



Can BCE Inc. Really Compete With Netflix Inc.?

Description

Now that the Shomi joint venture between **Shaw Communications** and **Rogers Communications** has officially bitten the dust, the video streaming war in Canada is down to just two major combatants.

In one corner is **Netflix Inc.** ([NASDAQ:NFLX](#)), the 800-pound gorilla in the room. Not only does the popular streaming service have hundreds of popular television shows and movies, it also is reported to have spent US\$6 billion on its own content in 2016. It plans to spend a similar amount in 2017.

Netflix's chief rival in Canada is Crave, a video streaming service owned by **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)). Crave does have a number of television shows Netflix doesn't because BCE's cable networks have exclusive rights to show these programs in Canada. Crave has popular titles like *South Park*, *Star Trek*, and, one of my personal favourites, *Billions*. It's a big differentiating factor between the two services.

One of the reasons Shomi shut down is because Crave was quickly becoming the go-to choice for Canadian streamers. Crave recently surpassed the one-million-customer mark. BCE has been Canada's largest cable provider since 2015, and it has leveraged that position to convince subscribers to sign up to Crave, including offering the video-streaming service as part of certain cable packages.

That seems pretty impressive until we take a closer look at Netflix's results in Canada. It's estimated about 5.5 million Canadian households have a Netflix subscription.

Room for both?

It's not all bad for Crave. Sure, it's getting crushed by Netflix, but subscriber count does keep ticking up each quarter.

We all know Canadians are cutting the cord, and quickly too. It's estimated that 200,000 Canadian households will get rid of cable in 2017 after similar numbers ditched it in 2016. This trend will likely slow over time [as millennials start forming their own households](#) in a big way, but there's no doubting the overall direction we're going in.

But it's not all bad for Canada's telecoms. They've been able to push through price increases to existing cable customers, although that pricing power won't last forever. Internet pricing power should be much better, since so much of our entertainment is now online. And if millennials skip out on cable, they're more likely to pay more for faster internet.

Keep in mind that video streaming is comparatively cheap, at least compared to cable. It's \$9.99 per month to subscribe to Netflix, while Crave is even cheaper at \$7.99 per month. Canadians can subscribe to both for less than the cost of a basic cable subscription. Which is what many do, including my family.

There's plenty of room for both services to continue growing and no reason why Netflix subscribers won't at least consider adding a Crave subscription.

More competition is coming

BCE might have more to worry about more than just Netflix. **Amazon.com, Inc.** ([NASDAQ:AMZN](#)) just announced it is moving its Amazon Prime video service to other countries, including Canada.

Like Netflix, Amazon is investing billions of dollars annually towards its own content library — programs that are gaining the attention of Hollywood's elite. Some of the best critically acclaimed shows are coming from Amazon, including *The Man in the High Castle*, *Transparent*, and *Mozart in the Jungle*.

This highlights one of the big differences between Crave and Netflix/Amazon. The latter two options have many of their own titles and are spending aggressively to create more. Crave has a grand total of one show exclusive to Crave. That's a big drawback, especially as new programs from Netflix and Amazon gain popularity.

The bottom line

Crave TV's growth is important for BCE. Although it's still a small part of the company today, it should continue to grow as more people ditch conventional TV for good. But it's going to be tough going up against two competitors who are collectively spending close to US\$10 billion a year on programming.

If I were looking to invest in streaming video, BCE would not be my first choice. It's still a fine telecom, but it's hard to compete against Netflix and Amazon.

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Author

nelsonpsmith

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