Original programs beef up streaming video sites

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The big-budget original series "House of Cards" launched this month on Netflix highlights the growing importance of streaming video, which is ramping up competition against traditional TV.

With stars including Kevin Spacey and Robin Wright, the new 13-episode series estimated by some to cost $100 million is a sign of the clout of Netflix, which claims 30 million members in 40 countries and a large chunk of the streaming video market.

"'House of Cards' illustrates how Netflix is transforming into a digital/Internet only cable network," said Richard Greenfield, analyst at BTIG Research.

Analysts say these types of services will become more important as consumers receive streaming Internet directly on their television, or through adapter boxes, for watching at their convenience on demand.

This means programming from Netflix and others can compete with cable or satellite television and over-the-air broadcasts, and even with premium TV outlets like HBO and Showtime.

Netflix, which launched its first original series called "Lillyhammer" last year in a Norwegian-American project, is not the only streaming service to offer its own programs.

Its chief rival Hulu, which is backed by some of the largest US broadcasters, has produced four original series in the past two years and has three more on the way.

And Amazon, which operates its own instant video service, has 11 projects in the works, including original comedies and children's programs.

These streaming services "are trying to attract subscribers with unique content," said Michael Corty, a Morningstar analyst.

"Consumers will go where they see the best value: it can be the quality of the content, or the price you pay."

Up to now, Netflix and its rivals have been competing for content from the major television and film studios. Netflix recently signed a deal with Disney for its films, while Amazon has secured rights for British-produced "Downton Abbey," which has a following among US viewers.

But these deals push up costs for the streaming outlets, which could be spent on original programs, which would eliminate the middle man for services like Netflix.

"With the cost of exclusive syndicated content escalating as competition builds... success in original programming, which by definition is exclusive, should help Netflix better manage/leverage its content spending," said BTIG's Greenfield.

Morningstar's Corty said that "the long-term battle that is going on is how much time people spend on current pay TV, and watching programs on services like Amazon and Netflix."

"For now watching on Amazon or Netflix really hasn't cut into the traditional viewing," Corty said. "But if Amazon and Netflix continue to get more subscribers, it will increase the competition for consumers' time."

A research note from Morgan Stanley said that "an expanding original content portfolio will allow Netflix to expand its (subscriber) base beyond HBO's, over time."

"Netflix will throw out the rule book for writers, directors and producers alike," said the Morgan Stanley note from analyst Scott Devitt, who estimated that Netflix will be spending $200 million to $300 million annually on original programs.

"During 2013, Netflix will have six original series debut, a major milestone for the company."

But the traditional names in the entertainment sector do not appear worried for now.

Time Warner chief executive Jeff Bewkes, whose firm owns HBO, and a number of big cable channels, said Netflix deserves credit but that competition is welcome.

"They're doing a great job," Bewkes said on a recent conference call.

But he noted that HBO has been doing this for 20 years and Netflix is just getting started, adding that "it takes a while to get that up to scale."