



Is Shomi's Demise Good News or Bad News for BCE Inc.?

Description

Shomi came into this world with a whole lot of bravado from **Rogers Communications Inc.** ([TSX:RCI.B](#))([NYSE:RCI](#)) and **Shaw Communications Inc** ([TSX:SJR.B](#))([NYSE:SJR](#)), but it's leaving with its tail between its legs, sporting losses of upwards of \$200 million.

Ouch.

Anyone who's been around television broadcasting and studied the progress of **Netflix, Inc.** ([NASDAQ:NFLX](#)), the U.S.-based video streaming service, should have come to the conclusion back in August 2014 when Shomi hit TVs that it simply wouldn't fly.

Netflix came to Canada in 2010. By July 2014 it had three million subscribers in the Great White North; today, that number is well over five million. Shomi and Crave (BCE's streaming service) combined are said to have less than 700,000 subscribers, or about 13% of Netflix's customer base.

Regardless of how that 700,000 breaks out between the two services, there's absolutely no possibility that Crave is suddenly going to grab all of Rogers's Shomi subscribers. At the end of 2015, BCE raised the monthly subscriber fee (for Bell TV subscribers) to \$6 from \$4—a 50% increase. Otherwise, it's \$7.99 per month. Netflix charges anywhere from \$7.99 to \$11.99, depending on the level of service chosen.

Crave's big draw is its HBO and Showtime content, which includes shows like *Game of Thrones*, *Ballers*, *Veep*, *Homeland*, *Ray Donovan*, and many others. But in terms of total content, it's absolutely crushed by Netflix. Michael Geist, one of Canada's leading legal minds when it comes to the internet, estimated that in 2015 Crave had 403 titles compared to more than 3,700 at Netflix.

When both Rogers and Bell launched their streaming services in 2014, my first thought was, "This is going to cost them a lot of money to come anywhere close to Netflix." That didn't happen. Now, it's up to BCE to decide if it wants to continue the fight—one that's not going to get any less expensive because Rogers has left the playing field.

So, what's the verdict? Is it good news or bad news for BCE? I think it's terrible news.

With Rogers still in the game, BCE could argue that a competitive marketplace existed for video streaming in Canada that was worthy of further investment. Now that Rogers has thrown in the towel, institutional investors are going to be asking some serious questions about Crave's long-term viability and whether or not further investment is sensible.

Consider Netflix.

It has US\$13.2 billion in content obligations—90% of the payments are due within three years. That's a big nut to carry around, even for Netflix. BCE paid **Corus Entertainment Inc.** \$211 million at the end of last year for the right to roll out The Movie Network and HBO Canada across the country. Is BCE really committed to going down this road, or has it simply been using Crave as a way to boost its premium content?

Now that it's had the rights to The Movie Network and HBO Canada across the country for almost a year and Shomi has dropped out of the competition, I'm not so sure it has the staying power to keep Crave going.

More importantly, for shareholders, I'm not sure it should. Netflix is starting to show some cracks in its armour, which are reflected in its declining stock price. It's no longer investors' shiny new toy. If Netflix can have problems, Crave has no hope of success.

In the immortal words of Sun Tzu... and Bud Fox (Wall Street), "If your enemy is superior, evade him. If angry, irritate him. If equally matched, fight, and if not, split and reevaluate."

I think it's time for BCE to reevaluate.

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