Humbled Netflix CEO still thinking, talking big

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(AP) -- To hear Netflix CEO Reed Hastings tell it, the bone-headed decisions that have dragged down the Internet's leading video subscription service during the past five months eventually will be forgotten like a bad movie made by a great film director.

Shaking off the stigma of a massive flop won't be easy, a challenge Hastings acknowledged late Tuesday when he spoke at a UBS investor conference in New York. After his host mentioned the mystique surrounding Hastings as Netflix's fortunes soared a year ago, Hastings quipped: "Now, it's just pity."

The self-deprecating humor prefaced a 45-minute treatise on why Hastings believes Netflix will overcome its recent adversity and remain at the forefront of a shift that increasingly will turn watching Internet-distributed video into one of the world's most popular pastimes. This coming as high-speed connections, mobile devices and more sophisticated televisions become commonplace.

His long-term vision calls for Netflix to be selling Internet video subscriptions at prices starting at $8 per month in most markets outside of China.

"If you fundamentally believe Internet video will change the world in 20 years, we are the leading play on that basis," Hastings boasted. He quickly added a caveat: "As long as we don't shoot ourselves in the foot anymore."

Hastings sounded like he intends to stick around to lead the way, despite questions about recent moves that triggered a customer backlash and a staggering decline in Netflix's stock price that has wiped out three-fourths, or about $12.5 billion, of the company's market value in five months. Netflix Inc. shares closed Tuesday at $68.14, down from a peak of nearly $305 in July when the company infuriated its U.S. subscribers by announcing plans to raise its prices by as much as 60 percent.

The sell-off has surprised and humbled Hastings, who revealed on stage that he had curtailed his sales of his Netflix holdings earlier this year because he was convinced the stock would quickly hit $1,000.

Hastings said his biggest mistake was trying to phase out Netflix's once-trailblazing DVD-by-mail rental service more quickly than millions of customers wanted. He and his management team concluded a few years ago DVDs that are destined to obsolescence, so they began concentrating on streaming video over high-speed Internet connections. Ending Netflix's practice of bundling DVD-by-mail and Internet streaming subscriptions together so people are forced to buy them separately was meant to push more households into weaning themselves from discs. Customers instead saw the move as a betrayal by a greedy company and canceled their subscriptions in droves.

"We became a sort of a Bank of America symbol, which is super unfortunate," Hastings said Tuesday in comments monitored on a webcast. "We berate ourselves tremendously for that lack of insight because it didn't need to be that way. But, you know, in three or five years, we aren't going to remember it. It's going to be: `Did we succeed at streaming?' That's all people are going to care about in three or five years. So we are not losing too much sleep over it. We are charging ahead."

There's damage to repair along the way.

Netflix entered October with 800,000 fewer U.S. subscribers than it had at the start of July, and the company has said there have been additional defections in the past two months, although the number hasn't been quantified.

The result: Netflix isn't bringing in as much money as it hoped to pay for an expansion in in Latin America and Great Britain and cover rising fees to license movies and TV shows for its video-streaming library. The shortfall will saddle it with a loss next year, the first time that has happened in a decade.

Hastings said he expects Netflix to enjoy robust subscriber growth next year, although he doubts the company will be able to match its performance during the first six months of this year when it added nearly 5 million subscribers. Virtually of the company's future growth is expected to come from streaming-only subscriptions.

"DVD will do whatever it will do," Hastings said. "We are not going to hurt it, but we aren't putting a lot of time and energy into it."

Netflix ended September with 25.3 million subscribers worldwide, including 23.8 million in the U.S. Nearly 14 million of the U.S subscriptions included a DVD-by-mail plan.

To ensure it will have enough money to finance its ambitions, Netflix recently raised $400 million by issuing convertible debt to one of its major stockholders and selling 2.86 million discounted shares. That stock sale further irritated investors because Netflix spent nearly $200 million buying back 900,000 shares of its stock at an average price of $218 during the first nine months of the year.

Hastings said Netflix probably could have gotten by without the extra money, but he decided to raise the extra cash to avoid a "crisis of confidence" among the company's suppliers, including movie and TV studios that license their video and sell their DVDs to the company.

Increasing competition is another major concern hanging over Netflix. Amazon.com Inc., Wal-Mart Stores Inc., Dish Network Corp. are already offering subscription packages that include Internet video. Verizon Communication Inc. declined to comment on reports it may also enter the market.

Hastings said he doubted Verizon will make much of a dent unless it is prepared to pay between $1 billion and $2 billion annually to obtain the rights to professionally produced video. Right now, Hasting said, only Netflix and Time Warner Inc.'s HBO pay channel have made that kind of commitment.

"If they are not willing to invest at those levels, it pretty hard to compete with us or HBO," Hastings said. He went a step further, branding HBO as Netflix's biggest rival now that the channel as expanded beyond cable TV with an on-the-go application for Apple Inc.'s iPhone and iPad, as well as devices running on Google Inc.'s Android software. The app is free, but viewing content on the devices still requires an HBO cable subscription.

"It will be a little bit of an arms race with us," Hastings said of HBO. "Hopefully, we will end up both creating amazing consumer experiences and end up pushing the bar in a positive way for each other."