How Netflix sent the biggest media companies into a frenzy, and why Netflix thinks some are getting it wrong

Alex Sherman, CNBC, Wed, 13 June 2018

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Netflix shares are up 2,400% and the rest of the media industry is struggling — here's why

The media industry is in a frenzy. AT&T is buying Time Warner for $85 billion after overcoming a Justice Department challenge . The Murdoch family has agreed to sell most of its 21st Century Fox empire to Disney. Comcast plans to crash that deal with a higher offer. It has also outbid Fox for control of European pay-TV provider Sky. Those deals may total $100 billion when the bidding is done. Viacom and CBS continue to dance around merging. Discovery closed a $14.6 billion acquisition for Scripps Networks in March. Lionsgate completed its $4.4 billion deal purchase of Starz in December.

There's been a drastic change among legacy media company executives the last two years. Their CEOs won't say it publicly, but they're saying it privately: The pay-TV bundle, the lifeblood of the U.S. media ecosystem for decades, is dying.

There's a lot of places to blame. Competition on mobile devices. Video games. Even the internet in general.

But executives at most traditional media companies agree that Netflix, if not directly responsible, is at least holding the murder weapon. The 21-year-old company that was once best known for killing DVD rental giant Blockbuster has pivoted its entire business around the idea that streaming video delivered over the internet will replace the linear TV.

Consumers seem to agree. Netflix gained 92 million customers in the last five years while the number of people who pay for cable declines year after year. That dynamic has persuaded investors to believe in Netflix's high-risk business model of running cash-flow negative to outspend traditional media companies for content. It has let Netflix strike deals with everyone from David Letterman to Ryan Murphy to Barack Obama.

And the more Netflix spends, the more investors cheer.

The success of Netflix in the market is why we're seeing "the greatest rearranging of the media industry chessboard in history," according to BTIG media analyst Rich Greenfield.

But chasing scale isn't the answer for every media company, according to Netflix CFO David Wells. "Not everybody's going to get big," Wells said in an interview. "The strategic question is, 'what type of business do I want to be in the next five or 10 years?'"

So legacy giants are beginning to contemplate how to beat Netflix at its own game. Comcast, which owns CNBC parent NBCUniversal, has had preliminary talks with AT&T to start an over-the-top digital streaming service with NBCUniversal and Warner Bros. content, according to people familiar with the matter. Discovery is also pondering its own OTT service, potentially with a global technology company, said other sources. Disney is debuting its streaming service next year.

Wells is skeptical about this approach. "Consumers don't want 100 direct-to-consumer services. The consumer wants great breadth and amazing personalization so they can find something in 30 seconds instead of five minutes." While traditional media is racing to catch up, Netflix CEO Reed Hastingsis not looking back at the runners he's passed.

Hastings has never really feared legacy media, said Neil Rothstein, who worked at Netflix from 2001 to 2012 and eventually ran digital global advertising for the company. That's because Hastings bought into the fundamental principle of "The Innovator's Dilemma," the 1997 business strategy book by Harvard Business School professor Clayton Christensen.

That book, often cited in tech circles, explains how disruptive businesses often start off as cheaper alternatives with lesser functionality, making it difficult for big incumbents to respond without cannibalizing their cash-rich businesses. Over time, the newcomer adds features and builds customer loyalty until it's just as good or better than the incumbent's product. By the time the old guard wakes up, it's too late.

"Reed brought 25 or 30 of us together, and we discussed the book," Rothstein said of an executive retreat he remembered nearly a decade ago. "We studied AOL and Blockbuster as cautionary tales. We knew we had to disrupt, including disrupting ourselves, or someone else would do it."

There's no guarantee Netflix can keep up its big spending without seeing its stock fall back to Earth. But the media giants can no longer afford to wait and find out.

The unfair fight

Let's say you're a carpenter, and you make furniture out of mahogany. You pay for mahogany wood and sell a finished product for a profit. You've been doing this for years, and you've made a good living from it.

One day, a new guy — let's call him Reed Hastings — moves in next door. At first, Reed seems awesome. After looking through your store, he buys a bunch of the dusty pieces in the back no one else wanted.

But after a while, Reed decides to get into the furniture manufacturing business, too. And now he's telling your mahogany supplier that he'll pay 50% more for the same wood. Then another competitor, a rich fellow named Jeff Bezos, shows up across the street. He wants the mahogany, too, and he's bidding 75% more.

This is crazy, you think. How are these guys able to afford to pay so much more for the same stuff? They've got to be passing along the costs to their customers, right? But they're not. You walk in their store, and they're selling the same quality furniture you make for less than you sell it. And cash from investors is pouring in.

You say, what the hell? I'll up my spending, too. This is the new world, I guess. So you bid 100% more for mahogany. Instantly, your stock falls. "Boo!" say your investors. "Your business model is dying!"

This sounds like a Franz Kafka novel. But this allegory explains the current plight of legacy media. Imagine Lionsgate is the mahogany carpenter. Lionsgate develops original and licensed movies and TV shows; it pays for the talent and the production costs and receives money in return from cable channels, digital outlets, TV networks and so on. It owns the "Hunger Games" franchise, "Mad Men" and "Orange is the New Black." That last one, of course, runs on Netflix.

For years, Netflix was a welcome addition to the media landscape since it bought a lot of content that was old or unpopular. Plus, Netflix didn't get in the way of the two main ways content providers make money — signing deals with pay-TV operators like Comcast, Charter, AT&T and Dish Network, and taking cash from advertisers. Working with Netflix was like finding free money.

But the programmers kept asking for higher fees, especially on costly sports rights, and that pushed cable bills higher. Meanwhile, Netflix customers loved the low price — originally less than $8 a month compared with $80 or $100 for cable. When Netflix started offering a handful of original shows, such as "House of Cards" and "Orange Is The New Black," viewers kept coming, and the company's valuation swelled.

Five years ago, Netflix was trading at about $32 per share. Today, Netflix trades at about $370 a share. That's a gain of 1,050%. Over the same period, Lionsgate is down about 15%.

A lot of media CEOs believe Netflix is winning because the game is rigged in its favor. Their complaints focus on how companies are valued by investors. Lionsgate's enterprise value (EV), a good measure of a company's worth, is about $7.5 billion. Its earnings before interest, taxes, depreciation and amortization (EBITDA) over the last 12 months was $520 million. So, Lionsgate trades at a trailing EV/EBITDA multiple of about 14. Discovery, Disney and Viacom all trade at trailing multiples lower than 14.

Netflix has an enterprise value of $165 billion and EBITDA of $1.1 billion, giving it a multiple of about 150. That's the equivalent of a huge cheering section, throwing money at the company to keep spending. Indeed, Netflix is now the number one spender on media content outside of sports rights, according to consulting firm SNL Kagan.

Can the spending game last?

Some traditional media execs and analysts are skeptical that Netflix can keep it up. "To be worth $150 billion, someday you've got to make at least $10 billion in EBITDA," Steve Burke, CEO of CNBC parent company NBCUniversal, said in an interview. "There's at least a chance Netflix never makes that."

Netflix spends more money than it takes in each year, funding the gaps with debt. Last year, it posted free cash flow of almost negative $2 billion and has forecast that it could be negative $4 billion in 2018. Netflix's path forward is tied to massive international growth, which will require spending billions more on original programming.

If you think Netflix should trade like a traditional media company, Burke's got a pretty good case Netflix is insanely overvalued. Even Hastings acknowledges Netflix looks more like a media company than a technology company, which tend to trade at much higher multiples. "We'll spend over $10 billion on content and marketing and $1.3 billion on tech," Hastings said in his April 16 quarterly earnings conference call. "So just objectively, we're much more of a media company in that way than pure tech."

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The music will stop for Netflix if it can't quit burning money, said Wedbush Securities analyst Michael Pachter, who has a sell rating on the stock and a price target of $140 per share. "Netflix has burned more cash every year since 2013," Pachter said.

As of the end of the first quarter, Netflix had $6.54 billion in long-term debt and $17.9 billion in streaming content payment obligations, with only $2.6 billion in cash and equivalents on hand. In April, Netflix raised $1.9 billion of 5.875% senior notes. "What happens when they need to keep increasing their spending and suddenly they have $10 billion of debt? People are going to start asking, 'can this company pay us back?' If that happens, their lending rate will spike. If Netflix needs to raise capital, they'll issue stock. And that's when investors will get spooked," Pachter said.

Even if his logic is sound, Pachter has been wrong for years on Netflix. Its stock has just kept rising. Netflix executives even posted a 2005 comment of his on a wall at their Los Gatos, California, headquarters and would chuckle at it as they walked by. It read: "Netflix is a worthless piece of crap with really nice people running it."

Hastings: Everyone uses cash wrong

Netflix's use of cash is strategic, even though it's not a typical corporate practice, according to Hastings. "It's horrible how mismanaged most Silicon Valley companies are in capital," Hastings said in a 2015 interview with venture capitalist John Doerr, a partner at Kleiner Perkins Caufield & Byers and early backer of tech giants like Google and Amazon. "Microsoft always wanted to have a lot of cash on hand. Apple had no cash 15 years ago in 2000. Who did the most innovation? The cash does not help. The cash insolates you in a bad way. It's a bad thing that companies store cash."

The long-term bull case for Netflix is that its subscriber growth and incremental price increases, will eventually propel earnings and cash flow. BTIG's Greenfield predicts Netflix will increase its global subscribers from 125 million to 200 million by 2020. Bank of America analyst Nat Schindler estimates Netflix will have 360 million subscribers by 2030. Netflix estimates the total addressable market of subscribers, not including China, could be about 800 million.

Meanwhile, the number of traditional cable and satellite pay-TV households falls each year, and declines are accelerating. Research firm Statista predicts there will be 95 million U.S. pay-TV households by 2020, down from 100 million in 2015.

The bigger Netflix gets, the more A+ talent will want to sign exclusive deals with Netflix instead of traditional media companies. It's a virtuous cycle, as top talent then accelerates subscriber growth. It's also a death spiral for weak traditional media players.

Netflix has another edge in the content wars. While networks make decisions on TV ratings, Netflix plays a different game. Its barometer for success is based on how much it spent on a show rather than hoping every show is a blowout hit, said Barry Enderwick, who worked in Netflix's marketing department from 2001 to 2012 and who was director of global marketing and subscriber acquisition. Since Netflix is not beholden to advertisers, niche shows can be successful, as long as Netflix controls spending. That also gives Netflix the luxury of being able to order full seasons of shows, which appeals to talent.

"If you're a typical studio, you raise money for a pilot, and if it tests well, you pick up the show, maybe you make a few more episodes, and you wait for the ratings," said Enderwick. "At Netflix, our data made our decisions for us, so we'd just order two seasons. Show creators would ask us, 'do you want to see notes? Don't you want to see a pilot?' We'd respond, 'If you want us to.' Creators were gobsmacked."

That dynamic has led some content makers to decide they're better off working directly for Netflix, which now spends more on content than many TV networks.

Last year, Netflix signed Shonda Rhimes, creator of "Grey's Anatomy" and "Scandal," to a multiyear contract after more than a decade at ABC Studios. Earlier this year, Netflix signed a deal with Ryan Murphy, creator of "Nip/Tuck," "American Horror Story" and "Glee," to a deal that could reach $300 million, according to Deadline Hollywood. He left Fox TV for the Netflix offer and spurned a counteroffer from Disney. And Jenji Kohan, who created "Orange is The New Black" for Lionsgate? She left for Netflix, too.

Fighting back

So if you're a big media company, how do you fight back? What if you're Comcast or Charter or AT&T? How do you stop customers from ditching pay TV services for Netflix?

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Netflix's Reed Hastings weighs in on AT&T-Time Warner merger

Compete. Disney is farthest ahead in its plan to fight Netflix head-on. It's removing its movies from Netflix at the end of the year and starting its own service for lovers of Disney and Pixar titles. Disney's digital over-the-top service will launch in 2019 and include movies and TV shows from the Disney-ABC TV Group library. Fox's film and TV library would bolster this service, if Disney completes that deal.

NBCUniversal may be forced into offering a streaming service of its own, potentially with partners who can generate enough must-have content that it becomes enticing to customers with and without cable.

NBCUniversal executives have discussed launching a rival OTT service that would include Universal and Warner Bros. programming, according to people familiar with the matter, although it may not happen if NBCUniversal parent company Comcast succeeds in grabbing Fox from out of Disney's hands. Outside of Fox, NBC views Warner's library of programming as the strongest among potential partners, with Sony No. 2, one of the people said. (AT&T and NBCUniversal spokespeople declined to comment.)

Discovery, too, is considering an OTT product, according to people familiar with the matter — perhaps in conjunction with a global tech platform that can showcase its nonfiction programming — an area where Netflix isn't as strong.

"You look at the FAANGs (Facebook, Apple, Amazon, Netflix and Google), and their strategy is focused primarily on scripted movies and scripted series," Discovery CEO David Zaslav said. "Discovery is probably the most effective nonfiction producer in the world. I like our hand given we own all of our content." A Discovery spokesman declined to comment on plans for the OTT service.

There are several problems with competing with Netflix by offering rival online services. Netflix already has a huge first-mover advantage. Stand-alone digital services aren't where legacy media companies want to spend their money. Programming costs are high, and the result may just cannibalize their existing pay-TV model, which brings in billions of dollars from subscriber fees and ads. And just because the market has rewarded Netflix for its strategy doesn't mean investors will cheer on late competitors for following the same model.

Consolidate. AT&T CEO Randall Stephenson told CNBC earlier this year that the Time Warner deal is a direct response to Netflix. "Reality is, the biggest distributor of content out there is totally vertically integrated," said Stephenson. "This happens to be somebody called Netflix. But they create original content; they aggregate original content; and they distribute original content. This thing is moving at lightning speed."

The desire to gain scale to take on Netflix is also driving interest by Disney and Comcast in Fox's assets, which include Fox's movie studio, some cable networks and stakes in Sky, Endemol Shine Group, and Hulu.

But getting bigger isn't the answer for everyone, said Wells. "Some brands are big enough to compete to be another Netflix, or another YouTube, and vie for the global consumer media dollar," said Wells. "But not everybody's going to be in that bucket. They may want to specialize in content production, and that may be a better business for them."

Capitulate. Comcast and Charter have actually accelerated Netflix's growth by allowing Netflix subscribers access to their programming through their cable boxes. Their strategy is if people are going to watch Netflix anyway, they might as well bundle it with cable service and improve the overall experience. That way, customers can subscribe to both.

Because these cable giants are also Internet providers, they also have a theoretical weapon in their back pocket — the ability to throttle Netflix speeds in the new era without net neutrality safeguards, or at least charge customers for using data via Netflix while keeping home-grown cable applications exempt from usage caps.

"We could experience discriminatory or anti-competitive practices that could impede our growth, cause us to incur additional expense or otherwise negatively affect our business," Netflix acknowledges in its annual report.

But this isn't much of a fear for Netflix. The company knows cable and wireless companies need broadband growth more than video growth to keep flourishing, and few companies drive internet usage like Netflix. T-Mobile now offers its customers Netflix for free.

How does this end?

Big Media isn't going to just disappear like Blockbuster. A company like CBS, with a market capitalization of $20 billion, had EBITDA of about $3 billion last year — that's three times as much as Netflix. Many sports rights are still locked up for years by old media companies. That will keep affiliate fees and advertising dollars coming.

But Amazon, Facebook, Apple and Google have massive valuations and cash hoards compared with media companies. They, too, have the balance sheets to spend billions on video without seeing a major dent in their stock prices. And as young consumers get older, the days of paying for a bundle of TV channels may be waning.

So how does this end? Netflix's answer is again in a business strategy book.

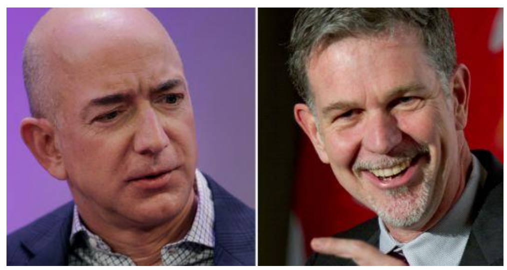
Hastings derived many of his strategy lessons from a Stanford instructor named Hamilton Helmer. Hastings even invited him to Netflix in 2010 to teach other executives.

One of Helmer's key concepts is called counter-positioning, which Helmer defines as: "A newcomer adopts a new, superior business model which the incumbent does not mimic due to anticipated damage to their existing business." "Throughout my business career, I have often observed powerful incumbents, once lauded for their business acumen, failing to adjust to a new competitive reality," Hastings writes in the forward to Helmer's book "7 Powers," published in 2016.

"The result is a stunning fall from grace."

Reed Hastings won by studying Amazon — then running in the opposite direction

Alex Sherman , CNBC, 13 June 2018



- Netflix CEO Reed Hastings has been preparing the company for its current era of spectacular growth almost since it began in 1997.
- Hastings has been watching Amazon closely since at least 2013, when he presented slides about it at a quarterly meeting.
- But while Amazon is focused on many different businesses, Hastings believes Netflix wins by doing one thing exceptionally well: streaming original video.

Netflix is an unassuming insurrectionist.

CEO Reed Hastings is known for the endearing sweaters he wears during his investor calls. Past and present co-workers say he's respectful and hands-off. Netflix's culture is famously lenient: Employees have freedom to work on projects they find important and get unusual perks, including unlimited vacation, no set schedules, and the choice to be paid in cash, stock options or any combination of the two.

From Netflix's earliest days, executives prepared for how it would adjust to rapid growth. Netflix knew DVDs would be anachronistic years before internet streaming was invented, said Joel Mier, Netflix's director of marketing from 1999 to 2006 and a lecturer of marketing at University of Richmond.

"The constant question asked at Netflix has been how do you deliver what customers want today while building for a different tomorrow — organizational ambidexterity," said Mier. "I remember talking about phasing out the DVD and the internet driving content consumption at my first interview in 1999."

The company's ambitions were higher than typical start-ups, partly because Hastings was already a millionaire when he started Netflix. A former Peace Corps volunteer who once taught high-school math in Swaziland, Hastings sold his first company, Pure Software, in 1997 for $750 million. Netflix executives such as former Chief Product Officer Neil Hunt and former Chief Talent Officer Patty McCord, who worked at Pure with Hastings, spent time focusing on culture to ensure Netflix could grow without losing talent.

"He brought in former co-workers from Pure," said Michael Rubin, who joined Netflix in 2006 as the director of product after working with the company informally years earlier. "They started trying to answer the question 'how do we build a company that can sustain massive growth without becoming a lousy place to work in the process?' They looked at why other companies failed."

Hastings relentlessly emphasized strategy and culture to his employees, culminating in a 128-slide reference guide that was released to the public.

The anti-Amazon

While media companies are freaking out about Netflix, the feeling is not mutual. Instead, Netflix pays its closest attention to native digital streaming services that limit Netflix's potential market reach. Those include Amazon and even Chinese services that don't yet compete.

Hastings was concerned about Amazon as early as January 2013, when he prepared a business presentation on the subject, according to a person who remembered the slide deck. Hastings saw Amazon as relentlessly motivated by delighting the customer — a stark contrast to the traditional cable companies, which always finished near the bottom in customer satisfaction polls.

"There are a fair amount of similarities in the way Reed and Jeff [Bezos] run things," Enderwick said. You can see this relentless customer focus in Netflix's long-term strategy, which it updates each year on its website.

> "We strive to win more of our members' 'moments of truth'. Those decision points are, say, at 7:15 pm when a member wants to relax, enjoy a shared experience with friends and family, or is bored. The member could choose Netflix, or a multitude of other options."

But Hastings believed Netflix could win by doing one thing well, instead of aping Amazon's strategy of doing everything from books to cloud computing infrastructure to grocery stores.

Netflix has toyed with different tactics to win these "moments of truth" over the years. The company considered allowing its customers to buy and own new releases of movies and TV shows, similar to Amazon. Netflix has considered allowing advertising on its site. It has thought about investing in live sports and news. It once sold used DVDs and showcased movie screening times at theaters on its site. It dabbled in producing independent films and original movies (dubbed Red Envelope Entertainment) for DVD distribution. It nearly launched a Netflix set-top box, which would have brought the company into the hardware business.

A prototype streaming set-top device that Netflix designed. Reed Hastings killed the project weeks before launch.

Ultimately, Hastings scrapped all these ideas. The set-top box idea was killed just weeks before launch, as Hastings realized it might inhibit other manufacturers from wanting to integrate Netflix.

"Reed said 'streaming is our market, we're not doing that,'" said Tom Willerer, a partner at Venrock and formerly Netflix's VP of product innovation. "His idea is, strategy isn't about what you say 'yes' to, it's what you say 'no' to."

"Jeff Bezos seems to put his fingers in everything," said Willerer. "Reed wants to do one thing exceptionally well and that's it." "We realized we could compete with Amazon as long as streaming was not in their top three or five things they focused on," said Gib Biddle, Netflix's former vice president of product management. "In the early days, video certainly was not. It probably still isn't."

This focus comes through in Netflix's long-term strategy document:

> "Netflix is a global internet entertainment services network offering movies and TV series commercial-free, with unlimited viewing on any internet-connected screen for an affordable, no-commitment monthly fee. Netflix is a focused passion brand, not a do-everything brand: Starbucks, not 7-Eleven; Southwest, not United; HBO, not Dish."

If Netflix is to justify its grand valuation and not come crashing down to Earth, one of two things must happen — either it has to dominate the global media landscape, or it has to use its scale to go after new markets. It's clear Netflix has already decided expanding into adjacent markets isn't the strategy. Instead, its only way forward is to win in media.

Disney Ups Its Bid for 21st Century Fox to $71.3 Billion

By Edmund Lee, NYT, June 20, 2018

The Walt Disney Company sharply increased its offer for 21st Century Fox on Wednesday, as it looks to win a bidding war with Comcast for Rupert Murdoch's entertainment conglomerate. In a quickly issued response, 21st Century Fox announced that it had entered into an agreement with Disney, adding that it considered the revamped offer, now valued at $71.3 billion, to be "superior to the proposal" made by Comcast last week.

Disney's new bid is 35% higher than its earlier offer and about $6 billion more than Comcast's. Disney's CEO, Robert A. Iger, who has staked his legacy on this deal, rapidly put together the new offer just before Fox's board was to meet Wednesday to discuss Comcast's proposal, which had topped Disney's earlier bid. Now Comcast must decide whether to counter this latest offer.

The Comcast CEO, Brian L. Roberts, is equally motivated to reach an agreement with Mr. Murdoch, who has spent a lifetime forging a media empire that spans three continents, including Hollywood studios, cable networks and streaming businesses.

But Disney has the pole position for now. "We remain convinced that the combination of 21CF's iconic assets, brands and franchises with Disney's will create one of the greatest, most innovative companies in the world," Mr. Murdoch said in the statement. Comcast declined to comment.

At stake in this bidding war is the 20th Century Fox film studio, the FX and National Geographic cable channels, almost two dozen regional sports networks, and a large stake in a pair of sought-after international media businesses: the European pay-TV operator Sky and Star India. Not included in the sale are Fox News, the Fox broadcast network, a chain of local television stations and the FS1 sports network. Separately, Comcast is bidding against Fox for the 61% of Sky not already owned by Fox.

Fox's robust foreign assets are a central reason Comcast and Disney are pursuing a deal as they, like other media companies, grapple with a challenge to their cornerstone business: the loss of cable and satellite customers.

Gaining Fox's assets would also give the winner control over the streaming service Hulu, which added three million subscribers in the first four months of this year, for a total of 20 million. Selling TV shows directly to viewers is the latest strategy for media businesses under threat from Silicon Valley, where cash-rich behemoths like Netflix, Google and Amazon are competing for ad dollars and audiences. "At a time of dynamic change in the entertainment industry, the combination of Disney's and Fox's unparalleled collection of businesses and franchises will allow us to create more appealing high-quality content," Mr. Iger said.

Disney's increased offer comprises an equal mix of cash and stock: $35.7 billion in cash and 343 million shares in Disney. Fox shareholders can elect to receive either $38 in cash for every Fox share or Disney stock at an equivalent value. Disney plans to offer a ratio of its shares for every Fox share to make sure investors receive a value of $38 per share, what is known as a collar. Fox has postponed its scheduled July 10 shareholder vote so investors will have time to consider the new bid. A new date has not been set.

If a sweetened Comcast bid materializes, the Fox board will have to calculate not only the dollar value but the likelihood that the deal would pass government inspection. Both Disney and Comcast would face antitrust scrutiny, which is part of the merger calculus that Mr. Murdoch will have to make before choosing an eventual winner.

Comcast made its $65 billion offer a day after a federal judge approved a merger between AT&T and Time Warner. Comcast executives had seen AT&T's court victory as a blueprint for the case it would make to regulators, since it would be challenged on two fronts: as a distributor of content and as a producer of content via its NBCUniversal division. Mr. Iger disagreed with the notion that the ruling had paved the way for other big mergers. "It's just simply an apples-to-oranges comparison," he said on a call with analysts Wednesday, citing Judge Richard J. Leon's warning that any attempt to apply his decision to future deals should be avoided.

The bad blood between Disney and Comcast goes back to at least 2004, when Comcast tried to swallow Disney whole. The Disney board fought off that attempt, but Mr. Iger and his top lieutenants have not forgotten it. And Comcast apparently does not have the fondest feelings for Disney: The Jurassic Park rides at the company's Universal theme parks include Disney's famous mouse-ears hat floating in the water next to a raft that a dinosaur has destroyed.

"Bob Iger gave up a lot to make this happen. It's not just about his legacy," said Brian Wieser, a media analyst at Pivotal, a research firm. He was referring to reports that the Disney chief had flirted with a presidential run in 2020. But efforts to plan Mr. Iger's succession at Disney resulted in the departures of two senior executives, prompting Mr. Iger to focus on securing the company's future. "He essentially didn't want to be known as the guy who destroyed Disney,"

Mr. Iger's latest maneuver puts Mr. Roberts on his back foot. The leader of Comcast has big ambitions to seal his family's legacy. His father started the company in 1963 and transformed it from a small cable service in Tupelo, Miss., into the nation's largest cable provider, with nearly 30 million subscribers.

Mr. Roberts has handed operational duties to his executives — Stephen B. Burke leads NBCUniversal group and David N. Watson runs the cable business — as he spends most of his time analyzing acquisitions, several people familiar with him have said. In other words, mergers are his specialty. "We wouldn't be surprised by another potentially compelling response from Comcast," said Tuna Amobi, a research analyst with CFRA, raising concerns of a "protracted bidding war."

A revised bid would mean more borrowing for Comcast. Both the Fox and separate Sky deals would mean assuming the debt of each company in addition to the extra borrowing, a sum that would total $170 billion, according to credit ratings firm Moody's. Disney also counts a steep debt load at about $25 billion, which does not include its latest offer of $35.7 billion in cash and an assumption of nearly $14 billion of Fox's debt.

Analysts discussed the notion that Comcast and Disney might team up and divide Fox's assets to prevent a drawn-out bidding war — something Mr. Iger has dismissed. "We have an agreement in place with 21st Century Fox that precludes that" he said.

Netflix Is Getting Huge. But Can It Get Great?

By James Poniewozik, NYT, Feb. 14, 2018

Clockwise from top left: Scenes from Netflix series "Stranger Things," "American Vandal," "BoJack Horseman" and "Godless."

Ryan Murphy, welcome to the Upside Down. On Tuesday, the streaming giant Netflix announced that Mr. Murphy — producer of "Glee" and "American Crime Story" and much more — had left 21st Century Fox to join its ranks, in a deal said to be valued at up to $300 million.

That's a lot of money, but it's not mine, and ordinarily, I don't much care how an entertainment Croesus moves around its ducats. TV outlets make big deals all the time.

The reason that this one — like Netflix's poaching of Shonda Rhimes from ABC last year — has the feeling of a turning point is that, as with all things Netflix, there is a definitional question. Netflix, both artistically and as a business, is different. But what?

Is it most similar to an online-video platform, like YouTube? A network, like NBC? A channel, like HBO? (These questions apply as well to other streamers, like Hulu and Amazon Prime.)

The Murphy and Rhimes deals suggest something else: It's an entire parallel TV universe. Think of Netflix as the Upside Down in its sci-fi series "Stranger Things." By this I don't mean that it's a nefarious force. But it is an alternative dimension, overlaying and replicating the traditional world of television, acquires one of everything that exists in the universe of TV.

Initially, the company did this through literal acquisition: buying streaming rights to hit TV series. Then it did it through imitation: reviving Fox's "Arrested Development" and creating originals, like "House of Cards," in the mold of premium cable. Now it's imitating through acquisition, spiriting away the likes of Mr. Murphy and Ms. Rhimes to its well-remunerated plane.

The history of TV is one of upstarts and competitors, and my first instinct was to liken Netflix to something like cable, which rose as a serious competitor to broadcast TV in the 1980s. But there's an important difference between cable channels and Netflix (besides whom you write your check to). Cable channels have brands. That made them different from broadcast networks, which tried to be, and had to be, everything. Cable channels had specialties and sensibilities: CNN was news; ESPN was sports; HBO was adult sophistication (give or take an "Entourage"). A cable brand might evolve — Bravo went from an arts channel to the "Real Housewives" channel — but the idea was to offer a specific aesthetic to a specific audience.

Netflix doesn't have that; in fact, it is specifically anti-that. Its brand is "stuff that you like to watch on TV." It developed a vast library of reruns, and with that, a proprietary trove of data on who likes to watch what and how much. Then it made more of that, or bought it. If you liked "30 Rock," here's "Unbreakable Kimmy Schmidt." If you liked "Damages," here's "Bloodline."

Look at recent Netflix programming. There's "The Crown," a BBC-style historical drama. "Wormwood," an Errol Morris docudrama. "One Day at a Time," a 21st-century reboot of a 1970s TV sitcom. "Dirty Money," a "Frontline"-esque documentary anthology. "She's Gotta Have It," a risqué romantic comedy. "My Next Guest Needs No Introduction," a David Letterman interview series. And let's throw in a "Cloverfield" sequel and a Will Smith movie.

Something for everyone — that was the ethos of broadcast TV in the old three-network era. The obvious analogy, then, is that Netflix isn't cable at all; it's a broadcaster, pitching a big tent. But there's one very important difference. Broadcasters, whose advertising model required millions of eyeballs on every show, had to make sure everything they aired appealed to a broad range of people. That business imperative had aesthetic results: It gave us family sitcoms and comfort-food cop dramas. It's less true today, in the era of smaller audiences — but it's still much more true of NBC than, say, of IFC.

Netflix, on the other hand, is breathtakingly broad and microscopically niche at the same time. It's selling a platform to everyone, but by providing products for very specific tastes. Netflix assumes a future in which we're watching our faves on our own screens, rather than gathering around an electronic fireplace — and as long as the monthly payment clears, it's all the same to the company.

What does this mean for Ryan Murphy and Shonda Rhimes? Maybe not much at all. They were both powerful producers with a lot of freedom who will now have a lot of freedom and more money. Mr. Murphy was, in a way, the Netflix-iest of producers to begin with: He'd made everything from a broadcast network sitcom ("The New Normal") to an action show ("9-1-1") to a marquee cable drama ("Feud") to an HBO film ("The Normal Heart"). He may be able to branch out even more, but he was hardly fettered.

What Ms. Rhimes does at Netflix will be interesting. She's the consummate network TV producer, having essentially defined the current voice of ABC with "Grey's Anatomy" and "Scandal." She might do something very different with the license of streaming — but if she doesn't, that will fit in all the same at Netflix, which resurrected the broadcast favorite "Gilmore Girls" with much the same tone, give or take a few curse words. One curious thing about Netflix is that every sensibility — niche and mass, G-rated and NSFW — exists on the same platform and the same plane.

Is all the deal-making worth it? Whether Netflix is emptying its deep pockets wisely by making itself into a Hall of Fame for established stars (see also Dave Chappelle) isn't my concern as a TV critic.

What I do care about is whether Netflix can nurture original, distinctive art, especially if it continues growing into a huge, all-encompassing alterna-TV. And I worry whether it can do that when derivation is the business strategy itself: selling people new versions of things they already like. It's fine that Netflix can toss around enough money to reactivate David Letterman. But does it have the kind of culture that could discover a new David Letterman?

In its short life as an original programmer. Netflix has made a few series I'd consider legitimately great. But most of them have involved creators with limited track records ("BoJack Horseman,""American Vandal") or talented artists new to creating series ("Master of None," "Lady Dynamite").

A more familiar experience on Netflix is the good-enough version of a drama you've seen elsewhere. "Godless," say, was a perfectly decent dark western, but no "Deadwood." "Stranger Things" is a joy, but it's a pastiche by design: It's the Netflix ethos in story form, reproducing and remixing memories in ways that tickle just the right nostalgia pleasure centers.

It may be that Netflix's approach means more competence and fewer out-and-out stinkers. And I have no reason to believe that Mr. Murphy and Ms. Rhimes will become any less creative because Netflix backed up a money truck.

But if Netflix is truly becoming a parallel TV universe, I hope its algorithm finds room for the experimental and untried. It's hard to be groundbreaking when your whole purpose is to take people where they've already been.