

# How Netflix's Content Strategy Is Reshaping Movie Culture

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*Are people not getting your references? Blame streaming platforms.*

“Bueller? Bueller?” If you’ve seen Ferris Bueller’s Day Off, that one line probably conjures up memories of Oh yeah, chicka chicka, Ferraris, playing hooky, and dating in high school — all of which feature heavily in the hit coming-of-age film. Like The Usual Suspects ( “Who is Keyser Soze?” ), Old School ( “You’re my boy, Blue!” ), Zoolander (“What is this? A center for ants?!”), and The Shawshank Redemption (“Get busy living, or get busy dying”) which are some of our personal favorites, Ferris Bueller has burned its way into the American consciousness. But these movies have something else in common as well: None of them can be streamed on Netflix. We’ve all had countless conversations bemoaning the scant availability of the movies we’d like to see. What should we watch on Netflix tonight? The Godfather ? Nope. How about Part II ? No, not even the subpar third Godfather makes the cut. Indiana Jones ? Keep trying. Nosferatu ? Also missing. The list of Netflix’s greatest missing films goes on: The Wizard of Oz , Citizen Kane , E.T. , Psycho , and 12 Angry Men all share the dubious honor of not being offered on Netflix. See, Netflix — like many platforms — faces a strategic decision. Does it compete by having a wide selection of movies, covering most of the films people would like to see? This is how Blockbuster used to operate, at least when it came to mainstream domestic films. People have a movie in mind, search, and are usually satisfied when they find it. (Those of us who are old enough remember the frustration of walking into the video store and seeing that the movie you wanted had already been rented which highlights that this was the exception rather than the rule.) Or does it focus on exclusive content that you can find on Netflix but not elsewhere? In its early days Netflix used the former approach in its shipping service. But as the shipping service has become second fiddle to streaming, Netflix has gone all-in on exclusive content that is developed in-house; it carries only a fraction of the classic movies on its streaming service. Looking at IMDb’s highest-rated movies of all time, only 13 of the top 100 are on Netflix. As Netflix and other streaming platforms continue to grow and emphasize exclusive content, we risk losing pieces of our cultural memory forgetting about some of the classic films that define a generation. Of course, the set of classics is always shifting, and some of Netflix’s originals are already well on their way to becoming classics. But what is different now is that platforms like Netflix will decide which older films we will and won’t have access to; many of the most iconic films were available at Blockbuster (and can be seen through Netflix’s

DVD service) but are not available on Netflix streaming. Now, you may be thinking, Go rent it on Amazon or iTunes or Google Play. But this misses two important points. First, a large literature on psychology has demonstrated that our choices depend not only on our preferences but also on which options we are most aware of at the moment. In other words, out of sight, out of mind. We love Netflix shows like *Orange Is the New Black* and *Luke Cage* . And we appreciate that Netflix is reportedly spending \$6 billion on original content in 2017. But when Netflix continues to prime users to think about these offerings, a user who would opt for *Breakfast at Tiffany's* over the fifth season of *House of Cards* may not even think to look for the former, despite their underlying preference for it. Of course, Blockbuster also made decisions about which films to make more salient (for example, by putting new releases in a prime location in the store). But this decision is more important for Netflix because of its exclusive content strategy — the platform has every incentive to make you forget about all the movies it doesn't have.

Second, our preferences for movies depend on what others are watching. In a recent paper , one of us (Duncan, in collaboration with Emily Glassberg Sands) set out to understand the role of what economists call network externalities in moviegoing . Using the weather as something that randomly affects box office sales in one weekend but not another, the paper shows that if one person ends up at the movies by happenstance, a second person will decide to go later on. The paper shows that this phenomenon is mostly local to a city, and is true even if the movie isn't rated highly. This is because network externalities in moviegoing lead us to value a movie more highly when others have seen it. When a friend tells us that they went to a movie, we want to go, too; in other words, movies are best as a shared experience. These results have important implications. Netflix is not simply a passive observer of consumer preferences; it shapes preferences through the content it pushes. As long as Netflix is the market leader in streaming movies, whatever it pushes its subscribers toward will benefit from the buzz created around the watercooler by other Netflix subscribers, who can act as tastemakers. And Netflix also benefits from making the missing alternatives less salient — notice, if you search for a missing movie, Netflix offers you alternatives while showing the movie you searched for in small print at the top of the page. Even though content may be available elsewhere, these network and salience effects strengthen a platform's position to shape content, and the role it plays in determining the movies that will remain in or fade from public consciousness. None of this is to dismiss the value of Netflix or other streaming services, which have had many positive effects (in fact, we both have Netflix accounts). More generally, digital media has in many cases increased the quality and quantity of creative products being produced. But these findings highlight a strategic trade-off that many platforms must think through. They don't just satisfy demand — they influence what is demanded through network effects and salience effects. And for users, it may be time to shell out a few extra dollars to stream *The Godfather* . But if you do, order pizza, invite some friends, and have a viewing party. When it comes to movies, network externalities matter.