

Elissa Nelson

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Roundtable: "On the Next Arrested Development": Netflix as Television Producer

"The Netflix Effect: A Service Provider Changes the Way Hollywood Does Business"

Since the fourth quarter of 2011, the ratings for Nickelodeon have been experiencing double-digit drops. As widely reported in the press, one of the reasons for the decline was because of the increase in Netflix viewers streaming Nickelodeon content. Even though Ted Sarandos, the Chief Content Officer at Netflix, has stated that he doubts the decline can be attributed to only one source, the cannibalization effects of Internet streaming on TV viewing is undeniable. In June of 2012, Netflix reported that they had over 24 million global streaming subscribers who watched over one billion streaming hours. In addition, 50% of Netflix families reported an increase in children's use of streaming content over the past year. Netflix has a delicate balance to strike: while there is competition for viewers, Netflix also relies on networks for content and doesn't want to scare companies away from what they hope are mutually beneficial deals.

The story, however, is a bit more complex than just one of Netflix taking viewers away from on-air and on-demand television. Indeed, Netflix has been influencing the television landscape in a number of ways (most notably after some of its expensive licensing deals for movies lapsed and the company decided, also based on viewer habits, to focus more on television). Sarandos has pointed to the valuable effects of "catch-up" viewing. For example, when *Mad Men* premiered in 2012 after its hiatus, about a million more viewers than had watched the previous season tuned into its premier on AMC, a feat almost unheard of for a show that's been on the air for five years. By airing old episodes and having viewers discover new-to-them content, Netflix can be seen as drawing more viewers to television and increasing ratings, thereby benefiting networks and cable stations.

The increase in prices for licensing deals, in combination with viewer desire for more television content, has influenced Netflix's shift in focus. The company cites viewer demand and convenience as some of the most important factors influencing its strategic decisions. These elements are evident in its aggressive television show buying strategies, and also in its push toward original content. Original content produced for Netflix, including *Lilyhammer*, *House of Cards*, *Hemlock Grove*, and *Orange Is the New Black*, combats high licensing fees, while also allowing the company to focus on content its viewers want to watch in the way they want to watch it: serialized one-hour programs that can be streamed in batches instead of one episode at a time. An entire season or more is produced at once, there's no competition for time slots, and no FCC and ratings regulations either. Netflix has also picked up new episodes of *Arrested Development*, a critical darling and cult favorite that didn't have the network ratings to support its continued production, but that's been able to find a home as Netflix original programming. Largely a function of audience appeals, the continued production of *Arrested Development* also illustrates the way Netflix is able to cater to niche tastes without having to kowtow to traditional ratings metrics. These types of programming choices are both influenced by and reflective of changing industry business models and viewer preferences.

The Netflix Effect is far-reaching. Not only can it be seen in ratings discrepancies and the foray into original content production, but it can also be seen in changing syndication deals where shows are available sooner than the old 100-episode standard, in the increase of new programming on networks because of the additional revenue streams available to make back investments, and in other Internet-based companies like Amazon and Hulu getting into the original content production game. Arguably, the Netflix Effect even reaches as far as influencing infrastructure issues such as carriage fee disputes (how much networks/providers are willing to pay/charge if networks have streaming deals with Netflix), arguments over data caps (considering how much bandwidth is spent on streaming), and even whether customers choose to subscribe to high-speed Internet providers and their tendencies toward cord cutting.

Netflix is changing viewing and subscription habits as well as business models and content development strategies throughout the industry. From disrupting windowing patterns so that films are released on-demand at the same time they are in theaters, to releasing programs so that they are available concurrently on streaming services and in their original exhibition format, to Internet-based companies offering their own content, whether Netflix is actually helping increase network ratings is debatable, but its seismic impact on viewer behavior and on production and distribution strategies is not.