U.S. NEWS

Blockbuster Offers Cheaper Online Rental

AP

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Blockbuster is offering lower-priced plans for online movie rentals as it competes with **Netflix** in a market that some analysts believe could grow more than 40% this year.

Blockbuster said Tuesday it would cut prices $1 a month for customers who order movies only online and not at stores. Only a month ago, Blockbuster's CEO talked about raising prices.

Analysts said Netflix could be forced to drop prices, which would reduce its profits.

Shares of Netflix tumbled $1.85, or 8.4%, to $20.08, while Blockbuster shares slipped 12 cents, or 3%, to $3.95.

Blockbuster said it would offer a plan letting customers place online orders to rent three movies at a time for $16.99, a buck cheaper than its most popular offering, called "Total Access." The movies are mailed to the customer.

The difference is that customers on the cheaper plan, called "Blockbuster by Mail," won't get a free rental by returning DVDs to a store instead of mailing them back. They will, however, get a coupon for one free in-store rental per month.

Blockbuster said it would offer more limited plans, such as two

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with high-speed access and a Windows-based computer. It also has a $4.99 plan for up to two rentals per month.

Michael Pachter, an analyst with Wedbush Morgan Securities, said Blockbuster's cheaper offer puts Netflix on the spot.

"They can cut prices, which will kill their profitability, or they can do nothing and watch their subscriber growth wane," Pachter said.

Stacey Widlitz, an analyst with Pali Research, said $1 a month might not convince current Netflix customers to switch, "but it will affect the new customers."

Pachter and Widlitz both predicted that Blockbuster will eventually raise prices for online plans that include in-store rentals while undercutting Netflix in online-only rates.

A Netflix spokesman declined to comment on pricing.

Netflix Takeover Rumors

Citigroup analyst Tony Wible downgraded Netflix shares to "sell" from "hold," saying that Blockbuster's price cuts will make it "significantly more difficult" for Netflix to sustain earnings. He added it was less likely that Amazon.com would buy Netflix -- rumors of a takeover pushed Netflix stock higher last week.

Netflix doesn't operate stores, but it got a head start in the Internet ordering and mail delivery of DVDs and boasts more online subscribers than Blockbuster. But Blockbuster is growing faster.

Dallas-based Blockbuster has been spending aggressively to build its online business, weakening the company's near-term financial results with heavy spending on advertising and movie inventories. But executives believe they have no choice -- that the growth of movie rentals is online while the in-store rental business shrinks.

Blockbuster is losing an undisclosed amount on the online business, but Chief Executive John Antioco has said it will be profitable next year as the number of Internet orders rises.

Adams Media Research estimates that the online rental market will grow 43% this year.

Blockbuster hopes to beat that pace. It began the year with 2 million online subscribers, ended March with 2.8 million paying subscribers, and predicts it will have more than 4 million by year end.

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reducing its goal for 2007 -- it expects to have 7.3 million to 7.8 million subscribers at the end of the year.

Shane Evangelist, general manager of Blockbuster's online division, said the company can continue to narrow Netflix's lead, partly with the new, cheaper subscription plans. He said the $1 per month savings was calibrated to attract new customers without merely causing current customers to switch to a less-expensive plan.

"There is a segment of customers who only want to rent online," Evangelist said. "We think this will attract customers from other stores and other online rental competitors."

Blockbuster is studying whether to follow Netflix and stream movies over the Internet. But its urgency to buy a streaming company seems to have waned since it approached **Movielink**, which is owned by major Hollywood studios.

Blockbuster officials dismiss Netflix's streaming-movies offering as a bunch of older movies with limited appeal. Netflix claims to offer more than 2,000 movies for "instant viewing." The handful of examples it lists on its Web site include "The Matrix," released in 1999, and "Zoolander," from 2001.

Netflix spokesman Steve Swasey said the site offers recent fare, including the second season of "The Office," an NBC-TV comedy series. He blamed studios for failing to make recent movies available for download but said Netflix's streaming service is still "a clear differentiator" against Blockbuster.

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