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The Evolution of Modern Film Business Models: Case Study of Netflix

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Abstract:

With the rapid development of digital technology and changes in the market environment, the business model of the global film industry is undergoing a profound transformation. The rise of streaming media platforms has broken the monopoly of traditional cinemas and redefined the way films are distributed and consumed. International distribution and cross-border marketing have accelerated the globalization of the film industry and made the cultural dissemination of films more widespread. At the same time, cross-industry cooperation and brand licensing have become an important means of profitability for the film industry, promoting diversified sources of income. Through typical case studies of streaming platforms, international distribution strategies and cross-industry marketing, research has shown that flexible use of data and cross-border collaboration is key to the future success of the film industry. This study reveals the innovative paths of the film industry in the face of technological advancement and market globalization. It explores how film companies can respond to the current challenges and opportunities through flexible business models.

Keywords: Film Business Models; Streaming Platforms; International Distribution; Cross-Industry Collaborations.

1. Introduction

The global film industry has experienced radical changes in the past decades, especially with the evolution of film business models driven by technological advances and the market environment [1, 2]. With the rapid development of digital technology, the emergence of emerging marketing tools such as social media, digital advertising and big data analytics has led to a more diversified approach to movie promotion [3, 4]. These changes have not only intensified market competition but also prompted production companies to re-examine their business models [5]. The ecology of the film industry is undergoing profound changes as it shifts from the traditional theatrical distribution model to the rise of streaming media platforms [6].

Against this background, it is particularly important to study the changes in modern movie business models. In particular, the rise of streaming platforms has had a profound impact on the viewing habits of audiences and the profit model of producers [7]. For example, the success of Netflix and Disney+ demonstrates how sustained growth can be achieved through new distribution channels and subscription models [8, 9]. In addition, as globalization deepens, international distribution and cross-border marketing have become important strategies for film success. These strategies not only help movies open international markets but also promote cultural exchange and dissemination [10].

This study will explore how factors such as streaming platforms, international distribution, and brand licensing work together to influence modern film business models. Case studies in these areas will provide insights into current market dynamics and help us understand how studios are responding to challenges and opportunities through innovation.

2. Streaming Platforms and Film Business Models: Case of Netflix

The rise of streaming platforms has played a key role in the modern movie business model [9]. Netflix has been at the forefront of this shift, having quickly built a large subscriber base through massive investments in original content. According to Statista data, Netflix had over 200 million subscribers by the end of 2021. Using big data analytics, the platform can recommend personalized content based on viewers' viewing habits and preferences, thereby increasing user satisfaction and retention.

The success of Disney+ is also an important example of how the streaming model is changing [11]. The platform attracted more than 80 million users in just a few months after its launch. With its rich brand equity and classic movie and television productions, Disney+ has managed to attract a wide audience. By delivering content directly to consumers, Disney+ has not only expanded its market share but also redefined the way home entertainment is delivered.

The business model of streaming platforms has not only changed the way content is consumed but also the process of producing and distributing content. Production companies can adjust their strategies based on real-time data feedback to ensure they meet market demand. The success of this model has prompted more and more production companies to follow in its footsteps and try to take their place in the streaming environment.

Taking Netflix as an example, this study introduces the impact of the rise of streaming media platforms on its film business model during the company's development. Netflix was founded in 1997 by Reed Hastings and Marc Randolph. The company has always been a game-changer in the film and television industry. In its early days, Netflix operated a DVD rental service using Internet technology, posing a challenge to physical storefronts engaged in the same business. Now, Netflix poses a threat to traditional television media. Today, Netflix's biggest competitors in the streaming video-on-demand (SVOD) content service are Amazon Prime, Hulu, Disney, HBO, CBS, and Apple. The first and most obvious factor that truly threatens Netflix is content costs. However, Netflix Originals holds a vast IP portfolio, controls upstream content, and has the advantage of releasing a complete TV series season at once, contrary to the linear schedule used by competitors. This is a significant advantage for audiences who prefer to watch on-demand anytime and anywhere. Additionally, as Netflix continues to reach exclusive agreements with Hollywood to gather talent, it challenges traditional cinemas as the primary platform for distributing new movies.

From a big data perspective, one of the best things about the streaming era is that users can now perform all operations online, and every interaction with the site can be recorded, tracked, and analyzed. In January 2020, Netflix open-sourced its Meta flow Python library, which is a key part of its "human-centred" machine learning infrastructure for building and deploying data science workflows. Netflix applies machine learning to various aspects of its business, from script analysis to optimizing production plans, predicting churn, pricing, translation, and optimizing its vast content distribution network. As Netflix expands internationally, content partnerships have always followed the principle of celebrity effect, meaning that the original creator and director must have a reputation. Reaching deals with stars and content (IP) that have cross-cultural appeal. Based on the current number of paid subscribers in the hundreds of millions, Netflix can reach exclusive content deals with celebrities. This approach may shift film development away from traditional studios and theatres. For example, the latest released movies are a bit special, and audiences do not have enough time to sit and watch every movie released in theatres. Big data analysis shows that the average household audience has to wait 6 to 12 months to watch missed film and TV content. Therefore, in order to change the time and way of watching movies, it is necessary to develop a product that can control production. Some movies have begun to announce premiere plans on Netflix's website while being released in major theatres around the world. Theatres feel that Netflix's rapidly changing capabilities have set a very dangerous precedent because the simultaneous release of movies in theatres and online reduces the number of theatre audiences. Netflix has also found a way to circumvent resistance from almost the entire industry by completely bypassing the theatre system.

This is the best of times and also the worst of times. Since the 21st century, with the development of Internet communication technology, more and more media companies in China have invested in developing online streaming subscription platforms - video subscription platforms such as iQIYI, Tencent, Youku, and LeTV, while also promoting the development of the film and television industry. Later entrants will inevitably learn and reference the successful models of the former, and their dependence on and collection of big data will only increase. At the same time, these issues will only become more prominent. Some come, some leave, so in the face of the pressure of capital and content innovation, they will definitely learn to imitate Netflix's successful model, and both capital and experience will feed back to the film and television industry. Therefore, the use of big data algorithms will increase content production rather than weaken the diversity of the film and television landscape. As Netflix has blossomed globally, achieving success and fame through major awards nominations and wins, and with the same platform and decision-making, these five years have seen significant investments in Asian cultural content, resulting in many popular TV series and movies being produced in Japan, South Korea, and India. Netflix has truly achieved the diversification and international distribution of film and television content through the evolution of digital culture through digital technology.

3. International Distribution, Cross-border Marketing and Film Business Models

The rise of international distribution and cross-border marketing has added a new dimension to the film business model [12]. Internationalization of films refers to the act of designing and producing film products that are easily adaptable to different regional requirements, consciously pursuing the international market, and enhancing the film's global influence. In other words, several film giants must first establish a long-term development strategy in the domestic market in order to form a strong expansion base; at the same time, they must play a leading role in all important international markets. Therefore, the criteria for film internationalization should be as follows: it should have directors and film stars with international influence, as well as film works that can win praise and acclaim at international film festivals. It should not only occupy a dominant position in the domestic film market but also create international film brands and play a leading role in the overseas film market.

The successful internationalization and even global penetration of American films largely depend on its globalization strategy. Firstly, in order to enable Hollywood to promote American films worldwide successfully, the United States has always served as the guardian and pioneer of American films, providing convenient and superior conditions for film production, distribution, screening, and overseas export and taking proactive actions. Initially, in order to strive for overseas revenue for the American film industry, the American Film Institute was established; later, in order to have an organization that specializes in handling the foreign trade of Hollywood films, the Motion Picture Export Association (MPEAA) was established. Moreover, in trade negotiations with other countries, film issues have also been included in the negotiation content by the U.S. Congress and the Department of Commerce. Additionally, investment, co-productions, and international distribution and sales strategies also reflect the determination of the United States to enter overseas markets: investing in other countries' film industries or directly owning a significant stake in other countries' film production companies and industries; participating in co-productions to diversify investment risks, reduce tax costs, and enhance the international level of films. In addition, in order to penetrate overseas markets, Hollywood has established specialized film overseas promoters, distribution departments, and overseas film market research departments.

Regarding the huge topic of internationalization of Chinese films, Wang Zhonglei, the commander-in-chief of China's private film companies, gave a straightforward answer: What is the standard for internationalization? If it's the director? Some Chinese directors have been developing in Hollywood since the beginning, and they have advantages in language and culture. Can they be considered international directors? Is it the film? Some films have won awards at various film festivals abroad, can they be called international films? Is it the market? Foreign companies are breaking their heads to enter the Chinese market because this is an important part of their international market. So, can it also be said that winning in the domestic market is also a standard for internationalization? Isn't it absurd for us to give up this already established market and face the eight major companies in the United States?

Chinese Mainland films have gained international reputation and status by participating in international film festivals. Since the 1980s, driven by modernization, China has had no choice but to engage in the globalization process, which is primarily driven by multinational corporations and international markets and is influenced by technological culture. This has led China passively onto the international political, economic, and cultural stage. On one hand, globalization provides opportunities and channels for various countries' cultures to reach the world through films. On the other hand, globalization also poses unprecedented challenges to protecting domestic film markets and maintaining the independence of various countries' national cultures. Therefore, since the 1980s, in order to gain recognition and appreciation from the world for Chinese films, Chinese filmmakers have been tirelessly exploring internationalization strategies. This exploration has gone through three stages: the period of folk films, the period of independent films, and the period of transnational production.

After 2000, Chinese films entered a globalization period of transnational production. This was generated under specific circumstances. At the end of the 1990s, China and the United States reached an agreement that foreign investors could establish joint venture video recording companies in China with a share of less than 49%. At the beginning of the 21st century, companies with more than 50% foreign shares were allowed to engage in the construction and operation of cinemas. The quota for importing foreign films into China was also increased from 20 to 50. In 2003, in order to open up film production, screening, and other markets, the Chinese government made further progress in production. According to the Interim Provisions on the Access of Film Production, Distribution, and Screening Business Qualifications and the "Regulations on Film Management", joint ventures and cooperation with existing state-owned film production units to establish film production companies are allowed for foreign investment. In certain specific cities, the share of foreign shares is allowed to be between 49% and 75%. There are almost no clear restrictions on the screening part of the film industry chain. At the same time, according to the Regulations on the Administration of Chinese-Foreign Cooperative Film Production issued by the State Administration of Radio, Film, and Television in 2003, as long as it does not violate China's constitution, laws and regulations, and relevant provisions, it will not have adverse effects on China's national customs, living habits, and religious beliefs, and is conducive to China's social, cultural, economic, and political construction, and promotes cultural exchanges between China and foreign countries. Moreover, in order to reduce obstacles to Chinese-foreign cooperative film production, the proportion of domestic creative personnel is no longer restricted by the system.

During this period, films related to "domestic" appeared in the Chinese market and enjoyed international reputations, mostly bearing the names of Huayi, Sony, and Columbia. Most of these films were foreign-funded, with a few being joint ventures, where Chinese film institutions served merely as a facade or a name. Multinational corporations played a dominant role in the production of these films, utilizing their financial, human resources, market resources, and management expertise. Western perspectives on China clearly influenced the storytelling methods. To be precise, films such as "Heroes of Earth", "The Missing Gun", "Cell Phone", "Big Shot's Funeral", "Hero", "The Promise", and "House of Flying Daggers" can no longer be classified as domestic films. These films are merely products of the globalization era. They can only be referred to as vague concepts like Chinese-language films or Chinese films rather than strictly defined as Chinese movies, domestic films, or national films.

Taking "Crazy Rich Asians" as an example, this film successfully entered the Asian and North American markets through precise marketing. By integrating elements of Eastern and Western cultures, the film attracted diverse audiences and earned over $240 million in global box office revenue. Additionally, "The Great Wall", as a representative of Sino-American co-productions, demonstrates the potential of international collaboration. The film's extensive promotion and distribution strategy in the Chinese market led to high box office returns worldwide. This successful case shows that cross-border cooperation not only enhances the market influence of films but also creates new opportunities for cultural exchange.

This international trend demands that producers possess stronger market sensitivity and cultural adaptability. By integrating global resources and implementing diversified marketing strategies, filmmakers can effectively enhance their films' competitiveness and explore new business opportunities.

4. Increase Revenue Through Cross-Industry Collaborations

Compared to traditional film marketing methods such as magazines, the internet, newspapers, television stations, outdoor advertising, media meet-and-greets, press conferences, and premieres, cross-industry collaborations between movies and brands exhibit unique advantages in cross-industry marketing. Therefore, the entire film industry is actively exploring strategies for cross-industry marketing in movies. Taking the "Avengers" series as an example, Marvel has formed a robust derivative market by collaborating with various brands to launch co-branded merchandise. According to data from the NPD Group, sales of Marvel-branded toys and peripheral merchandise reached $3.5 billion in 2019. This model of expanding revenue through brand licensing has created considerable added value for manufacturers. In addition, cross-industry collaborations have become crucial means of attracting audiences and increasing revenue. For instance, the movie Jurassic World achieved a win-win situation in marketing and brand exposure by collaborating with brands like Pepsi to launch limited-edition drinks. Such collaborations not only attracted loyal brand consumers but also added creativity and buzz to the movie's marketing. The model has become increasingly mature in terms of cross-industry marketing strategies between brand advertisers and film. From product/brand placement to element licensing, joint promotion, derivative development, and even fan marketing and IP cooperation, it gradually tends towards integrated marketing.

Cross-industry collaboration method one, derivative product marketing. The development of derivative products will drive significant production value and revenue potential, and it is also the best way to monetize content. In early 2014, Durex began developing derivative products with movies. Durex's Valentine's Day campaign "Fall in Love with Love" launched a mobile bistro, inviting couples to share their love stories and make them into videos and audios, which were then shared online. Taking this opportunity, Durex partnered with "Bei'ai" to launch a customized packaging for "Beijing Love Story", introducing director and leading actor signature styles and sharing photos on social media as premiere gifts to interact with celebrities, and selling them simultaneously during Valentine's Day. "Bei'ai" also specially customized a Durex version of the "Bei'ai trailer" to be played on the big screen in Wanda Cinemas and online; during the promotional stage of "After the Wedding", Durex leveraged Han Han's influence on Weibo, with big Vs and big accounts jointly creating buzz and online interaction to generate heat; for "The Golden Age", Durex once again launched customized packaging, choosing Durex's golden packaging "skin feel" product, beautifully named "Golden Real Wear", with the promotional slogan "Wear it, everything is free". "Golden Real Wear" reached over 3 million users, with nearly 25,000 interactions. Unlike other brands, Durex did not use product or brand placement as the main marketing method. Instead, it used social media as an entry point based on its product characteristics to ignite topics and attention. Then, offline activities were implemented to coordinate with customized product sales for integrated marketing. In the process of cross-industry marketing with movies, Durex did not limit itself to any one method but developed personalized plans for each movie. In this process, Durex and the publicity and distribution team worked together to excite the movie and divert the heat and topics of the movie to the product. On the other hand, the effect of cross-industry marketing with movies directly impacted the sales level, and the derivative product Durex gift box also achieved good sales.

Cross-industry collaboration method two: fan marketing. Fans have become indirect proof of a star's appeal and the box office performance of a film. Film investors have already regarded the fan power survey of directors and actors" of a film as an important investment criterion. It is revealed that a film with tens of millions of fans can still make a profit even if only 1% of the fans go to see the movie. Movie and brand advertisers also understand this well, and they launch various interactive and experiential marketing campaigns around fans. New Spicy Way began promoting 44 days before the release of "Tiny Times 3". Before the film's release, they started a concentrated promotion targeting fans, collecting names, slogans, and gifts for the four fish pots of the Tiny Times set through Weibo and WeChat. After the film's release, the Tiny Times set officially went online, and they partnered with Dream Chasing Network to launch a crowdfunding restaurant. At the same time, New Spicy Way used both online and offline methods to excite the Tiny Times set: online, they used their own and partner's self-media platforms, NetEase, and other internet media platforms to interact with fans, understand their needs, and feedback into the product, achieving product dissemination, promotion, and sales; offline, they held a press conference to launch the Tiny Times set, cooperating with cinemas and ride-hailing apps. The launch of the Tiny Times set is precisely because both the brand and the film aim for the profit space brought by fan marketing. Fans are the foundation of cooperation. Li Jian, President of Beijing New Spicy Way Catering Management Co., Ltd., told "Marketing China" reporters, "On one hand, although New Spicy Way has 1 million members, it is still too small compared to the number of fans of stars like Guo Jingming and Yang Mi. It hopes to attract fans of Tiny Times' and other stars to New Spicy Way through cooperation and convert them into our members through products and services. On the other hand, New Spicy Way is preparing for the future. Five years later, the fans of 'Tiny Times' will become the main consumers. It hopes to influence them from now on.

The third means of cross-industry collaboration is IP cooperation. In the era of omni-media, movies and games are inseparable. Movie producers often adopt the marketing strategy of bundling with game companies to maximize market benefits. The cooperation between movies and games can not only expand the popularity and influence of both parties but also bridge their fan bases. More importantly, the adaptation of movie IPs into games creates a larger source of revenue for both sides. In 2015, 37 Games obtained the IP copyrights of two popular TV series, "Dragon Blade" and "Nirvana in Fire". Xu Zhi Gao, the president of 37 Games, believes that the significance of movie promotion for mobile games lies in three aspects: games and movies jointly engage in omnichannel marketing to generate buzz and increase popularity; the overlap between game players and movie viewers is high, and the joint promotion of topics with strong appeal and popularity can greatly attract players and increase their stickiness; players can experience the scenes and segments in movies, enhancing their sense of immersion. Therefore, 37 Games prefers to choose movies that are easily associated with game content or can spark social discussion. In cooperation, 37 Games places particular emphasis on the relevance of game segments to the movie's plot, striving to make players feel the continuity of the movie within the game. For movies, it is necessary to leverage games to increase their influence and expand their derivative industry chain, thereby increasing revenue channels. For game companies, they need a large number of high-quality IPs to provide content and support. After purchasing the IPs of TV series to produce official games, they can also integrate their own channel resources and movie promotional channels to maximize the content value of movie IP copyrights and achieve brand resonance.

The fourth means of cross-industry collaboration is joint marketing. The value of joint marketing for movies and brand promotion is self-evident. The scope of joint marketing for movies is also gradually expanding, with online primarily relying on Internet platforms and offline covering all channels, gradually highlighting the O2O model. "My Early-Rising Girlfriend" revolves around the concept of "warm man" and carries out an "all-ecosystem" integrated marketing, integrating resources from multiple dimensions for cross-industry marketing, and cooperating with ticketing marketing to ignite "warmth for all". JD.com has embedded itself into movies such as "Heart Flower Road" and "McDull", and also integrated the image of the Little Joy doll into the film; the movie "Beijing Love Story" held a series of prize-winning activities in cooperation with Taobao's Wang lai App on the eve of its release on Valentine's Day, and "Beijing Love Story" also made it to the homepage of Taobao's mobile client.

Cross-industry collaboration method five, product placement. Compared to traditional advertising, movies can integrate brand/product information into the plot, artistically express the story, and allow the audience to experience and understand the information conveyed, thereby triggering emotional resonance. Therefore, movie product placement has become the most mainstream movie marketing method for brand advertisers today. "Those Years" became the box office champion of the New Year block that year (570 million yuan), and one plot achieved the simultaneous product placement of three brands. Lin Jia Mo placed an order for a wedding gift for Zhao Ye through a vivo phone on the Suning.com APP at the wedding ceremony. After placing the order, the Suning Time Express box (a box of Yili milk) arrived at the scene before the wedding began. In one shot, it included three customers: vivo, Suning.com, and Yili. The product placement was seamlessly integrated with the plot, Yang Zong Ling, president of Century Kunpeng Media, told a reporter from "Marketing China". This also helped Suning fulfill its product placement goal of 'drawing the audience's attention to Suning's fast-moving consumer goods category and fast delivery speed', Suning leveraged this product placement, combined with Time Box, special marketing, red envelope surprises, Time Festival, and other games to ignite a hot sale on Double 12.

5. Conclusion

In summary, the modern film business model is undergoing profound changes. The rise of streaming platforms, the push for international distribution, and the expansion of brand licensing have all provided new growth drivers for the film industry. These changes have not only affected the profit model of producers but also reshaped the viewing habits of audiences. In the future, the film industry will need to continue to adapt to market changes and utilize new technologies and strategies to maintain its competitiveness and sustainable development. Through in-depth analysis of successful cases, it is better to understand this complex and dynamic field and look forward to its future development to show more possibilities.

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