

# THE WALL STREET JOURNAL

## Where Netflix Sees Potential—and Risks

CEO Reed Hastings says the company needs a greater presence outside the U.S., on both the creative and sales fronts

Reed Hastings talks with WSJ Financial Editor Dennis Berman at the WSJDLive conference.

October 30, 2016

*Few companies have done more to disrupt the television industry than [Netflix](#) Inc. Dennis Berman, financial editor of The Wall Street Journal, spoke with Chief Executive [Reed Hastings](#) about what makes Netflix work and where it is headed. Edited excerpts follow.*

**MR. BERMAN:** *The [AT&T/Time Warner](#) merger. Are you in favor or opposed?*

**MR. HASTINGS:** We haven't taken a position, as long as HBO's bits and Netflix's bits are treated the same. If it's open competition, we love that.

**MR. BERMAN:** *Does it make sense for you to get your own pipes? Why not buy Sprint?*

**MR. HASTINGS:** We're a global company. We work with about 600 internet service providers around the world. Netflix is an application on top of the internet.

**MR. BERMAN:** *So you're not interested in vertically integrating in the U.S.?*

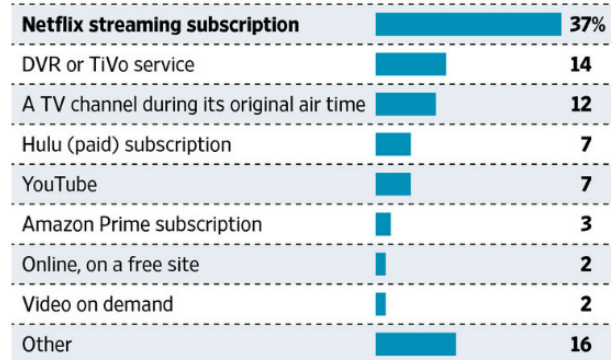
**MR. HASTINGS:** Vertical

integration to the data transmission layer, no. In terms of content, we're now producing a lot of content ourselves. So that is a form of vertical integration that's been very successful for us.

### Choosing Netflix

A poll of Americans age 13 to 54 who have watched some streaming programming found that Netflix was their most frequent choice when they want to watch a TV show. That was also true for all age groups surveyed except baby boomers.

Where do you go most frequently when you want to watch a TV show?



Percentage who chose Netflix, by age group

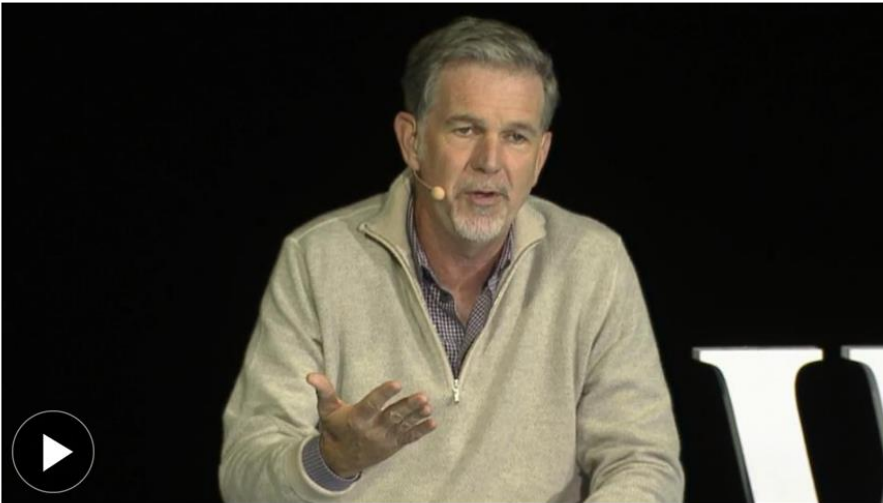


Source: [E-Poll Market Research](#) survey of 1,328 people in the U.S., ages 13 to 54, conducted online in July 2016. All respondents had viewed a full-length streamed program within the previous six months.

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**MR. BERMAN:** *Let's talk about your global expansion.*

**MR. HASTINGS:** Basically we're everywhere but China. China, we've had a change of heart recently. The rest of the world's growing for us. The big imbalance is we're majority-U.S. viewing and subscribers. And if you look at YouTube and Facebook and others—they're about 20% U.S., 80% international. That's what we should be.



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**MR. BERMAN:** *How do you program globally?*

**MR. HASTINGS:** When we look at “Narcos,” a big hit all around the world produced for us by a French company in Bogotá, Colombia, with a Brazilian star, that’s what we see as the future. Producing content all over the world for the world. We’re going to evolve past just the Hollywood enclave and try to unleash the world’s great, high-end creators.

**MR. BERMAN:** *What translates and what doesn't?*

**MR. HASTINGS:** We have a bunch of Japanese original content that does very well for us in Japan, the Japanese expatriate community and some crossover communities. It’s bigger for us in Korea and in some other parts of Asia than it is in the U.S. But everywhere it gets a little audience. And that’s what the internet is so great at—finding those audiences around the world. Not every show has to work equally well. It just has to work better than any competitor because then we can outbid for the content.

**MR. BERMAN:** *Take us through the economics of greenlighting a show.*

**MR. HASTINGS:** We’ll collect this year about \$8 billion of customers’ money. We say that money’s in trust to create joy. We have to turn that into the most joy possible. We look and we say, for every show, if a show cost \$100 million, how much joy, how much viewing did it

create? If it costs \$50 million or \$200 million, of course you want different amounts of joy. So we look at it as how much joy can we create (out) of your money. And if we turn it into joy effectively, then you're happy and you tell your friends and we grow.

**MR. BERMAN:** *Has your own value of joy changed?*

**MR. HASTINGS:** The highest-end TV, it's about \$10 million an hour for the production budget. But in movies the high-end budgets are \$100 million of production cost for an hour. So right now, we are, in television, way under movies because we don't yet have the distribution. We can't afford \$100-million-an-hour television. What we hope is we'll be able to figure out in the next couple of years what \$20-million-an-hour television will look like. As distribution grows, the high-end grows. And we'll do more high-end productions.

**MR. BERMAN:** *Might the real competitive threat in the future be Baidu or Alibaba or Tencent? Might one of these Chinese companies basically expand across the world?*

**MR. HASTINGS:** The competition we worry about is the substitution—when people are spending time on Snapchat or Facebook video or YouTube, or some new app that isn't yet invented. In the long term, you have to believe that movies and TV shows will be like the opera and the novel, pretty nichey businesses. Human entertainment will have moved on to something new. Then the ultimate challenge for us is, can we figure out what that new form of entertainment is?

To learn more about E-Poll's research into the Streaming TV market , please [click here](#)