They have really blown it."

Columbia Business School marketing professor Brett Gordon thinks Hastings knows exactly what he's doing by starting to bury the DVD business, even if Hastings didn't say it in his blog post.

By the end of September, Netflix figures less than 10 percent of its expected 24 million customers in the U.S. will subscribe to DVD-only plans.

"They don't want the Netflix brand to be damaged by the inevitable death of physical digital goods," Gordon said.

Netflix was a Wall Street star until the jarring July 12 announcement about its prices. Its stock rose from about \$50 at the beginning of 2009 to more than \$300 in early July.

Since backlash to the price increase, investors have grown disillusioned. Netflix's market value has plummeted 53 percent from its high, wiping out about \$8 billion in stockholder wealth. On Monday, the stock shed more than \$11 to close at \$143.75.

The steepest declines have come since Netflix warned it expected to have 600,000 fewer subscribers at the end of this month than at the end of June, by far the worst downturn in the company's history.

Netflix's stock has been hit so hard that it made Hastings' [apology](#) seem like little more than damage control, Devine said.

In his blog post, Hastings wrote that he "slid into arrogance based upon past success" when he decided to raise prices so dramatically. He emphasized the higher prices were the right thing to do, but said he should have done more to explain them.

Hastings said his biggest fear is that Netflix will be left behind by technological upheaval, like what happened to AOL when people switched from dial-up Internet to widely available broadband, or Borders when readers gravitated to the e-book.

Netflix itself has killed off thousands of video rental stores during the past five years, and it devastated Blockbuster, which once dominated the home-video market and went bankrupt last year.

Hastings began Netflix's evolution in early 2007 when he added Internet video streaming. That option grew in popularity even faster than he anticipated, causing video distributors to demand ever higher licensing fees.

Those expenses are one reason Netflix raised prices. Hastings has promised to use the additional money it gets from its subscribers to stockpile its video streaming library with more content.

Some subscribers are upset by Netflix's inability to renew a contract with Starz Entertainment that included many recently released movies from Walt Disney Co.'s studios. The Starz deal expires in February.

More broadly, Netflix customers have complained that its TV and movie titles available for streaming pale next to its menu of more than 100,000 DVD titles. And they have other places to turn for streaming entertainment - Amazon.com, iTunes and Hulu, among others.

In Monday's blog post, Hastings wrote that Netflix will make "substantial" additions during the next few months.

Michele Lucas of Denver is among the Netflix subscribers who think its streaming library is already losing its appeal. Her family pays only for streaming now. They stopped renting DVDs from Netflix after the price increase.

"We sit down at night and go through and we have a really hard time finding a movie to watch," Lucas said.

Spinning off the DVD services will also allow Netflix to provide studios with a clearer idea of how many people are streaming their content. That could be critical as it negotiates future licensing deals.

In addition to the split, Netflix will expand into an area Hastings had steadfastly resisted - video game rentals. Adding it to Qwikster may not make investors happy, though, because video games are more expensive and have a shorter shelf life than DVDs.

But video-game availability could win back alienated subscribers. Devine said he might sign up for Qwikster if the selection is good enough. Hastings seems confident he won't be the only one.

"Both the Qwikster and [Netflix](#) teams will work hard to regain your trust," Hastings wrote on the blog and a mass email to subscribers. "We know it will not be overnight. Actions speak louder than words. But words help people to understand actions."

**More information:** Blog post from Netflix CEO Reed Hastings:  
<http://bit.ly/pdA81h>

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