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Netflix Needs To Stop, Drop and Roll Out the Cash

In the wake of this week's Emmys, we need to take a step back and evaluate whether or not a streaming service can afford to spend $6 billion on original content.

Three. Netflix won a whopping three Emmys last week, confirming Hollywood and Wall Street's shared fear that the company is in over its head. The tides are changing and I'm not just talking about the shift away from linear television. Having infected millions of viewers with the binge-watching bug, Netflix was a pioneer in the world of Internet streaming. The key word here is "was." Netflix has convinced nearly 80 million consumers worldwide that Internet streaming is worth paying for, BUT it also convinced Hollywood monsters like Time Warner and 21st Century Fox. This increase in competition and the lack of a structured funding safety net should have caused Netflix to reevaluate its negative cash flow of $1 billion they reported for 2015. Instead, it announced that it would spend $6 billion in 2016 on original content. Attention Netflix: Slow down!

I'm not saying I don't love watching Frank Underwood plot his revenge on the White House in *House of Cards* or cringe every time the Rayburn family covers up a sticky situation in *Bloodline*. I am saying that after watching the Emmys, I turned to Amazon Prime Video for the first time to get my fix of shows that I couldn't find on Netflix. The other networks have caught up and, sorry Netflix, but you couldn't expect to keep this monopoly forever. As HBO Go, Hulu and Amazon Prime Video creep into the game, users are venturing away from their cherished Netflix accounts, and Netflix needs a combat plan that doesn't involve increased spending. While it may seem like nothing could ever happen to Netflix, facts are facts. In 2015, the company's $6.8 billion revenue was nothing close to Time Warner and 21st Century Fox's $30+ billion figures. Jointly owned by 21st Century Fox, Disney and NBC Universal, Hulu has beat out Netflix two to one in licensing battles over the past year AND they have the financial backing of established Hollywood titans to fall back on.

Yes, Netflix was the first network to have a web series nominated for a major award. Yes, it is currently America's fourth most relevant brand. Yes, Netflix was able to beat the death of the DVD by pioneering the concept of the monthly streaming subscription. But, at the end of the day, Netflix still relies on content produced by its competitors to succeed financially. These competitors have the ability to increase the price of licensing their shows and the track records to match. With their own paid streaming services, they are not only stealing Netflix customers, but also causing Netflix to drive up its prices. As if this domestic issue wasn't pressing enough, Netflix faced unexpected local competition when it expanded into 130 countries. The insane spending and expansion had Wall Street excited about the company's growth, but underperformance at this year's awards shows (for the $6 billion original content) caused analysts to downgrade the stock from "neutral" to "underperform." Research analyst Michael Pacher sums it up: "Netflix is caught in an arms race they invented."

Netflix, I'm rooting for you, but you've GOT to launch some dynamite (content).