

Getting a clearer picture on Netflix-Comcast deal

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In this Aug. 6, 2009 file photo, the Comcast logo is displayed on a TV set in North Andover, Mass. After years of bickering, Netflix and Comcast are finally working together to provide their subscribers with a more enjoyable experience when they're watching movies and old television shows over high-speed Internet connections. The new partnership is part of a breakthrough announced Sunday, Feb. 23, 2014, that requires Comcast's Internet service to create new avenues for Netflix's video to travel on its way to TVs and other devices. (AP Photo/Elise Amendola, File)

(AP)—After years of bickering, online video purveyor Netflix and media giant Comcast, the largest U.S. broadband service, are working together to provide their subscribers with a more enjoyable experience when they're watching movies and old television shows over high-speed Internet connections.

The new partnership is part of a breakthrough announced Sunday that requires Comcast's Internet service to create new avenues for Netflix's video to travel on its way to TVs and other devices. In return for the improved access, Netflix will pay Comcast an undisclosed amount of money for the next few years.

The arrangement represents an about-face for Netflix Inc., which had steadfastly refused to pay high-speed Internet [service providers](#) already collecting \$40 to \$60 per month from its customers. Netflix CEO Reed Hastings had contended that his company's Internet video service is one of the main reasons why households pay for broadband, making it unreasonable for Internet service providers such as Comcast Corp. to demand additional money from content providers.

Comcast and other [broadband providers](#) argued Netflix's growing popularity should require the California company to shoulder some of the financial burden for delivering its video. In evening hours, Netflix's 33 million U.S. subscribers generate nearly a third of the Internet's downloading activity, according to the research firm Sandvine.

Now that Netflix has relented to Comcast similar deals are more likely to be reached with other Internet providers such as Verizon Communications Inc., AT&T Inc. and Charter Communications Inc.

Here's a closer look at what this shift means for subscribers to Netflix and high-speed Internet services:

How will consumers be affected?

Netflix subscribers relying on Comcast should already be seeing fewer interruptions as video streams over the network. The quality of the picture should be better, too. The improvements started to appear Thursday when Comcast and Netflix began working together, though their collaboration wasn't revealed until Sunday. Some analysts believe the alliance might set the stage for Comcast to eventually include an application for Netflix's service on its cable-TV boxes, making it even more accessible.

If the claims of better performance are true, it would reverse how Netflix's video had been performing on Comcast's Internet service—the average speed during prime-time viewing hours fell 25 percent from January 2013 to this January, based on Netflix's own measurements.

What was the problem?

That's a matter of debate. Critics of Internet service providers suspect Comcast and its peers were deliberately slowing Netflix's video as a negotiating tactic aimed at extracting additional fees. But plenty of analysts traced the slowdown to Netflix's increasing viewership and the limited number of ports that Internet service providers have built to receive online content.

Netflix has long been hiring third-party vendors such as Cogent Communications Group Inc., Akamai Technologies Inc. and Level 3 Communications Inc. to deliver its video to the doors of Comcast and other Internet providers—as if Netflix had been hiring a fleet of delivery trucks to transport its products to a store. As more people stream Netflix video, the company had to dispatch more trucks. Meanwhile, other Internet services also were sending trucks with their merchandise.

Like any congested highway, bottlenecks were slowing traffic down as all those trucks carrying digital content tried to get into the entry gates of Internet providers.

Now that it's getting paid extra money, Comcast is going to create special roads for Netflix's video. By bypassing the bottlenecks, Netflix video should stream more smoothly for Comcast subscribers.

Is netflix the only service with express lanes for dedicated content?

No. Google Inc., which owns the YouTube video site, and social networking service Facebook Inc., among others, had already reached similar deals with Comcast and other Internet providers. Netflix is falling in line with other services that generate a lot of traffic.

What prompted netflix to ante up?

No one knows for certain, but Comcast's clout probably had a lot to do with it. Comcast already has nearly 21 million broadband subscribers and that number will swell to about 30 million by the end of the year if the Philadelphia company wins regulatory approval to buy rival Time Warner Cable Inc. for \$45 billion.

If Netflix's video streaming quality continued to deteriorate on Comcast, Netflix risked alienating its own subscribers. The discontent would have undercut Netflix's subscriber growth and ultimately hurt its stock.

Comcast says it isn't giving netflix preferential treatment. is this really true?

Sort of, but it's a fine and highly technical distinction.

Comcast is referring to the ongoing debate over "Net neutrality." This term refers to the idea that Internet providers should treat all digital content equally, regardless of the originating website. The issue has become especially sensitive since last month when a federal appeals court overturned the Federal Communications Commission's regulations enforcing Net neutrality. That decision raised fears that Internet providers would impose tolls to guarantee websites run at optimal speeds.

But Net neutrality governs the performance of bits and bytes once the digital packages are inside the gates of Internet providers. The Comcast-Netflix alliance is limited to how quickly content gets to those gates.

Will netflix raise its prices to help offset the extra money that it's paying comcast?

The \$8 monthly price for a Netflix subscription in the U.S. may eventually rise, but the increase probably won't be tied to the Comcast deal.

Although the precise terms aren't being spelled out, it appears Netflix may just be reshuffling its expenses for video delivery. The company already had been paying other contractors to handle those deliveries. Now, some of the money is going to be paid to Comcast instead.

In a telling sign that Netflix isn't anticipating dramatically higher expenses, the company didn't revise its profit projections for the first three months of this year when it announced the Comcast deal. Investors interpreted that as a sign that Netflix's expenses aren't going to rise above the levels that management already budgeted. Netflix's stock climbed by about 4 percent to a new all-time high of \$449.69 Monday before falling back slightly. The shares closed at \$447, a gain of \$14.77.

Meanwhile, Netflix is still experimenting with new prices for subscribers who want to be able to simultaneously stream video on more than the current limit of two devices. A plan allowing four simultaneous video streams is being tested at \$12 per month. Netflix has emphasized any potential price increases are still many months away.

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