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Australians rejoice: Netflix is rethinking its avoidance of Australia, according to media reports, and could launch here as soon as next year.

Initially concerned about poor internet infrastructure, Netflix could be considering delivering content outside its traditional offerings – including through internet-connected gaming consoles and set-top boxes.

Entering the Australian market – alongside France and Germany – would cap off a good year for Netflix, which has seen its shares rise 260% since the start of the year. Netflix now has more than 40 million subscribers, and has more US subscribers than popular cable channel HBO. But is Netflix the next bubble stock, or is there a good reason for this optimism?

Stock market investing is driven by feeding frenzies. They appear to have some rationality around them, but like some television programs and web sites they are sticky and delicious.
kinds of candy.

Here are the facts that propel this giddiness:

At the end of the millennium Netflix provided a new model for getting rental DVDs in the US: consumers booked them online and, like Amazon and books and other products back then, they were delivered to their door within 24 hours.

This model expanded rapidly when Netflix rolled out a monthly subscription system for more unlimited rentals rather than a single fee per DVD. This blend provided something of a cable/pay television feel to the subscription, giving subscribers a greater sense of control in their viewing choices.

The business model reached its zenith in about 2003 when Netflix began online streaming of its catalogue of hundred of thousands of movies and television programs. It kept its DVD rental and delivery system in place but gradually built online streaming to represent by far the largest base of its subscribers.

Recent counts put online subscribers at about 30 million in the US and another almost ten million internationally, with DVD subscribers at about seven million.

2003 and beyond

On its own, this backstory is interesting; but what makes it sweeter is that Netflix continues to successfully migrate to new intersections in the relationship between entertainment and online culture.

It has managed the limitations that streaming movies online might have. Instead of placing limits on numbers of hours of screening, Netflix moved to a model of unlimited screenings per subscription which once again made the subscriber feel they had unfettered access to an enormous video library and archive.

Its growth interestingly intersected well with the expansion of broadband and DSL access in its home country so that the bandwidth necessary for screening was never significantly challenged in the market.

Netflix has worked very hard at connecting to devices associated with televisions that would allow online streaming to be easy for a family, and permit movies to be seen on the biggest screen in the house: via Wii, Playstation, and Xbox, Netflix migrated to be as close to the set as the DVD player had formerly come.

And there are reports the company is in talks with US cable providers to get its streaming app on their set-top boxes, a major coup. It’s already signed similar deals in the UK and Sweden.

Netflix represents a model of delivery that has at last challenged the illegal downloading of movies with its superior quality and reliability. It’s also a model of distribution and exhibition that major content providers – that is, movie and television production houses – are open to supporting.

More recently, Netflix has been commissioning new and original content. Netflix is the first quality media content generating platform to challenge old media structures. The key word here is quality – it is a challenge to companies such as HBO which has been the most successful model of linking filmic quality with television for redistribution and exhibition,
building original content into the mix.

Netflix’s House of Cards, Arrested Development, and the latest Orange is the New Black have been released in 2013, and have seen a large influx of subscribers crossing over to its stable.

What makes this achievement all the more remarkable is that it has done this without any access to cable television subscribers who are linked to packages of programming across many cable channels over many years.

Netflix has said that no more than 10% of its spending on content will be channelled back into original productions, which is much less than the 40% ratio for HBO.

But the production of original content could expand dramatically as Netflix begins expanding internationally with forays into Brazil, the Netherlands, Scandinavia, and Latin America.

Netflix has also tapped, more successfully than anyone else, into the new way of watching “series” television: people enjoy watching several episodes of a series they love in quick succession, which before Netflix could only be done easily with the ownership of a DVD.

The entire season of House of Cards was made available for viewing on the first day. This style of viewing is not only very “sticky” and delicious for the viewer, it is perhaps even more attractive in its guarantee of structure and support for the production companies making a series. This is a monumental shift.

Netflix has managed to move to the right intersection at the right time in this hybrid world of entertainment and online culture. It is about to become a much bigger player as it continues to expand overseas, acquiring intellectual property territory by territory, and building subscribers.

This is a very sweet corporate candy that is providing potentially a further expansion now into Australian territory which may help Australians understand how sweet it can be for both the pleasure of investment – and use.