What we know about the Netflix price hike

The online video service is planning its first US price hike since 2011 -- the year it lost thousands of subscribers after a failed attempt to split its DVD rental and on-demand services.
Chief Executive Reed Hastings provided hazy details about Netflix's planned rate hike, which he downplayed as modest, during a webcast Monday discussing the company's first-quarter results.

"You're talking about a dollar or two difference," he said.

The downplayed, foggy announcement stands in stark contrast to the last instance of a US Netflix price hike, one that outraged members and triggered a wave of defections as management attempted -- unapologetically at first -- to shove through a 60 percent increase. In 2011, Netflix said it would cleave its DVD-by-mail service from its streaming one. The DVD spinoff would be called Qwikster, and rather than a combined $9.99 bill for both, customers would pay $7.99 for each. The move enraged customers and a chastened Netflix company ultimately aborted the spinoff idea, but not without losing 77 percent of its stock's value in four months and 800,000 subscribers.
The company hasn't touched a US price increase in the three years since, but its ambition to become a must-have part of every consumer's TV budget has driven Netflix to spend more on licensing top content and creating high-budget original programming of its own.

Hastings said that most of the added revenue from the price increase would be diverted back into the company's content budget, which is where most of its spending goes, and that a hike in price was inevitable. "If we want to continue to expand...we have to eventually increase prices a little bit," he said. The company invests in content by licensing television and movies made by others -- such as a deal to get top movies from Disney on its streaming service quickly after they leave theaters -- and increasingly by creating its own television-style programming like "House of Cards" and "Orange Is the New Black." Original content makes up less than 10 percent of the company's total content spending.

The executive said the company is still deciding how long current subscribers would be "grandfathered" in -- that is, how long current members would continue paying their current rate before the higher price applies to them.

He said the length of that period of time would be generous, likely between one and two years. When Netflix raised prices in Ireland, it gave current subscribers there a two-year lag before a price increase hit their monthly bills.

New members who sign up for the service, starting sometime before the end of June, will have to pay at a monthly rate that is $1 to $2 higher than the $7.99 level that allows for two simultaneous video streams and the $11.99 rate for four streams at the same time. The company suggested the increase would happen in the US as well as other countries, saying in a letter to shareholders that the amount of the increase could vary by country.

However, the company wasn't clear on a number of details that consumers -- both subscribers and not -- surely want to know. For example, the company didn't specify
when the price hike for new members would be put in place, nor was there any indication if nonmembers would get any warning about the date of the increase so they can sign up beforehand to lock in the lower price. Netflix didn't clarify which specific countries were under consideration for an increase, nor would it discuss whether lapsed members would be given the chance to sign up again at the current price.

Netflix shares were up 6.7 percent at $371.98 in after-hours trading, as the company's first-quarter results and its second-quarter projections were better than expected.

Tags: Internet, Netflix

ABOUT THE AUTHOR

Joan E. Solsman / Joan E. Solsman is a staff writer for CNET focused on digital media. She previously wrote for Dow Jones Newswires and the Wall Street Journal. She bikes to get almost everywhere in New York City and has been doored only once. See full bio

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faceless128 1 minute ago
as long as its only for new users i'm good.

REPLY / LIKE

drp1003 34 minutes ago
I wish that Netflix would go into the Music Streaming business. They could be the first to offer High Resolution music for streaming for another four bucks a month as an add-on.

Partner with all of the big music giants, get a hold of all of their high resolution digital master files, and depending on how good your connection speed is, start streaming 2 or 3 tiers of audiophile quality music files.

REPLY / LIKE

snostorm6705 34 minutes ago
Hastings kinda looks like a tool IMO. I think I will cancel Netflix as its really low on quality and content. I will pay more for material I will actually enjoy.

REPLY / LIKE

ericsnickars 35 minutes ago
I don't understand how Netflix and Spotify survive with their low prices. Spotify can't be making money, and neither are the artists, so a price hike there seems inevitable.
Likewise, for Netflix, paying licensing fees is one thing; making original programming is quite another. I'm surprised that they're not raising it to $9.99/month. I'm sure someone in the board room is pushing for it.

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tomekc2002
I wish my electric company, cell etc would just raise a $1 every 4 years.

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styymy
This is all to put money in the coffers of shareholders. There was a time when a lot of companies functioned quite well without shareholders. Then one day there was a big idea that having shareholders that invested in your company would open up the flood gates of money growing on trees literally. LOL

That idea only comes to fruition for a "small" chosen few. The only return in today's climate is golden parachutes for executive, pink-slips for the workers and garbage for the customer.

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planblove
An extra $1 a month isn't hurting anyone. Guess I'm one of the few people left who think their selection is decent for the money.

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wxman2003
Considering 99% of the material on Netflix is old and the HD quality subpar, $5 a month would be too high.

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FUNimation
@wxman2003 Wait!? When did the price drop to $5 a month?
wxman2003  1 hour ago
@FUNimation @wxman2003 If it did, it would still be too high. $3 a month would be a fair price for old shows and poor HD.

berock2122  1 hour ago
@wxman2003 Bull. They have tons of great shows.

lavalamp193  37 minutes ago
@wxman2003 their move selection may not be new but they are only a season behind on most popular tv shows. Considering I pay 10X the amount just for my cable TV, Netflix is a superior value.

JimBones97239  2 hours ago
The price increase is fair if they improve the content. But I don't see that happening.

MyFuture  31 minutes ago
@JimBones97239 They improve the content every week with "New Arrivals". Already happening. :)

FUNimation  2 hours ago
This is a great news and about time if you do not like it you can cancel Netflix. Hopefully they will add more content very soon because Amazon Prime is looking very and I have ben watching Amazon Prime more.
sarat313

two bucks that is less then my morning coffee. not a big deal you wiener.

REPLY / (4) LIKE

mzedalis

I will cancel. I am not paying for bandwidth I already pay for.

REPLY / LIKE

anonCNET

@mzedalis That doesn't make sense as a reason to cancel Netflix.

REPLY / (6) LIKE

FUNimation

@mzedalis Are you trying to watch Netflix on a 56K modem? That is sad if you can not afford a decent internet.

REPLY / (3) LIKE

mzedalis

Your a moron. The increase is to offset the cost the cable companies are charging for bandwidth most people don't exceed. I can tell you a person that gets easily taken advantage of.

REPLY / (1) LIKE

FUNimation

@mzedalis They are charging for 56K modem?

REPLY / (1) LIKE

Casonfs

@mzedalis I will repeat the sentiment of the others: you are dumb. Punishing Netflix is exactly the point of Comcast's double dipping strategy. They don't want to compete with Netflix. You canceling Netflix only promotes that strategy.
as effective. If you have a problem take it up with your provider.

McPlot 17 minutes ago
@Casonfs @mzedalis You have no idea what your talking about. Instead of using the likes of Level 3, which cost them money for bandwidth and were causing bottle necks, they are going directly to the cable providers to improve their service. NO Level 3 (I cannot remember the other companies name they use) means no bottleneck. It cost Netflix less to do it like this and add quality to the service. If you think this was Comcast idea, you are mistaken. Netflix finally got fed up with the bottlenecks. Since companies like Level 3 provide service to more then just Netflix, it caused a bottleneck. The net neutrality principles state that an ISP (You named Comcast here) cannot discriminate between services. So they could not give Netflix streams going over Level 3 priority over any other data going over the same pipe. By cutting out the middleman, it cuts out the problem.

gertruded 2 hours ago
When the price increases for me, I will cancel. Not enough good programming for more than a year or two worth of subscriptions anyway.

Who wants to give Comcast more money anyway? Can't think of another corporation with more to dislike.

FUNimation 2 hours ago
@gertruded So cancel Netflix but not Comcast? That makes a whole lot of sense.

RantR 3 hours ago
This is probably to offset the cost of their peering deal with Comcast.
anonCNET  2 hours ago
@RantR   Unlikely. The deal with Comcast simply replaced one service (Cogent) with another (Comcast).

NewiPhoneUser01  3 hours ago
Netflix should provide free porn when it increases the price. I don’t watch porn but you know it’s nice to have the free option, right. I mean, when you run out of stuff to watch on bing watching, you need to whet your appetite with porn. Like I said, I don’t watch porn but . . .

FUNimation  2 hours ago
@NewiPhoneUser01   Imagine if Netflix was smart enough to add porn LOL! They would make so much more money but they use to stream some soft porn not sure why it was a big deal, stupid lazy parents they just could not figure out the Disney section.

McPlot  13 minutes ago
@FUNimation   @NewiPhoneUser01   Porn is expensive. Also, there are services that offer porn streams for one low monthly cost. Just Google or Bing anything, and you will one of those services.

ryanmax42  3 hours ago
As stated by information gathered by comscore (SCOR), the amount of exceptional guests on Netflix’s site proceeded to see here http://goo.gl/aSR4ZV

anonCNET  3 hours ago
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A $1 increase is not a price hike.

seerclearly
@anonCNET What is it, a price DROP?

anonCNET
@seerclearly It's a price increase. Duh.

But it's not a price hike: "hike: a sharp increase, esp. in price"

vercillo
That's debatable. It'd be a 12.5 percent increase if it's only a $1 increase. Where do you draw the line regarding what constitutes a "sharp" increase? Fifteen percent? Twenty? Why? What if gas went up 12.5 percent? Milk?

FUNimation
@vercillo So prices should never go up? How does this work in your world? Yes gas prices always go up that is political trolling, I am trying to understand why the economy is not improving it is confusing has our country become so lazy that everyone must live on unemployment, food stamps and government checks?

burntheadbob
@AnonCNET You could say that it is a hike! It is a large percentage i.e. double figure percentage and a hike is an increase deemed by those affected as unreasonably high. Oh and it may be a $2 increase which would be 20%
increase. That's unreasonable for some.

As for your comment about Comcast and cogent that is factually incorrect. Comcast are charging their own fee for a service that they still have to pay Cogent for! The charge made to cogent is still present to pay for service through other ISP's that have not already made an agreement.

wxman2003 1 hour ago
@anonCNET Yes it is. 12.5% increase is a price hike. A sudden 12.5% increase is energy prices, or food prices would be considered a major price hike.

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Verizon Wireless
The New Droid RAZR 4G LTE. On Sale Verizon Official Site.
verizonwireless.com

Is He Cheating On You?
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www.inventionideas.org
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