

Netflix is out-HBOing HBO in exclusive shows—so far (Update)

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In this file image provided by Netflix, Kevin Spacey appears in a scene from the Netflix original series, "House of Cards." Netflix has been spending tons of money on new shows, and in sheer volume of new programming, it's already edged out HBO and other cable stalwarts. (David Giesbrecht/Netflix via AP, File)

Look out, HBO. Netflix produced more original programming than cable's premium-network leader last year, according to number provided

by the two rivals. The Internet video service isn't slowing down, either, even if it risks losing subscribers to price increases that will help pay for more exclusive shows.

Since its push into original shows kicked off in earnest with the 2013 debut of "House of Cards," Netflix has hit the fast-forward button. Last year, it put out 450 hours of original programming, compared to 401 from Time Warner's HBO. This year, both companies say they expect to release roughly 600 hours of original material.

HBO, of course, is the network Netflix CEO Reed Hastings set out to emulate when his service began charting a course away from streaming TV reruns and previously released movies. Ted Sarandos, the company's head of programming, famously told GQ back in 2013 that Netflix's goal was "to become HBO faster than HBO can become us."

Netflix is aiming to put itself into "an entirely different and supreme league" from its rivals, says Tom Numan, a former TV network and studio executive who now lectures at UCLA's graduate school of theater, film and television. The company's goal, he says, is to become the first global network for original shows and movies.

With Netflix now available in 190 countries, Hastings expects Netflix to surpass 100 million subscribers next year. During a review of Netflix's results on Monday, Hastings declared the company "really excited" about the boost it expects from its growing library of exclusive programs.



In this file image provided by Netflix, Taylor Schilling, left, and Laura Prepon appear in a scene from the Netflix original series, "Orange is the New Black." Netflix has been spending tons of money on new shows, and in sheer volume of new programming, it's already edged out HBO and other cable stalwarts. (JoJo Whilden/Netflix via AP, File)

Amazon.com, Hulu and other services are scrambling to catch up with their own moves into original programming. Although its own original slate is only a quarter the size of Netflix's, Amazon.com can boast that its shows won more Emmy awards last year than its rival.

Netflix is counting on a vast library of original programming to help keep subscribers on board as it faces tougher competition. Amazon, for instance, just started offering its streaming-video service for \$9 a month ; previously, you had to sign up for the company's \$100-a-year Prime service, which includes free shipping from its e-commerce site and other goodies.

Amazon is undercutting Netflix's \$10 monthly price for its most popular video-streaming plan, as is Hulu, which charges \$8. HBO charges \$15 per month for a video-streaming service it launched last year to compete against Netflix.

Netflix will test the loyalty of its long-time subscribers next month when it starts to hike their prices 25 percent, following a two-year freeze that kept rates at \$8 per month. The increase will hit 17 million to 22 million U.S. subscribers, based on analyst estimates.

Original programming doesn't come cheap. The Los Gatos, California, company ended March with \$12.3 billion committed to Internet streaming rights, nearly double the \$5.6 billion it spend at the end of 2012. Netflix hasn't disclosed how much of that spending has gone toward original series and exclusive movies, but the percentage has been steadily increasing.

The cost of licensing and overseas expansion has whittled Netflix's profit margins. In its first-quarter results released late Monday, the company said it earned \$28 million, or 6 cents per share, on revenue of nearly \$2 billion. Investors, though, are far more focused the company's subscriber growth.

So far, the company has delivered. Netflix picked up an additional 6.74 million customers in the first quarter to boost its worldwide audience to 81.5 million subscribers—up from 33 million before the first season of "House of Cards." Such gains helped propel Netflix's share price, which has more than quadrupled since then, creating about \$36 billion in shareholder wealth.

But Netflix's stock price dropped nearly 8 percent in extended trading late Monday after the company predicted it would only add 2.5 million subscribers in the second quarter, including a gain of 500,000 customers

in the U.S. The conservative forecast reflected the anticipated loss of some longtime subscribers due to the price increase.

There's a worrisome history here. In 2011, subscribers fled when Netflix split off its DVD-by-mail operation from its burgeoning streaming business, a shift that hiked prices as much as 60 percent for some subscribers.

Netflix lost 3 percent of its U.S. subscribers at the time. A similar reaction to next month's price increase might cost it 510,000 to 660,000 subscribers in the second quarter.

Analysts think a repeat is unlikely. "I don't think you are going to see a lot of people bailing out and running for the exits," said Rosenblatt Securities analyst Martin Pyykkonen—largely because Netflix now has so many shows you can't find anywhere else.

That original programming appears to be a major draw for many subscribers. In a recent online survey of 2,500 U.S. adults conducted by Morgan Stanley, 45 percent cited it as a reason to subscribe to Netflix.

HBO, however, still has a huge advantage over Netflix in terms of prestige. Last year, HBO won 43 Emmys, more than any other TV network, while Netflix's original programs garnered just four—one less than Amazon.com.

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