

Gaps in Netflix's online library likely to persist

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In this March 20, 2012, photo, Netflix Chief Product Officer Neil Hunt points out popular movies on Netflix at a theater inside Netflix headquarters in Los Gatos, Calif. A big part of Netflix's future rides on how much their engineers can improve the software that draws up lists of TV shows and movies that might appeal to each of the video-subscription service's 26 million customers. Netflix has spent 13 years learning viewers' disparate tastes so it can point out movies they might enjoy. (AP Photo/Paul Sakuma)

(AP) -- Peruse Netflix's catalog of DVDs, and you'll find just about any movie or TV series you want. Look for many of the same titles in Netflix's Internet video library, and prepare to be exasperated.

It's a problem that Netflix is unlikely to solve anytime soon. Despite an expensive expansion, Netflix's online video selection remains inferior. Netflix offers more than 60,000 titles that can be viewed on Internet-connected devices, while its DVD-by-mail service has more than twice

that - some 140,000.

Competitive tensions and Netflix's own financial limitations account for the huge [disparity](#).

No matter how much [Netflix Inc.](#) is willing to pay for the rights, some online video remains off-limits.

Major movie studios are refusing to license the rights to most of their latest movies at the same time they're released on [DVDs](#). Premium [cable channels](#) such as [HBO](#) and Showtime also are withholding their most popular series, including "Game of Thrones" and "Dexter," because they are worried about losing [subscribers](#) if the content is available on Netflix's less expensive [Internet service](#).

The mere \$8 per month that Netflix charges for unlimited online viewing is one of the main reasons the service has attracted more than 23 million streaming subscribers, out of a total of 26 million. The expanding audience, in turn, is causing studios to demand higher fees for video that they are willing to license to the company.

Studios know Netflix is getting a bargain, says Wedbush Securities analyst Michael Pachter. Netflix's streaming subscribers watch an average of 30 hours of Internet video each month, which works out to just 27 cents per hour.

The Internet video library already is far more appealing than it was five years ago, when it opened with just 2,000 titles - mostly obscure TV series and movies that many subscribers had seen years ago.

The streaming catalog now features recent seasons of many acclaimed TV shows, including "Mad Men" and "The Office," and exclusive series such as "Lilyhammer." Coming attractions include "The Artist," winner

of this year's Oscar for best picture, and another original series called "House of Cards" starring Academy Award-winning actor Kevin Spacey. Netflix also has struck a deal to revive the critically acclaimed TV series, "Arrested Development," which last aired in 2006.

As it is, Netflix has already agreed to pay about \$4 billion in licensing fees during the next few years. CEO Reed Hastings foresees spending billions more.

Netflix might be able to afford to buy even more online [video](#) if it raises its prices, but that's a strategy the company says it won't pursue following a customer backlash over last summer's rate increase of as much as 60 percent in the U.S. For now, Netflix is trying to showcase the material already available in its online library by fine-tuning its recommendation system.

Pachter believes there is only so much that Netflix will be able to do to conceal the weaknesses in its Internet library.

In particular, he believes the recent loss of the streaming rights to movies and TV shows from Starz Entertainment will cost Netflix some subscribers. The Starz contract expired Feb. 29, depriving Netflix's streaming library of popular fare that included recent movies from Walt Disney Co. Netflix had been paying an estimated \$30 million annually; Starz is believed to have demanded as much as \$300 million a year to renew.

Although Netflix downplays the loss of the Starz content, Pachter likens it to a cable-TV system losing the Fox network and such popular shows as "American Idol."

"I think Netflix has underestimated the intelligence of consumers," Pachter says. "They seem to think all content is fungible, but I don't

think consumers will see it that way."

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