

Hollywood's Final Breath: Could SVOD Services Signal the Death of the American Film Industry?

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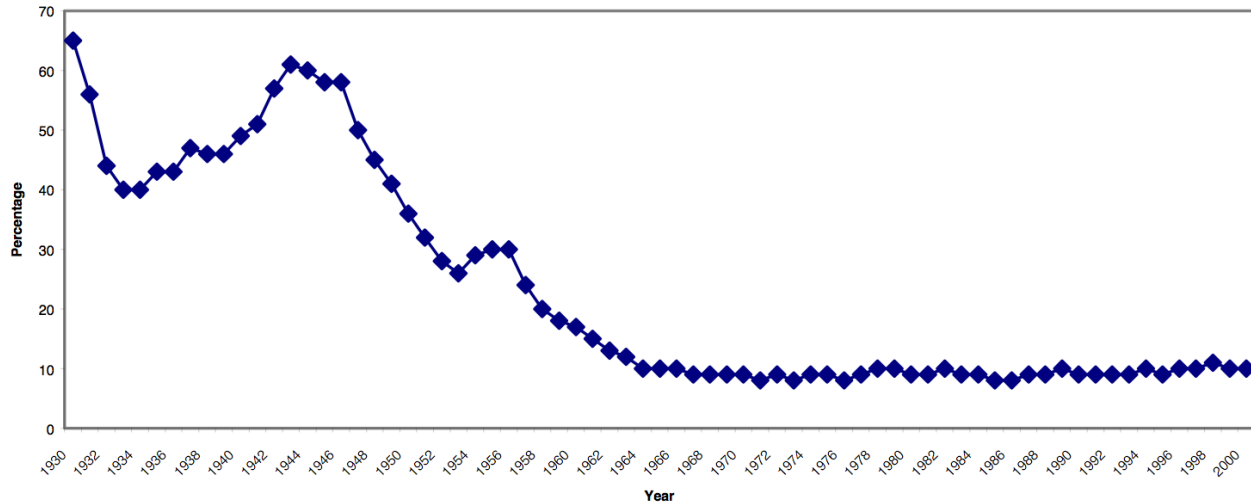
Considering the scandal and drama that occurs behind the scenes, the seemingly unrelated real-world events that cause it to fluctuate in popularity, and its ongoing rivalry with television, the narrative of Hollywood seems straight out of a movie. The recent advent of subscription-based video-on-demand (SVOD) services such as Netflix and Amazon Prime has posed a new threat to theatres around the world. Historically, whether it was the introduction of sound, color, widescreen, 3D video, or the Smell-o-matic, the film industry has always managed to counter its prospective replacements with the introduction of new, albeit sometimes gimmicky, technology. Nonetheless, with average audience attendance approaching an all-time low, could Hollywood be fighting its final battle?

Hollywood's Rise to Fame

Hollywood gained its status during World War One due to America's (initially) neutral political stance. Combatant countries faced certain obstacles: a scarcity of people willing to leave their homes to watch a movie or a scarcity of movies made by local producers. If the latter was the issue, Hollywood movies could be screened in these countries, consequently increasing the popularity of American films. Moreover, foreign filmmakers were physically incapable of producing films because "the same chemicals used in the production of celluloid were needed to

manufacture gunpowder” (Cook 33). Therefore, the American film industry almost had a monopoly over the movies playing in local and foreign cinemas.

Figure 1: Percentage of the US Population that Went to the Cinema on Average Weekly (Pautz)



Hollywood continued to flourish due to economic and political circumstances. As seen in the chart above, cinema attendance peaked during two notable periods – the Great Depression and World War Two. During the Great Depression, "[t]he movies offered a chance to escape the cold, the heat, and loneliness; they brought strangers together, rubbing elbows in the dark of movie palaces and fleapits, sharing in the one social event available to everyone" (Stevens). At the time, films rarely depicted the unpleasant realities about life in America (Cook 288). On the other hand, during the Second World War, several Hollywood films took on a journalistic approach, expanding their purpose from entertaining the audience to keeping them well informed. The government recruited prominent film directors and famous documentarists to produce documentaries “to explain and justify the war to the servicemen fighting it and the civilian populace actively supporting it” (Cook 286). The films performed well at the box office as they were one of the only mediums through which the public could witness the war (Bohn and Stromgren 223). Going to theatres became a patriotic act, and people went to the cinema not only to learn about the

war but also to display their love for their country. Furthermore, “[f]ull employment and unprecedented prosperity after a decade of economic depression also helped keep attendance high” (Cook 288).

In the past, Hollywood always had an economic or political reason to prosper. In the 21st century, the incentives which drove hordes of people to the cinema in the past do not apply.

The Pilot of Television

Unsurprisingly, the sharp decline in movie attendance in the 1950s coincided with the steady increase in ubiquity of television sets. When the MPAA noticed that they were in direct competition with television broadcasting stations, they took drastic actions. They refused to broadcast movies on television and prevented Hollywood stars from acting in television shows (Bohn and Stromgren 239). Unfortunately, these decisions ended up hurting the MPAA in the long run because broadcasting stations began to develop star personalities on their own (Cook 301). In 1949, movie attendance “continued to decline in direct proportion to the number of television sets in use [...] and by the end of the year the major studios were ordering large layoffs and salary reductions, star contracts were being permitted to lapse, and all over the country, the great movie palaces had begun to close their doors” (Cook 301).

However, the introduction of the television set wasn’t the only factor which contributed to a decline in movie attendance. In 2002, Michelle Pautz found that in the US, a one percent increase in the number of films released resulted in a 0.30 percent decrease in the percentage of the population that attended the cinema weekly. She hypothesized that the increased number of films gave the audience too many options to choose from, thus confusing the audience and

hurting attendance. Pautz also found that a one percent increase in ticket price led to a 0.67 percent decrease in weekly attendance. In fact, ticket prices were the strongest determining factor of weekly cinema attendance, more influential than the number of television sets in US households.

Do Audiences Prefer Netflix?

The study mentioned above was conducted by Michelle Pautz in 2002; hence the conclusions drawn might not hold today. I suspected that Netflix usage, rather than ticket price, has a stronger impact on weekly cinema attendance. To test this hypothesis, I compiled data from 2002 to 2017 and compared the correlation between the two. Since Netflix keeps data relating to the number of active users confidential, I used Netflix's quarterly revenue as a measure of its success. Note that over time, Netflix's revenue has steadily increased (data in the appendix).

Figure 2: Relationship between Netflix Revenue and Number of Tickets Bought Per Movie

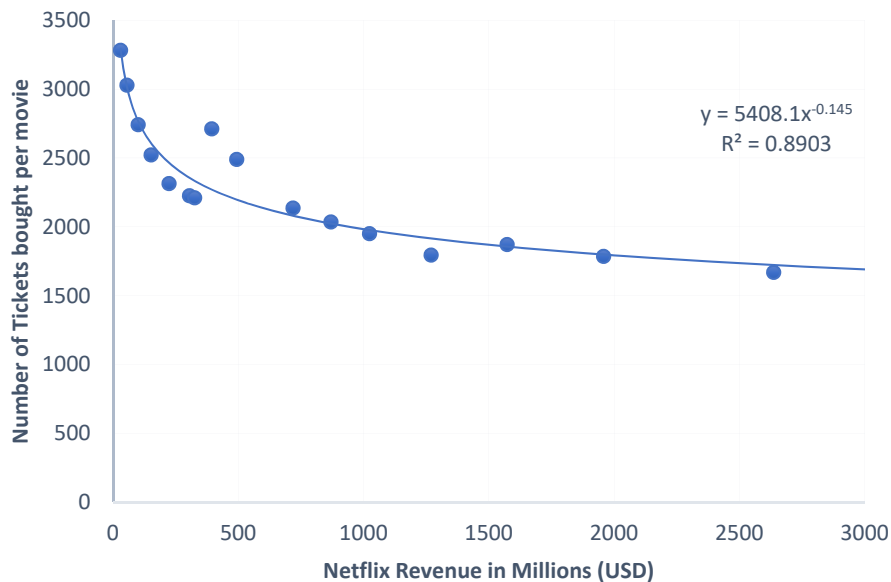
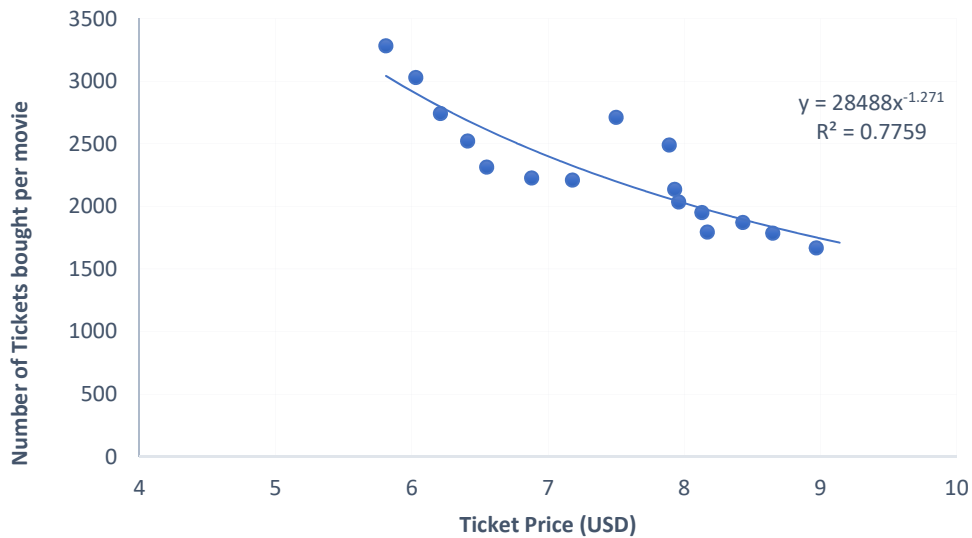


Figure 3: Relationship between Ticket Price and Number of Tickets Bought Per Movie



Looking at Figure 2 and 3, clearly both ticket price and revenue generated by Netflix have an impact on the number of tickets bought per movie. An increase in ticket price or revenue earned correlates with a decrease in the number of tickets bought. To judge which factor has a stronger influence, I calculated the correlation coefficients¹ of each of the variables. (The caveats of this calculation are presented in the Appendix.) My calculations showed that even though ticket price and the number of tickets bought per movie had a strong negative correlation (with a correlation coefficient of -0.87), Netflix's annual revenue had a much greater impact on ticket sales (with a correlation coefficient of -0.94).

Evidently, as Netflix's user base has grown, the number of people going to cinemas has decreased. A glance at Figure 2 reveals that ticket sales plummeted with the introduction of Netflix. While it is impossible to determine whether one caused the other, it is apparent that the two events are strongly correlated.

¹ The correlation coefficient is a statistical measure that calculates the strength of the relationship between two variables. It is a number between -1 and +1. (Investopedia).

Why Do Audiences Prefer Netflix?

Movie theatres should have been unaffected by the dawn of television - they provided comfortable seats and readymade snacks, offered an enthralling and glamorous movie viewing experience, and displayed better content and image quality than their competitors at the time. Although the quality of content on home entertainment systems has significantly improved since the 1950s, the other reasons still hold today. Why won't people go to the theatres? As Bohn and Stromgren inferred, in the 1950s people stayed at home because watching TV was a novel experience and was considered 'free' after the initial purchase of the television set. Audiences no longer felt the need to go to theatres because "American cinema simply duplicated the popular entertainment function of television on a larger scale" (Cook 670).

Even though the introduction of television and the introduction of Netflix had analogous consequences – both caused movie attendance to drop rapidly – the reasons behind these consequences differ. In 2018, people do not watch Netflix because it is novel or because it is 'free' after an initial purchase. Instead, the demand for Netflix is high because of its convenience. Case in point: the failure of Moviepass. If people cared about novel ideas or 'free' unlimited content, Moviepass would have prospered.

Moviepass is a relatively new service which allows subscribers to watch unlimited movies at the cinema for a monthly fee of \$10 – less than Netflix's standard monthly subscription fee. While this service gives frequent movie-goers the best bang for their buck, "[p]eople are going to less than one movie a month," said the CEO of the parent company. The service is performing so

poorly that it is currently having an unconventional 'Going Out of Business' sale where it has chosen to increase its prices (Amos).

The decline of theatre attendance during the 1950s and the 2010s appears to be parallel. Both times they were caused by the introduction of a novel technology, and both times Hollywood had a grandiose response.

Hollywood 'Remakes' Itself

In the 1950s, the industry attempted to counter the revolutionary television set with its own revolutionary technology. Filmmakers experimented with 3D films, which required audiences to wear specialized glasses, and Cinerama films, which utilized 3 separate cameras to create an ultra-widescreen experience. Their most notorious invention was Smell-O-Vision, which "used individual atomizers strategically positioned between the rows of seats [...] [to] create an impressive olfactory illusion" (Cook 333-334). The success of these new technologies was ephemeral, capturing the public's attention for a while, but losing it once again when the novelty wore off. The industry needed another fix.

In the 1960s, the corporate attorneys who ran Hollywood noticed that "the old audience had begun to stay home and watch television, venturing out occasionally for some spectacular family entertainment but generally staying away from movie theatres" (Cook 669), so the industry gave audiences what they wanted. They began to "package every class-A production [from comedies to westerns to musicals] as a splashy, big-budget spectacle, whether or not this format suited the material" (Cook 321). The average cost of production during this period rose to \$3 million, and so began the industry's relentless search for a winning box office formula (Cook 669).

This shift in focus stimulated far-reaching consequences, not only around the conference tables where budgets were proposed and logistics were planned, but also in the artform itself. Due to colossal budgets, a single unsuccessful class-A film could spell the end of an entire studio. Consequently, while filmmakers wanted to focus on the film, the big corporations which controlled funding were focused on the revenue. Films were meticulously contrived to appeal to a mass audience and to earn money even after viewers left theatres. Plots became safe, uncontroversial, and formulaic, merchandise like t-shirts and toys were sold in stores, and corporations gratuitously spent their budgets on marketing and advertising “to ensure the films’ success, with these expenditures often rising as high as twice the production costs” (Cook 679). The lines between film genres – such as ‘The Musical’, ‘The Western’, ‘Science Fiction’, and ‘The Gangster Film’ – became ever more distinct, with producers relying on formulas, character tropes, and story archetypes which had a proven track record. Film historian Stephen Price noticed, “in strict economic terms, production by the majors [is] about the manufacture and distribution of commodities (not films) on a national and global scale.” Hollywood’s plan was successful. *The Godfather* (1972), *The Exorcist* (1973), *Jaws* (1975), *Star Wars* (1977), *Grease* (1978), and numerous other wildly successful movies were released in the 1970s. Eventually, Hollywood struck upon its Holy Grail – the franchise.

Today, blockbuster mega-franchises are the only genre which motivates people to visit cinemas, a trend which evidently started decades ago. Hollywood has become complacent, producing remakes and sequels ad nauseam while audiences gladly eat it up. In 2011, the seven top films were all sequels, and in 2015, the eight biggest opening weekends were all sequels (Thompson). In the summer of 2016, sequels to *Ghostbusters*, *Independence Day*, *Finding Nemo*, *Star Trek*,

Jason Bourne, and the *Ice Age* series were produced. “In fact, nearly every weekend [that] summer [offered] up at least one sequel, reboot or spinoff” (Lang). Even though the public might have become blasé about the current state of affairs, critics have diagnosed Hollywood with “Sequel-itis” and relentlessly call out the industry for their banal films.

The mantra of major film studios has become ‘synergy’ and “film subjects [are] now chosen and developed specifically for their possible connections with other media” (Cook 734). Merchandising opportunities have taken center stage, with films like *Iron Man 3* being re-written to facilitate the production of toys (McClendon). Unoriginal movie sequels and remakes are produced frequently simply to ensure that brands don’t die and film rights are protected. Naturally, an increasing number of innovative filmmakers are looking for a new platform to share their original ideas.

Why do Independent Filmmakers prefer Netflix?

In the 1960s, avant-garde independent filmmakers couldn’t break into the mainstream film industry because their ideas were too radical, unpredictable, and hence, unreliable in terms of revenue; however, the recent French and Italian New Waves – two of the most influential movements in the history of cinema – changed the status quo in America by demonstrating to “producers all around the world that ‘art’ films could make money – especially if they were shot on low budgets” (Cook 670). After these two foreign movements, the number of independent films in the United States skyrocketed, and “[i]ndependent producer-directors, such as Stanley Kubrick (1928-1999) and Arthur Penn (1922-2010), found themselves for the first time able to control the financing of their own films and achieve an unprecedented degree of creative

freedom” (Cook 671). Meanwhile, with movie attendance facing a steady decline, major film studios desperate for a new source of revenue began to distribute these independent films, causing their popularity to further increase and encouraging independent filmmakers to take more risks and produce more films.

Similarly today, since creative freedom is an aspect which continues to lack in mainstream Hollywood, SVOD services act as a platform for independent filmmakers to showcase their work. While the goal of many contemporary filmmakers is to have their movie picked up by Netflix, Hulu, or Amazon Prime, these services look for movies to showcase on their platform (to gain the upper hand on Hollywood), thus forming a self-perpetuating cycle. Filmmakers can take risks and deviate from Hollywood’s rigid formulas while not having to worry about the corporate attorneys of 20th Century Fox, Paramount Pictures, Warner Bros., or any other major production house. “The advent of low-cost, high-end digital film equipment at the consumer level has meant that indie producers are no longer dependent on the technical resources of the majors. By the 2010s, thousands of small companies could produce films for a fraction of the cost of a Hollywood product” (Cook xv). Furthermore, SVOD services enable independent filmmakers to easily reach a wide audience, thus reducing advertising costs and freeing up money for the production of the film.

These independent and foreign films perform well on their respective platforms because audiences seek fresh and innovative stories. People might not be bold enough to venture outside of their home to support an indie filmmaker at a local theatre, but they’ll watch an intriguing film if it appeared in the “Recommended for You” section of their Netflix account. Bohn and Stromgren claim that people are tired of the Hollywood formula, and that “[d]espite all the

gimmickry, the essential attractiveness of motion pictures was their ability to tell interesting stories. Hollywood forgot this basic fact in its mad rush to find a quick and easy formula for winning back it's lost audience" (243-244).

To test this claim, I compared the most successful films in the box office with the most successful films on Netflix. I found a striking contrast between them. The most successful films in the 2017 Box Office were (in descending order): *Star Wars: The Last Jedi*; *Beauty and the Beast*; *The Fate of the Furious*; *Despicable Me 3*; *Jumanji: Welcome to the Jungle*; *Spider-Man: Homecoming*; *Wolf Warrior 2*; *Guardians of the Galaxy Vol. 2*; *Thor: Ragnarok*; and *Wonder Woman* (Box Office Mojo). On the other hand, the Top 10 Films on Netflix in 2017 were (in descending order): *The Post*; *The Shape of Water*; *The Greatest Showman*; *Three Billboards Outside Ebbing, Missouri*; *Jumanji: Welcome to the Jungle*; *Darkest Hour*; *All the Money in the World*; *Molly's Game*; *Murder on the Orient Express*; and *Thor: Ragnarok* (Movie Review Query Engine). Noticeably, while the most successful films in the Box Office aren't based on original ideas (but rather part of a franchise) the converse is true on Netflix.

Surprisingly, even when Hollywood receives original scripts, executives decide to alter them to create a sequel. They believe that sequels are easier to market, and understandably so. Several surveys have shown that one of the most cited reasons for going to the cinema is the fact that a movie is a sequel (Statista). "By serving as brand extensions to the first movie they are able to reduce the uncertainty perceived by consumers more than any other movie type can" (Linell). Therefore, *Honor Among Thieves* was repackaged as *Ocean's Twelve*, *The Desperate* became *Saw II*, and *10 Cloverfield Lane* was originally *The Cellar* (Bell). Undeniably, Hollywood has a problem,

and many independent filmmakers are staying clear of the industry, choosing instead to submit their films to SVOD platforms.

The Extinction of 'Cinema-Going'

Television and SVOD services continue to threaten cinemas not only because of their convenience but also because “in a highly fragmented 140-character, 24/7 world, viewers [are] seeking out longer-form, more complex storytelling” where “the stories are not compromised by running time [, and the characters] can be developed, they can be discarded, and they can follow a complete arc of birth, life, and death” (Cook 746-748). SVOD services also permit binge-watching, which many viewers enjoy. The “longer, uninterrupted viewing sessions can lead to ‘a deeper virtual-reality experience of the narrative. It can seem more real, from a neurological point of view,’” says psychiatrist Norman Doige.

Although SVOD services have caused the activity of ‘cinema-going’ to dwindle in the United States, the rest of the world appears relatively unaffected. For instance, *The Amazing Spider-Man 2* earned \$92 million domestically but a staggering \$277 million internationally in its opening weekend (Cook 736). Films are now made with the international market in mind because “[e]ven bad movies can succeed in the international market, where audiences continue to consume action eagerly” (Morgenstern). *Ocean’s Eleven* “was deliberately set and filmed in Amsterdam, Paris, and Rome to enhance its international appeal, as were the *Bourne* films” (Cook 736). Moreover, movies based on internationally best-selling young adult novels (such as *Twilight* or *Harry Potter*) and those based on the action-adventure genre (such as *The Avengers* and *The Dark Night*) flourish in the global market. Conveniently, these movies have a pre-existing brand and

easily lend themselves to sequels, thus reducing the amount of marketing necessary and becoming Hollywood's long sought-after winning box office formula.

Evidently, Hollywood survives on sequels and remakes of franchises in the 21st century. However, what happens when sequels begin to disappoint? According to box-office analyst Paul Dergarabedian, this is already happening. He points out that recently, "the landscape has been littered with a series of sequels that have come up short, and thus call into question the entire notion of the inherent appeal of non-original, franchise-based content." Perhaps disappointing sequels are a signal of the extinction of cinema-going?

No matter what happens, one might argue that the phenomenon of 'cinema-going' could never become extinct. A section of the population will always frequent the cinema for the unparalleled experience: sinking into the plush leather seats, crunching on the buttery golden popcorn, and leaving all worries behind the two cinema doors. Admittedly the percent of the US population that visits cinemas has declined tremendously. However, looking back at Figure 1, it no longer continues to decline at the same rate; it has stagnated. Perhaps a small proportion of the population will always make the effort to watch a movie at the theatre, either because of the unrivaled experience, out of nostalgia, or simply because they have nothing better to do on a Saturday night. Predictions about the demise of Hollywood started in the 1960s, when David O. Selznick (producer of *Gone with the Wind*) speculated "Hollywood's like Egypt, full of crumbled pyramids. It'll never come back. It'll just keep on crumbling until the wind finally blows the last studio prop across the sands."

Despite these predictions, the industry is still alive and kicking as a successful money-making machine. Author David Cook assures us:

But the more things change, the more they stay the same: cinema is still fundamentally a narrative art whose major purpose is the telling of stories, and storytelling precedes every other form of organized human behavior but the burial of the dead. Its roots lie deep in our consciousness and precociousness, and its importance to us will not go away easily. So as the screens grow smaller, the importance of cinema looms ever larger, telling stories of valor and heroism, war and peace, and love and loss, as it has always done and will continue to do until narrative loses its fundamental place in our hierarchy of values.

In the past, Hollywood always had an economic or political reason to prosper, but these reasons are no longer applicable. Contemporary filmmakers and audiences are shifting their attention to SVOD services which showcase more creative, longer-form content. As a result, the number of people watching movies in theatres has declined significantly.

The act of going to the cinema might not be as widespread as it once was; however, whether it is producing “art” films or simply mass-appeal movies, whether the movies are watched on a big screen or a small one, Hollywood doesn’t seem to be going away anytime soon.

FIN.

Appendix

Data compiled from Box Office Mojo and YCharts

Since there was a logarithmic relationship between Netflix Revenue and Number of Tickets Bought per Movie, and Ticket Price and Number of Tickets Bought per Movie, I found the correlation coefficient of the natural log of Netflix Revenue with Number of Tickets Bought per Movie, and the natural log of Ticket Price with Number of Tickets Bought per Movie. The compiled data is presented below.

Annual Statistics					
Year	Netflix Revenue in Millions (USD)	Ticket Price (USD)	Average Weekly Tickets Bought	ln(Revenue)	ln(Ticket Price)
2002	30.53	5.81	3281.25	3.418709807	1.759580571
2003	55.6	6.03	3027.667984	4.018183201	1.796747011
2004	100.37	6.21	2740.471869	4.608863358	1.826160896
2005	152.45	6.41	2521.023766	5.026836673	1.857859271
2006	224.13	6.55	2312.5	5.412226241	1.87946505
2007	305.32	6.88	2225.03962	5.721360407	1.928618652
2008	326.18	7.18	2209.2257	5.787449376	1.971299383
2009	394.1	7.5	2710.172745	5.976604684	2.014903021
2010	493.66	7.89	2488.847584	6.201847021	2.065596135
2011	718.55	7.93	2134.775374	6.577235293	2.070653036
2012	869.79	7.96	2034.379671	6.768251803	2.074429
2013	1024	8.13	1949.201742	6.931471806	2.095560924
2014	1270	8.17	1793.493635	7.146772179	2.100468909
2015	1573	8.43	1869.688385	7.360739903	2.131796772
2016	1958	8.65	1784.260516	7.579678823	2.157559321
2017	2637	8.97	1667.567568	7.877397186	2.193885676

Variable 1	Variable 2	Correlation Coefficient
Netflix Revenue in Millions (USD)	Average Weekly Tickets Bought	-0.943236685
Ticket Price (USD)	Average Weekly Tickets Bought	-0.874245759

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