

Netflix and Changes in the Hollywood Film Industry

Jeong-Suk Joo

Associate Professor, Dept. of International Trade, Jungwon University

넷플릭스와 할리우드 영화산업의 변화

주정숙

중원대학교 국제통상학과 부교수

Abstract This paper aims to explore and shed light on how the rise of streaming services has been affecting the media landscape in the recent years by looking at the conflicts between the Hollywood film industry and Netflix. It especially examines Netflix's disregard for the theatrical release, as it is the most portentous issue that could reshape the film industry, and Hollywood's opposition to it as revealed through the 2019 Academy Awards where the issue was brought into sharp relief. At the same time, this paper also questions whether theatrical distribution makes a film any more cinematic by examining how Hollywood film production has been largely concentrated on tentpoles and franchises, while Netflix has been producing diverse films often shunned by the studios. In this light, it concludes the changes wrought by Netflix, including its bypassing of the theatrical release, are not likely to be reversed.

Key Words : Netflix, Streaming service, Hollywood, Film industry, Netflix films

요약 본 논문은 할리우드 영화산업과 넷플릭스 간 갈등의 고찰을 통해 스트리밍 서비스의 부상이 미디어 지형에 어떠한 영향을 미쳐왔는지 밝히고자 한다. 특히 영화산업의 재편을 가져올 수 있는 가장 중요한 문제로써 극장을 거치지 않고 자사 플랫폼에 영화를 공개하는 넷플릭스의 개봉방식을 살펴보고 이에 대한 반발이 크게 불거진 2019년 아카데미 영화제를 중심으로 할리우드의 반대를 살펴본다. 동시에 최근 할리우드 영화제작이 프랜차이즈나 텐트폴 등 대작 영화에 집중되어 왔으며 반면 넷플릭스는 스튜디오들이 기피하는 다양한 영화들을 제작해 왔음을 살펴본다. 이에 본 논문은 극장 개봉 여부가 영화를 더욱 영화적으로 만드는지에 대해 의문을 제기하며 넷플릭스가 할리우드 영화산업에 가져온 변화를 막을 수 없음을 주장한다.

키워드 : 넷플릭스, 스트리밍 서비스, 할리우드, 영화산업, 넷플릭스 영화

1. Introduction

This paper aims to show how the rise of streaming services enabled by the Internet has been affecting the film industry in the recent years by focusing on the conflicts between Hollywood and Netflix, the undeniable leader in the streaming field.

In the past several years, Netflix has become

a household name. Not only has it provided convenient service that, combined with mobile phones, enables people to watch content anywhere and at any time with the click of a button, but also has been producing its own content people can enjoy on its platform. In doing so, Netflix has brought the changes and challenges to established media industries and

*Corresponding Author : Jeong-Suk Joo(jjoo@jwu.ac.kr)

Received August 31, 2020

Accepted October 20, 2020

Revised October 5, 2020

Published October 31, 2020

been reshaping the media landscape across the globe, which demands a close scrutiny.

In this context, this paper intends to examine the conflicts between Hollywood and Netflix Hollywood through literature review in order shed light on the changing media terrains. It especially focuses on Netflix's disregard for the theatrical release, as it is the most portentous issue that could reshape the film industry, and Hollywood's opposition to it as revealed through the 2019 Academy Awards where the issue was brought into sharp relief.

At the same time, the paper explores the problems with Hollywood's opposition by examining the type of films produced by Hollywood and Netflix, questioning whether theatrical distribution makes a film any more cinematic. In this light, it concludes the changes wrought by Netflix, including its bypassing of the theatrical release, are not likely to be reversed, with implications for the future of the Hollywood film industry. The paper focuses on the period prior to the COVID-19 outbreak to better understand changes made by Netflix without the accelerating impact of the pandemic.

The paper first examines Netflix's rise and entry into original content production. It then examines Netflix's conflicts with Hollywood over its disregard for the theatrical release, focusing on the controversies at the Academy Awards. Finally, the paper looks at the film production in Hollywood today and some of the films Netflix has been producing. In this context, it points to the problems with Hollywood's objection to Netflix and the changes it heralds.

2. Netflix's Entry Into Content Business

In the past few years, one of the most significant development in the media environment has been the rise of Netflix. Founded in 1997 as a mail order service for

DVDs, Netflix expanded into streaming service in 2007, eventually phasing out the DVD service[1].

For subscription-based streaming services, offering engaging content—especially, original programs that cannot be found elsewhere—is critical, as it is seen as a key to attracting, as well as retaining, subscribers. Yet, Netflix initially relied on others' content. In October 2008, it acquired the streaming rights to over 2,500 films and shows from Starz, a pay cable channel, for \$30 million per year[2]. In 2011, Netflix wanted to renew the deal, this time for \$300 million, but Starz refused it, realizing it had nurtured a competitor by making it easy to obtain content[2].

As this showed the ultimate unviability of relying on others' content, as this could be taken away, Netflix entered into the original content business—acquiring or producing content that could be played on its platform only—starting with *House of Cards*, a TV series that debuted in early 2013. As a result, Netflix TV shows were original or relatively recent, being available to watch for the first time after shown on other channels.

Unlike its TV shows, however, most of Netflix's movies were still a year or more old, leading people to complain. It was because Netflix had difficulty getting recent films due to the so-called “windows” process. According to this, films are first shown exclusively at theaters for 90 days, then moving to the next window, DVD/video. Several months after that, the film would move to pay cable television and ultimately to network television[3].

In this context, Netflix could usually get films at the end of the window process. Even when it beat Starz to acquire pay cable rights to Disney movies in 2014, Netflix still had to wait more than 6 months from their theatrical releases to

be able to place them on its platform. As a solution, Netflix acquired the distribution rights to *Beasts of No Nation* in 2015 or came to produce films to feed its platform. By 2018, it released about 90 movies for streaming[4].

Netflix spent heavily on content (see the Table below), while also offering its service at affordable price by going directly to consumers without middle-men. As a result, it saw the rapid increase in the number of its paid subscribers as the Table below shows. By 2019, it boasted 167.1 million subscribers, with 106.1 million of them residing outside the US[5].

Table 1. Netflix Paid Subscribers (millions) and Cash Spending on Content (billions)

Year	Cash Spending on Content	Total Paid Subscribers (U.S. Subscribers)
2011	-	21.6
2013	-	41.4
2015	\$4.61	70.8 (43.4)
2017	\$8.91	110.6 (52.8)
2018	\$12.04	139.3 (58.5)
2019	\$14.61	167.1 (61.0)

Source: statista.com

Netflix, thus emerging as a formidable player, came to challenge the established media industries. For instance, more and more Americans cut the cable cord to switch to Netflix’s cheaper viewing option. As such, the number of American households with the cable TV subscription dropped from 100.5 million in 2013 to 86.5 million in 2019 and is expected to fall to 82.9 million in 2020[6].

3. Conflicts with Hollywood

The rise of Netflix with ever-increasing subscribers has also posed the problems for the Hollywood film industry. First, Netflix’s convenient service and vast content have made staying at home an attractive alternative to going to the movies. Reflecting this, consumer spending on digital home entertainment including streaming services overtook global box office

revenue for the first time in 2019[7].

In particular, Netflix’s bypassing of the theatrical release has been met with heated opposition from Hollywood. As Netflix was interested in having films available to its subscribers as soon as possible, it has ignored the windows process altogether by offering them only online, or sometimes released certain films in selected theaters and online simultaneously.

In doing so, Netflix defied not only the privileged status of theaters as the place to first screen films, but, indeed, the need for the traditional theatrical release itself, which could possibly wipe out theaters altogether. Not surprisingly, the four largest theater chains in the U.S.—AMC, Regal, Cinemark and Carmike—have boycotted Netflix films for not abiding by the 90-day holdback.

Yet, Hollywood’s grievances with Netflix are not just about money. For instance, according to Christopher Nolan, director of such films as *Dunkirk* and *Inception*, the “definition of cinema cannot be separated from the platform for which it was intended,” adding that the shift away from that would make it into something else[8]. Besides, many in Hollywood regard watching a film together in theaters as the ultimate way to enjoy movies[4]. Netflix is a threat to that experience and the very definition of film. Given this, Nolan vowed not to work with Netflix[8].

Hollywood’s opposition to Netflix and the changes it brought has been pronounced at the Academy Awards, as the latter represents the tradition and prestige of of the Hollywood film industry. Netflix has showed interest in the Academy Awards, especially an Oscar for Best Picture, as a marker of quality for its films as well as a marketing tool to get more people to sign up for its service.

Yet, big-name filmmakers with the possibility of competing for and winning an Oscar generally want the theatrical release for their films. Accordingly, to woo these filmmakers as well as to meet the Oscar rules that requires a film be shown in at least one LA county theater for seven days, Netflix has given potential Oscar contenders a 3 to 4 week theatrical run before debuting them on its platform.

Netflix's first feature film nominated for an Oscar was *Mudbound* in 2018. Yet, it was in early 2019 when Netflix-backed *Roma*—a black-and-white, Spanish-language film directed by Alfonso Cuarón and also the Best Picture winner of the Venice Film Festival in 2018—dominated the Oscar race with ten nominations and was predicted to be a strong candidate for Best Picture, that a huge backlash against the company set in.

For instance, director Steven Spielberg, then governor of Academy of Motion Picture Arts and Sciences, remarked that a film given “token qualifications in a couple of theatres for less than a week” should not be eligible for the Oscar nomination. He thus wanted to propose an Academy rule change to require for a longer theatrical run, clearly an attempt to exclude Netflix films from the Oscar race for not complying with the 90-day holdback. Implying Netflix films, he also stated that a film committed to a television format was a TV movie. “If it’s a good show, you deserve an Emmy. But not an Oscar”[8]. An insider in the film industry also reportedly said, “A vote for *Roma* means a vote for Netflix. And that’s a vote for the death of cinema by TV”[9].

In the end, such a rule was not enacted. Nor did *Roma* win the Best Picture, capturing the Best Foreign Picture instead. In the following year, *The Irishman*, with the names of a legendary director and actors (Robert DeNiro,

Al Pacino, and Joe Pesci), glowing reviews and ten nominations, again raised high the expectation for winning Oscars. However, it was totally snubbed, going home empty-handed. Not surprisingly, both outcomes were widely seen as Hollywood’s aversion to see Netflix films honored with the Oscar Best Picture[10].

4. The Problems with Hollywood’s Opposition to Netflix

Given that theatrical releases have long been part of the film business, it is not difficult to understand the above responses from the Hollywood film industry. Yet, the Hollywood film industry’s opposition to Netflix is largely problematic considering the type of films that Hollywood, especially the major studios, and Netflix have been producing.

As the DVD revenues that constituted about a half of a film’s total profits fell since 2007 and the recession hit in the late 2000s, studios have faced the increased pressure from their parent companies and investors to produce more profitable films. In response, they have further focused on the production of a tentpole (a big-budget film that generates so much revenue as to support the studio for the entire year) and a franchise (a film that is often based an original work and can be licensed to other works like sequels, spin-offs and consumer products, like *The Avengers* quadrilogy) as the kind of films that could deliver the most profit[11,12].

While pouring their resources into these films, the studios abandoned other projects that did not fall into those categories as risky and unprofitable and closed the units that did not perform well at the box office[13]. Hollywood’s production of tentpoles and franchises is not new, but the degree of the concentration on

them is unprecedented. By 2019, the ten highest grossing films all belonged to franchises, and the huge success of the studios like Disney on the back of popular franchises led to the further embrace of these films. Certainly, the major studios do not monopolize film production in Hollywood, but they do set the trend, making it increasingly difficult to find other projects coming from Hollywood.

Unlike this, Netflix, using aggregate content to attract subscribers, was relatively free from the pressure to make only profitable films. Being a tech company, its investors expected long-term growth than short-term returns[14]. Thus, Netflix has been able to take risks and produce a diverse range of films[15]. Even a cursory look at a few Netflix films reveals that Netflix has been filling out the gap left by the studios. For instance, although many of Netflix films may be forgettable fare, they do include films like romantic comedies (e.g. *Marriage Story*), which the studios have all but given up as unprofitable.

Netflix also bailed out major productions discarded by the studios, most notably *The Irishman*. Paramount, its original distributor, dropped it in early 2017, as production costs ballooned (largely due to the visual effects to make the main cast look 30 years younger in flashback scenes). Netflix then saved it, which became its most expensive film with over \$159 million in production costs. According to Scorsese, “*The Irishman* is a risky film. No one else wanted to fund the picture. Netflix took the risk”[10].

Netflix gave under represented groups chances to make films, notably a black female director/screenwriter (Dee Rees) and a female cinematographer (Rachel Morrison) of *Mudbound*. It also produced foreign language films to appeal to overseas subscribers and picked up art films like *Roma* to help its awards prospects. *Marriage*

Story, *Mudbound*, *The Irishman* all competed at the Academy Awards, but *Roma* is the kind long favored at the film festival circuits, pointing to the irony of the attempt to exclude it from the Oscar race only because of the Netflix label.

In short, Netflix has allowed more films to be produced, some of which could not have otherwise been made. On the other hand, the studios’ releases, as well as the big screen that the critics of Netflix uphold as so dear, are dominated by tentpoles and franchises. In this sense, it is arguable that Netflix helped democratize film production, when the filmmaking in Hollywood is largely confined to big-films.

In producing these films, Netflix is not without self-interest, but is driven just as much by profit consideration as the major studios that are focused on the production of tentpoles and franchises. Yet, the state of filmmaking seen above makes it difficult to oppose Netflix only because it does not give its films theatrical releases. In fact, given the state of film production, it is doubtful whether theatrical distribution makes a film more cinematic, which questions the wisdom of dividing films rigidly between the big and small screens.

Finally, considering the filmmaking reality in Hollywood, trying to exclude Netflix films from the Academy Awards, if successful, would only limit the type of films celebrated. It would also make Hollywood seem undemocratic and out of sync with the shifting reality that the growing number of people watch movies at home via Netflix.

5. Conclusion

Even before Netflix, some films have been released without theatrical screening like direct-to-DVD or made-for-TV movies, but they existed at the margin of the business, while Netflix films are in the mainstream. In this light, the uproar over Netflix films indicates the

radicalness of the changes Netflix brought to the film industry.

Indeed, the question Netflix raised—i.e., whether the theatrical release should be the integral part of film—is really about what the future of the film industry should be like. Netflix represents the forces of technological changes that could render the exhibition sector obsolete and significantly alter the Hollywood film industry.

At the same time, as streaming services continue to gain grounds with people, even the major studios like Disney, Warner (backed by its parent company, AT&T) and Universal (backed by Comcast) have entered (or plan to enter) into streaming services not to be left behind in this lucrative market. In particular, as the competition is growing in the streaming field, they are likely to be compelled to offer more original content/films online, thus forgoing the theatrical release.

As such, Hollywood and Netflix, sharing more common grounds than before, may reach some sort of compromise profitable to them both, like a shortened theatrical release followed by a premium streaming window. At least, as traditional media entities started their own streaming services, it is certain that the inroads and changes made by Netflix in the Hollywood film industry are not likely to be reversed.

REFERENCES

- [1] G. Keating. (2013). *Netflixed: The Epic Battle for America's Eyeballs*. New York: Penguin.
- [2] B. Fritz. (2018). *The big picture: The fight for the future of movies*. New York: Houghton Mifflin Harcourt.
- [3] E. J. Epstein. (2006). *The big picture: The money and power in Hollywood*. New York: Random House.
- [4] L. Richwine. (April 10, 2019). Cinema vs. streaming: The battle over when and where you can see movies. Reuters.

<https://www.reuters.com>

- [5] A. Watson. (Jul 17, 2020). Number of Netflix paid streaming subscribers worldwide 2011-2020. <http://www.statista.com>
- [6] D. Thompson. (May 2018). Disneyflix is coming. And Netflix should be scared. *The Atlantic*. <http://www.theatlantic.com>.
- [7] R. Faughnder. (March 11, 2020). Digital entertainment spending passes global box office as streaming transforms Hollywood. *Los Angeles Times*.
- [8] S. Isaacs. (April 14, 2018). Hollywood vs. Netflix, or What is considered a movie today? *Art Voice*. <https://artvoice.com>
- [9] R. Haridy. (October 08, 2019). Netflix vs. cinema: How a disruptive streaming service declared war on Hollywood. *New Atlas*. <https://newatlas.com>
- [10] P. R. Seth (March 25, 2015). Netflix vs. Hollywood: The fight to define the future of film. *Vogue*. <https://www.vogue.fr>
- [11] T. Balio. (2013). *Hollywood in the new millennium*. London, British Film Institute.
- [12] T. Schatz. (2008). The studio system and conglomerate Hollywood. In P. McDonald and J. Wasko Eds. *The contemporary Hollywood film industry*. Malden, MA, Blackwell.
- [13] L. Obst. (2014). *Sleepless in Hollywood: Tales from the new abnormal in the movie business*. New York: Simon & Schuster.
- [14] R. Lobato. (2019). *Netflix nations: The geography of digital distribution*. New York: New York University Press.
- [15] A. L. Hadida et al. (2020). Hollywood studio filmmaking in the age of Netflix: A tale of two institutional logics. *Journal of Cultural Economics*. DOI : 10.1007/s10824-020-09379-z

주 정 속(Jeong-Suk Joo)

[정회원]



· Sept, 2007 : State University of New York (Buffalo), American Studios Department (Ph.D)
· Mar. 2011 ~Present: Associate Professor, International Trade, Jungwon University

· Research Interests : Hollywood, Netflix
· E-Mail : jjoo@jwu.ac.kr