Econ 243

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Why would Netflix produce their own content?

- low-cost content more profitable than licensing
  - but the Marvel Comic Universe productions aren't low cost!
- own content attracts viewers to Netflix
  - "branding" with Marvel series, unique to Netflix
  - some highly rated (DD, JJ), some awful (Hand)

Then … use your licensing of a staggering amount of content plus very good models of viewers to target new viewers with appropriate *simpatico* content.

- if all these new users want to watch is Netflix Original content, Netflix will go bankrupt: they aren't structured to make more money off a "hit", they rely on flat subscription fees
- if that strategy is successful, then viewership of a series will decrease over time
  - » because subscribers discover a lot of other good content and so don't necessarily go back to the original
  - » depreciation is a sign of success
    - and should not be confused with a 3rd season that is poorly done, which also happens

Who owns Marvel? → Disney holds copyright to characters; Netflix licenses

- current mix Disney Marvel movies, Netflix Marvel series

Disney creating own streaming service, will stop airing Disney movies on Netflix.

- clear tension: why should Netflix pay for content that will attract people who otherwise watch Disney?
- once in, viewers hooked to Netflix content. actual viewership of any particular series declines over time, as above, so no strong benefits from doing Season 4 of Daredevil
- so dropping the series is not driven by Disney but instead is a sensible strategy for Netflix!
  - note that almost certainly Netflix contracted for rights to make as many seasons as they wanted of Daredevil.
    - » otherwise there's a holdup problem: if Season 1 is a hit, Disney will up their licensing fee
    - » likewise Disney assuredly kept residual rights: if Netflix chose not to make an addition season (and pay the attendant pre-agreed fee), then the rights to make another season would revert to Disney

Handout / background article: Mark Hughes, November 30, 2018. "The Real Reasons Netflix Is Cancelling Its Marvel Shows." Forbes.

Now in the text the discussion of process innovation notes divergent incentives for a monopolist and for a competitive firm, going back to work by Kenneth Arrow in the 1960s.

- the key concept: for a monopolist the gains are limited because they will only modestly expand existing sales, whereas a competitive firm can potentially pick up the entire market.
- in the background is the more general concept of cannibalization.

How about Disney? this past year they've had Black Panther, and at least one Avengers movie, and … a lot of the top films.

However, in the background is an important fact: total movie viewership in the US is flat.

- it's a zero-sum game: a hit movie decreases revenue for every other movie
- cannibalization: is Disney too successful? a really big hit makes their other films lesser hits

Drawn from a May 27, 2018 post by Matthew Ball on Redef: Disney, Economic Gravity and Vibranium Physics.

The analysis (see the link) is limited to US movie sales. We are not the entire world.

- There's China: studios now taylor content for that market.
  - » more Asian actresses and actors
  - » fewer Asian villains
  - » conspiracy theories that involve the US government are OK, those that involve China…!
- Non-theater revenue streams
  - » some movies make more money in fees from Netflix etc than in theaters – people watch and re-watch. of course that's part of why Disney wants their own streaming service
  - » toys and logos generate fees, too. again, these can surpass those of the film itself.
  - » for a good analysis read: Byrne, Christopher. 2017. **A Profile of the United States Toy Industry**. Second Edition. Business Expert Press.

Both the above cases are totally dependent on the existence of copyright and trademark provisions. among other things, IPR allowß Disney to capture money from Avenger action figures, Daredevil T-shirts, and so on, as well as to license (or not!) the original content.