Soft spot for streaming video lifts Netflix, rivals

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Consumers' insatiable love affair with streaming video - at home and on the go - is at the heart of Netflix's rebound and the continued rise of its competition.

Netflix is now used in one-quarter of U.S. homes, up from 20 percent a year ago, according to a new survey from consulting firm Frank N. Magid Associates. Amazon Instant Video's audience jumped to 8 percent of U.S. homes, up from 5 percent, the survey found, and Hulu rose to 5 percent from 4 percent.

Overall, more than half of U.S. homes (55 percent) now stream TV episodes and movies, up from 49 percent in 2011, the survey of 1,500 U.S. homes in November 2012 found.

"Netflix certainly is the de facto brand for long-form streaming," said Maryann Baldwin, vice president of Magid Media Futures, a division of the consulting firm.

"As more people discover Hulu Plus and Amazon Prime, their expectations for quality content is going to change because they tend to have the more recent content," Baldwin said. "The competition is making inroads."

Billions of dollars are potentially at stake: the U.S. streaming market is expected to grow from about $3.7 billion in 2012 to $6.7 billion in 2016, according to PricewaterhouseCoopers. As the adoption of faster home broadband services and connected TVs continues to stimulate the dynamic home video marketplace, streaming providers are vying with traditional pay TV providers - and each other - to make their services stand out.

"If you look at Hulu's numbers over last year, they doubled from 1.5 to 3 million subscribers," Netflix CEO Reed Hastings said in a teleconference after last week's earnings were released. "People around the world are interested in Internet television because you can click, watch, pause, control (and) choose. It's just a better paradigm."

Homes with Net-connected TVs rose to 35 percent of all U.S. households in 2012, up from 30 percent in 2011, the Magid survey found. That trend is accelerating and should hit 42 percent of all U.S. homes by the end of 2013, Magid projects.

"Consumers ripped open those new Netflixed-enabled electronics at Christmas and just kept on signing up," said Gina Keating, author of "Netflixed: The Epic Battle for America's Eyeballs."

In recent months, Netflix has taken a multi-pronged approach to protect its lead and drive growth. The streaming service, which started renting DVDs by mail in 1998, became available on more devices including the Nintendo Wii U.

As a result, it added 2 million U.S. streaming customers and 1.8 million outside the U.S. during the last three months of 2012, the company announced this week. That suggests that "the company has finally transcended subscriber anger" over its decision two years ago to split the DVD rental and streaming services, Keating said, "and has returned to its role in (customers') minds as a force for consumer-oriented change in entertainment."

To help offset the loss of content from Starz, which included Disney and Sony movies, and exclusive streaming of Epix content such as "The Hunger Games," Netflix signed new deals with Disney, Turner and Warner Bros.

As studios play the growing streaming services off of each other and traditional pay TV providers, industry observers expect that area to heat up. A sign that content costs are rising: Netflix plans an offering of $500 million in senior notes to raise funds for content deals, expansion and to pay off $200 million in outstanding notes due in 2017.

That's not necessarily a good move for Netflix, said Wedbush Securities analyst Michael Pachter. "They are deficit-spending," he said. "One would think that all the tea party investors would get that."

"It's interesting how quickly (Netflix) have evolved into similar challenges as the Comcasts and DirecTVs of the world," Baldwin said. "The content costs caught up to them pretty quickly. Content is still king."

Netflix has already begun growing its own content. Eight episodes of "Lilyhammer," starring Steven Van Zandt, premiered last February and a second season is in the works. The new series "House of Cards," executive-produced by David Fincher ("The Girl With the Dragon Tattoo") and starring Kevin Spacey, debuts Friday on the service. All 13 episodes are available immediately .

Other series coming: thirteen episodes of horror thriller "Hemlock Grove" (April 19), executive-produced by Eli Roth ("Hostel"); a relaunch of the series "Arrested Development," cancelled by Fox in 2006, is set for later in May; the comedy "Derek" starring Ricky Gervais and "Orange is the New Black" with Jason Biggs ("American Pie").

Hastings envisions a "virtual cycle" in which Netflix continues to add subscribers - the goal is 60 million to 90 million - allowing the service to expand its content library.

"Gain more subscribers and get more content, gain more subscribers, get more content," Hastings said. "And what propels our growth is that continuing content."

Netflix is sitting pretty, for now. Of all online video sources, it is the stickiest. YouTube has the most unique visitors, 133.7 million monthly, compared to 12.8 million for Netflix, according to Nielsen. But the average time spent per month on the service is 11 hours, 31 minutes, followed by Hulu (5:54) and YouTube (4:52).

In the face of competition, Netflix is evolving, said Keating, who expects the company to make use of its user database to gather content that best suits subscribers.

"Netflix has moved away from its DVD-era mantra of offering the world's most complete library, and has repositioned itself as a programmer and curator of movies specifically tailored to each subscriber's unique tastes," Keating said. "This repositioning will help Netflix prune its content deals to include only shows and movies that its famous matching algorithms show will interest a decent number of subscribers rather than having the enormous expense of trying to offer everything."

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