A Netflix Experience:
Reimagining the Direct-to-Consumer Platform

By

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ABSTRACT

As the streaming wars intensify, Netflix cannot rely solely on its first-mover advantage to remain at the top and must continue to find ways to differentiate itself from competitors. While Netflix is known for having disrupted content delivery, there are still many innovations it can make to the content itself.

By examining uses and gratifications research (i.e., the theory that audiences seek out media to fulfill certain needs), this paper identifies a set of needs for why audiences turn to media that consistently emerge across time and mediums; these needs, which will be referred to as the fundamental gratifications, drive consumer behavior. The paper then explores how Netflix, as a direct-to-consumer platform not constrained by some of the technological and storytelling-related limitations of traditional film and TV, can better fulfill some of the fundamental gratifications. Specifically, Netflix can better gratify the need for:

- social connection by enabling features such as in-video comments and synchronous viewing.
- immersion by enhancing the worldbuilding capabilities of the Netflix platform through the use of transmedia storytelling.
- achievement by offering an Apple Arcade-like mobile gaming subscription on the Netflix platform.

The successful execution of these ideas would make Netflix not simply a platform to watch content, but a place to interact with friends and an immersive home for exploring storytelling universes. In an age where consumers prefer experiences over material goods and services, Netflix has the potential to offer a true entertainment experience, while competitors get stuck behind providing simply streaming services.

Thesis Supervisor: Ben Shields
Title: Senior Lecturer, Managerial Communication

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Nicole, thank you for always asking "how was your day?" even when you knew the response would involve a boring update about my thesis. Your graceful warmth never ceases to amaze me; you are the only person I know who could pack the note-giving process with such kindness. I am profoundly appreciative of the positive energy you bring into my life and I promise to support you in the same way through all your future achievements.

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My time as a student may be coming to an end, but you all inspire me to be a lifelong learner.

Table of Contents

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Introduction – From the Yellow Pages to Yelp

Once upon a time, consumers relied on books to help them find businesses in their area. These relics were known as 'yellow pages', physical directories where people could search for local businesses and where those same businesses could advertise to increase their reach. I know it is hard to believe that these ancient artifacts were once popularly used, but you should just take my word for it.

If the concept of the yellow pages seems familiar to you that is probably because you have used Yelp (the name, after all, is a combination of 'yellow pages' and 'help'). In many ways, Yelp serves all the same functions as the yellow pages: consumers can find local businesses and restaurants and those business owners can pay to advertise on the platform. Yelp, founded in 2004, accelerated the decline of the yellow pages which began around 2002 (Smith C. S., 2012).

The rise of the internet made it inevitable that the yellow pages would be delivered in an online format, but it is worth noting what happened in that transition. Rather than simply reproducing the yellow pages online, Yelp introduced various additional features. Consumers could now leave reviews for businesses, upload and scroll through pictures of a location, make reservations and appointments, and filter businesses by ratings, price range, hours of operation, etc. Yelp, in other words, maximized the affordances provided from being an online platform to offer consumers features that the printed yellow pages never could have.

That is what changes in technology do: they afford products new capabilities that can improve the user experience. Examples of this are endless: When Facebook first started, rather than being just an online class yearbook, it allowed users to personalize their profile pictures, comment on friends' posts, and send event invites; Kindle, instead of simply being PDFs on a tablet, compiles user highlights, gives users access to a dictionary, and allows them to buy books through the Kindle store, among other features.

With this in mind, I will set up a foundational point of this paper with the following analogy: **I believe that in many ways Netflix has uploaded the yellow pages onto the internet rather than transforming into Yelp.** Thus far, this has not been an issue for Netflix; entertainment incumbents have been slow to enter the streaming space providing Netflix with a substantial first-mover advantage. However, as the streaming wars intensify, Netflix cannot rely solely on its first-mover advantage to remain at the top and must continue to find ways to differentiate itself from competitors.

Let us give credit where credit is due: Netflix has undeniably been an industry disruptor. It has helped shepherd modern production and programming techniques (e.g., multi-season commitments and A-list talent in TV) and it brought about plenty of technological innovations with its move to streaming (e.g., recommendation algorithms). However, **these innovations disrupted content production and delivery, not the content itself.** To illustrate this point, ask yourself this: could the average consumer, given no context, be able to differentiate between a new Netflix and HBO show? Probably not. Netflix and HBO compete for the same artists and follow similar methods of production, oftentimes leading to similar final products. The only real difference is that Netflix delivers its content primarily over the internet.

The technology examples mentioned above (Yelp, Facebook, and Kindle) made use of their affordances by creating features that catered to the wants of their users. Now, let us stop for a second and think: why do consumers turn to Netflix? To say they do so to be entertained would be reductionistic. In reality, consumers turn to Netflix, and media in general, to fulfill various needs. For example, a user may watch *Love Is Blind* after a long day at work as a form of tension release; he or she might check out *Tiger King* to be able to partake in social conversation (everyone is talking about it!); or he or she may binge *The Witcher* with the desire to be transported into a fantasy world. This view that consumers seek out media to

gratify certain needs is called uses and gratifications theory (UGT). **By understanding the wants of users as proposed in UGT, Netflix can gratify these needs better than previous studios or networks could, especially considering that as a direct-to-consumer (DTC) platform Netflix is not constrained by some of the technological and storytelling-related limitations of traditional film and TV. By making use of their affordances, Netflix can evolve the way stories are told and improve the entertainment experience for users, all the while establishing sustainable moat-like competitive advantages that are crucial in times of increasing competition.**

Such statements may raise some questions. Can Netflix not win the streaming wars simply by focusing on making the best content? What exactly are the gratifications consumers turn to media for and why are they so important to Netflix? Part I will answer these questions. **Chapter 1** will examine Netflix's current market position and its growth outlook in the increasingly competitive entertainment landscape. With that perspective in mind, we will outline the shortcomings of 'the streaming wars can be won purely by creating the best content' mindset and discuss why innovations are necessary for continued long-term growth. **Chapter 2** will provide an overview of the UGT research on consumer motives for seeking media. We will see in the research that the same set of needs consistently emerge across time and mediums. These needs, which will be referred to as the fundamental gratifications, drive consumer behavior and it is crucial for Netflix to fully comprehend them in order to determine how to improve the user experience.

This then raises another question: How can Netflix use its affordances to better fulfill these needs? Part II will answer this question, specifically with regards to the fundamental gratifications of social connection, immersion, and achievement. **Chapter 3** will look at how Netflix can enable features such as in-video comments and synchronous viewing to better gratify the need for social connection. **Chapter 4** will explore how Netflix can enhance the worldbuilding capabilities of its platform through the use of transmedia storytelling in order to better gratify the need for immersion. And **Chapter 5** will propose how Netflix could offer an Apple Arcade-like mobile gaming subscription on its platform to better gratify the need for achievement.

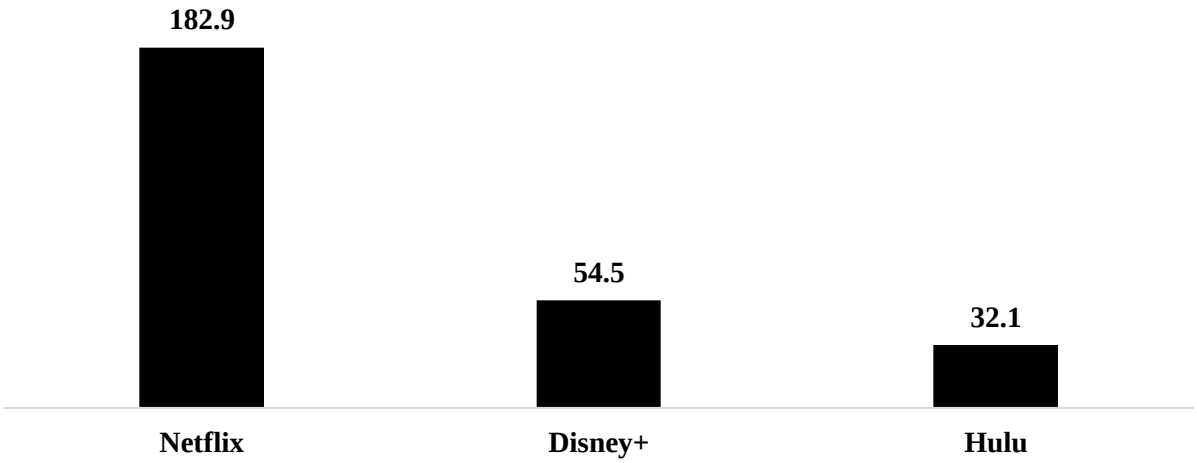
Where does this all leave Netflix? That is what Part III will take a look at. **Chapter 6** will discuss the increasing consumer desire for experiences over commodities and services. We will go through how the successful execution of the ideas discussed in this paper will make Netflix not simply a platform to watch content, but a place to interact with friends and an immersive home for exploring storytelling universes. While studios frantically play catch-up in the streaming wars, Netflix, with these ideas in place, would remain two steps ahead of the pack, offering users a true entertainment experience, while competitors get stuck behind providing simply streaming services.

PART I

Chapter 1 – Is Netflix in Trouble?

Netflix is unequivocally the market leader in the video streaming space. As shown in **Figure 1.1**, Netflix holds a significant lead over its closest competitors, Disney+ and Hulu.[1]

Figure 1.1 - Streaming services' number of worldwide paid subscribers, as of May 2020 (in millions)



Source: Company quarterly reports

Netflix's success has been strategically earned; it saw a gap in the market and was quick to fill it. While cable subscription prices rapidly increased (Smith G. , 2015), Netflix offered consumers an unrivaled amount of content at incredibly low prices. It also brought in A-list talent to ensure content was of high quality.

Internationally, Netflix built a positive relationship with consumers by creating successful local language content (Kay, 2019). With non-US and Canada markets making up more than 60% of Netflix's total subscriber base, Netflix's competitors have a lot of catching up to do: Disney, though it is off to a good start, just began its global launch in March 2020; HBO Max is not scheduled to launch internationally until 2021; NBCU has yet to unveil its international rollout plan for Peacock; and Apple TV+ ended up launching in fewer countries than Apple was initially targeting. Prime Video could be considered Netflix's biggest current international competitor, though Amazon does not reveal the number of Prime subscribers who actually use Prime Video so it is hard to get a sense of the true threat it poses.

For a couple of years after its pivot into streaming Netflix had limited competition in the space. Hulu and Prime Video were Netflix's main competitors, but at the time they had significantly lower content budgets. As a testament to the strength of Netflix's first-mover advantage, 53% of North American users said they considered Netflix an 'essential service', making Netflix the most indispensable video service, ahead of YouTube and cable, among others (TiVo, 2019).

First-mover advantages, however, do not always last forever. Though Netflix is currently the market leader in the streaming landscape, the competition is only set to intensify with the upcoming releases of HBO Max, NBCU's Peacock, and ViacomCBS' streaming service, along with companies such as Disney, Apple, and Quibi bolstering their recently launched platforms. The streaming wars have dominated

[1] Amazon currently has over 150 million Prime subscribers, though Amazon does not publish how many of those subscribers actually use Prime Video; hence, Amazon is not included in the figure.

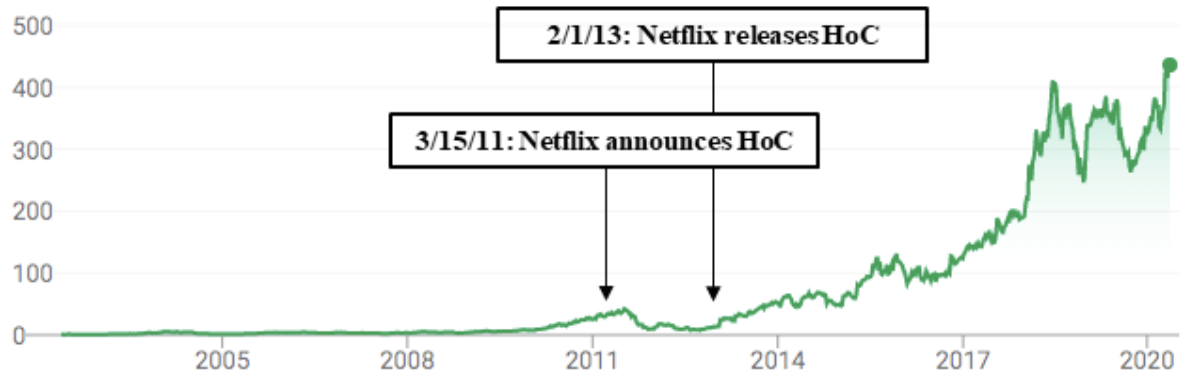
industry headlines over the past year and it leads one to ponder the following questions: Are these narratives overblown or could Netflix actually lose their position as market leader? Is the company's past growth sustainable? Is Netflix in trouble?

Part I of this paper seeks to answer those questions. **Section 1.1** will begin by recognizing how Netflix's shift to streaming diminished some of their competitive advantages. **Sections 1.2 and 1.3** will then examine how this increase in competition has impacted Netflix's key performance indicators (KPIs). **Section 1.2** will look at the threat that direct competition (i.e., other streaming services) pose to Netflix's domestic subscriber count. **Section 1.3** will look at how indirect competition (i.e., other forms of digital media such as social media, YouTube, and video games) has impacted the amount of time users spend on Netflix. These analyses will help us decide if Netflix is indeed in trouble or not. Finally, **Section 1.4** will conclude by exploring the idea of the content trap and the need for moat-like competitive advantages.

1.1 – Diminishing Competitive Advantages

House of Cards was the turning point that set Netflix on the path to its current success.

Figure 1.2 – Netflix stock chart



Source: Google finance

However, it is crucial to note that underlying that success were two separate pivots: (1) transitioning from a DVD-by-mail company to an online content aggregator and (2) entering original content production. Though people may conflate these pivots, as it is the combination of the two that helped Netflix become what it is today, it is important to separate the two out, as they each carry individual complications that diminished some of Netflix's previous competitive advantages.

1.1.1 – The Troubles of Being a Content Aggregator

Netflix began offering video streaming in 2007. Their subscribers were, at that time, primarily interested in Netflix's DVD offerings. The appeal of Netflix was its 100,000+ DVD library - more than any brick-and-mortar store could offer - not the 1,000 on-demand titles that were initially part of the streaming service. There was no blueprint on how to build a high-definition streaming service and many doubted Netflix could pull it off (Helft, 2007).

Over a decade later, it is clear that Netflix did. The company has figured out the technology and lowered many of its costs to be able to operate at scale. Unfortunately, becoming a streaming content aggregator comes with its difficulties. A DVD-by-mail business has high barriers to entry due to the operational difficulties of amassing a nationwide DVD collection and figuring out the logistics of shipping at such

scale. Video streaming, on the other hand, is a service than can be more easily replicated now that Netflix has developed the blueprint for how to do it. As we have seen in the early stages of the streaming wars, any company with capital can now become a content aggregator.

The more content aggregators there are, the higher the price to license content. In 2019, HBO Max signed an agreement to buy the streaming rights to *Friends* for five years at a total of $425 million; Netflix had previously paid just $118 million for five years in 2014 (Berg, 2019). These nine-figure agreements are not uncommon in this day and age. Netflix paid over $500 million for five years of *Seinfeld* (Porter & Goldberg, 2019), NBCUniversal shelled out $500 million for five years of *The Office* (Goldberg & Jarvey, 2019), and HBO Max paid between $500 million to $550 million for *South Park* with the length of the deal undisclosed (Low, 2019a). To make matters worse, since many distributors now have their own streaming services, they are less likely to license their content to Netflix. This is problematic since at the end of 2018 only 11% of Netflix's catalogue was Netflix originals (Ampere Analysis, 2019, as cited in Roxborough, 2019).

1.1.2 – The Troubles of Being a Content Producer

It was savvy for Netflix to move into content production. As Ted Sarandos put it in Netflix's Q2 '19 earnings call:

> Over six years ago we got into original programming, betting that the licensed program would be more difficult to come by, and that maybe the sources of content to license from would be under different levels of strain. That has paid off.

Content production, however, also comes with its own difficulties. For one, content is expensive to make, as seen by Netflix's ballooning production budgets. Second, it is simply hard to make good content. Netflix original movies have lower average Rotten Tomatoes scores than studio releases (Rodriguez & Kopf, 2018) and its original content has lower average IMDB and Rotten Tomatoes scores than its top streaming competitors (Supan, 2019). One could argue that Netflix's ratings are diluted by the amount of content they produce, which may be valid. However, the fact that Netflix is saying 85% of its spending will be on originals (Spangler, 2018), yet 72% of consumer viewing minutes are spent on licensed material (Flint & Sharma, 2019), demonstrates how difficult it is to make content that consumers find worthwhile. To make matters worse, Netflix is now competing with studios and distributors who have had decades to build their content libraries.

The point of this section is not to argue that Netflix should have remained a DVD-by-mail company. Netflix was the best-performing stock of the last decade, returning over 4,000% value to shareholders (Levy A., 2019), demonstrating that the move to streaming was the correct one. The point, instead, is that there are now no significant barriers to entry (aside from capital) to stop competitors from replicating the service Netflix is offering.

Despite this fact, Netflix trades at significantly higher P/E multiples than all of its competitors aside from Amazon, as seen in **Figure 1.3**. We can endlessly debate whether Netflix's stock is over- or undervalued. What is not up for debate is that these multiples imply the market expects significant growth from Netflix – perhaps even the type of growth from a company in a winner-take-all market.

Figure 1.3 – Netflix comparable company P/E multiples

Company	P/E
Netflix (NFLX)	91.2
Amazon (AMZN)	113.1
Apple (AAPL)	23.3
AT&T (T)	15.1
Comcast (CMCSA)	14.7
Disney (DIS)	38.5
ViacomCBS (VIAC)	3.1

Source; Thompson One, as of market close 5/6/20

This narrative may have stood when Netflix had little competition in the streaming space, but with the increase in competition it is time to look at the market in a different way. Right before Netflix's Q4 '19 earnings call, David Einhorn, hedge fund manager of Greenlight Capital, wrote, "The market celebrated NFLX as the king of a perceived 'winner-take-all' (or 'winner-take-most') global market for streaming video-on-demand (VOD). We believe this narrative is finally coming to an end" (Einhorn, 2020, as cited in Weprin, 2020). Matthew Ball (2019b), a top media strategist, stated in the Business Casual podcast, "The press has ascribed this narrative of the streaming wars. I think internally most in the industry are terrified about that narrative because they don't see it as truly winner-take-all."

Not only is this not a winner-take-all market, perhaps it is even a zero-sum game as it appears consumer spend on video is not increasing. The average US home spent around $73 per month on video services in 2019, with $60 spent on multichannel video programming distributors (i.e., broadband cable) and $13 spent on streaming platforms. That number is expected to increase to only $76 per month by 2024, a 1% increase (Cowen & Co, 2019, as cited in Littleton & Low, 2019). The ratio of spending between broadband and streaming is expected to move further in the direction of streaming, but it is worth noting that the prices of the streaming services are expected to increase as well. A separate poll found that 59% of US adults are not willing to pay more than $20 total for streaming services (YouGov, 2020).

Increased competition in the marketplace and such a low consumer video spend cap means some of these services are likely to start cannibalizing each other. Some consumers may only be able to afford one or two streaming services at a time and would be prone to dropping a service to replace it with another - there are, after all, no switching or cancelling costs.

So how do we measure the impact that this will have on Netflix? As previously mentioned, we will look at two of Netflix's KPIs: subscriber count and time spent on the platform. Subscriber count is obviously important as it drives revenue. Time spent on the platform is a measure of engagement; the more time consumers spend on the platform, the more likely Netflix is to decrease churn. In the following section, we will be focusing on the threat other streaming services pose to Netflix's domestic subscriber count. Then in section 1.3, we will look at the impact competition from other forms digital media have had on the time users spend on Netflix.

1.2 – Direct Competition and Subscriber Count

In the past, Netflix publicly shrugged off mentions of its competition. When asked about who Netflix's competitors are during a Q1 '17 earnings call, Reed Hastings famously declared that their biggest competitor is sleep as they are trying to win in the mind of a consumer when he or she debates between watching another episode of TV or going to bed. In its Q4 '18 earnings report Netflix added, "Our focus is not on Disney+, Amazon or others, but on how we can improve the experience for our members."

More recently, Hastings finally acknowledged that Netflix's growth would be stymied by their increasing competition. "It's a whole new world starting in November [2019]…between Apple launching and Disney launching, and of course Amazon's ramping up…It'll be tough competition. Direct-to-consumer [customers] will have a lot of choice," said Hastings in an interview with the Royal Television Society on September 2019. Netflix stock fell more than 7% that day.

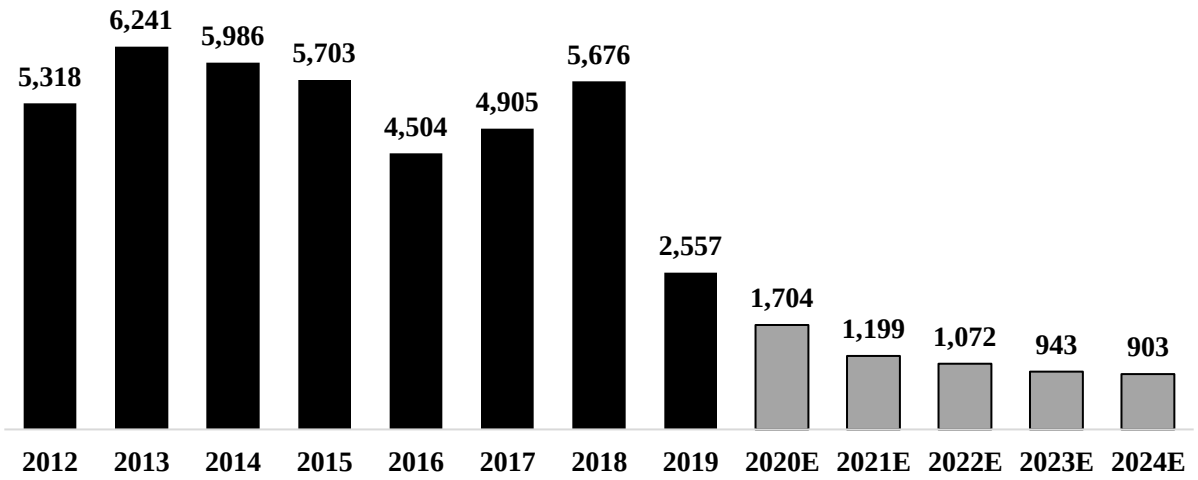
This section will examine Netflix's current position in the US market and how the increase in competition from streaming services could impact US subscriber count. The reason for focusing on US numbers and not global figures is because, as previously mentioned, the competition is further away from fully entering international markets. We will touch upon worldwide subscriber numbers later in Chapter 1.

1.2.1 – Netflix Domestic Subscriber Numbers

Netflix had a record quarter in Q1 '20 adding 15.8 million subscribers worldwide. As people stayed home amid the coronavirus pandemic, Netflix was able to more than double its original outlook of 7 million additions for the quarter. The stock shot up a few days before Netflix's earnings call as analysts had begun to expect such an announcement. The growth is undeniable, so the stock jump may be warranted. It seems these favorable numbers, however, have many turning a blind eye to what were previously concerning trends regarding Netflix's domestic subscriber count. Let us ignore Netflix's most recent quarterly performance for a second and look back on how the streaming service was faring going into 2020.

In 2019, Netflix experienced a drastic slowdown in its domestic subscriber growth. The consensus was that this trend would only continue in 2020 and beyond. **Figure 1.5** shows MoffettNathanson's estimates for Netflix right after Q4 '19 was reported.

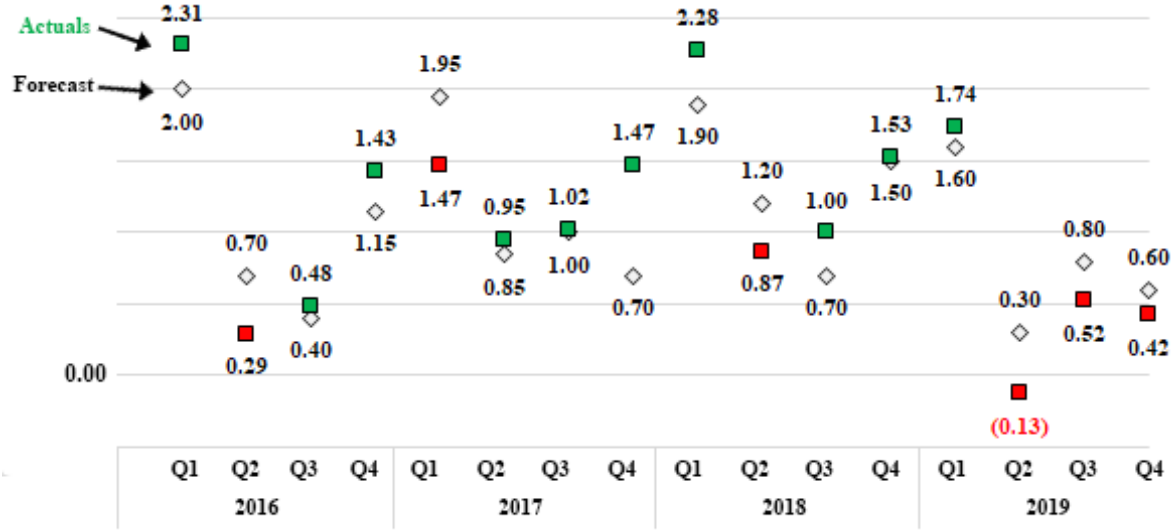
Figure 1.5 - Netflix Domestic Paid Subscriber Additions (000s)



Source: Netflix investor relation page; MoffettNathanson estimates

The concern was not only the slowdown in subscriber growth, but also the fact that Netflix was underperforming relative to its own forecasts, as seen in **Figure 1.6**.

Figure 1.6 - Netflix Domestic Paid Net Additions by Quarter (Forecasts vs. Actuals) (Millions)



Source: Netflix investor relation page

Two things stand out from these numbers: (1) Domestic net subscriber additions came in below forecasts in each of the last three quarters of 2019 and (2) Q2 '19 was the first time in eight years that Netflix lost subscribers in the US. Keep in mind that companies usually set low forecasts because they want the positive publicity that comes with beating expectations. Funnily enough, in Q4 '19, Netflix decided it would only release worldwide forecasts going forward rather than splitting domestic and international, likely as a way to mask recent disappointing domestic results.

What was the cause of these troubles? It was partly due to a price hike that happened in 2019, although Netflix has gone through price hikes in the past without having missed forecasts. Looking through analyst reports at the start of 2020 helps paint a better picture: Market saturation and looming threat of competition were starting to impact Netflix domestically. These threats had been previously underestimated. As shown in **Figure 1.7**, at the start of 2019, analysts, on average, forecasted Netflix would add 4.4 million domestic subscribers in 2020. At the start of 2020, once analysts had gotten a better sense of the extent of Netflix's market saturation and incoming competition, the analysts, lowered their domestic subscriber addition forecasts for 2020 by an average of 2.3 million – more than a 50% decrease!

Figure 1.7 – Forecasted 2020 domestic paid additions (at the beginning of 2019 vs. 2020)

Analyst/Company	**Forecasted '20 Net Domestic Paid Adds (Beg. 2019) (Millions)**	**Forecasted '20 Net Domestic Paid Adds (Beg. 2020) (Millions)**	**Difference in forecasts (Millions)**
Trefis	3.2	2.2	-1.0
Guggenheim	5.0	1.5	-3.5
JPMorgan	4.1	2.1	-2.0
Credit Suisse	4.6	1.8	-2.8
Cowen & Co.	5.0	2.0	-3.0
Morgan Stanley	3.9	2.7	-1.2
Deutsche Bank	4.6	3.0	-1.6
UBS	5.0	1.7	-3.3
Average	**4.4**	**2.1**	**-2.3**

Circling back to Netflix's Q1 '20 results: Of the 15.8 million new subscribers, 2.3 million of those subscribers were in the US and Canada. In other words, Netflix managed to add more domestic subscribers in one quarter than many analysts had predicted it would add all year. But one good quarter, should not erase previous concerns. The 2.3 million additions blew past analyst predictions, but those forecasts had been pretty significantly decreased over the course of the past year. Considering the forecasts in **Figure 1.**7, if at the start of 2019, one had told those analysts that Netflix would have a record Q1 '20, they likely would have expected that meant more than 2.3 million domestic subscriber additions – the only reason the 2.3 million seems that high is because forecasts had been significantly lowered over the course of 2019!

Going into 2019, Morgan Stanley estimated that Netflix had penetrated 60% of its total addressable market domestically. If Netflix can only add a little over 2 million subscribers in the middle of a pandemic - when many competing streaming services were yet to hit their stride or even launch - it begs the question of how much more room Netflix really has for domestic growth. As Reed Hastings said in the Q1 '20 letter to shareholders, "Intuitively, the person who didn't join Netflix during the entire confinement is not likely to join soon after the confinement."

If Netflix has saturated the market, competitors are forced to steal Netflix's market share in order to achieve meaningful growth. This should be worrisome for Netflix, because competitors have certain advantages that Netflix will have a hard time replicating.

1.2.2 – The Advantages of Disney

Disney appears to be Netflix's biggest foe. Since its launch in November 2019, Disney+ has amassed 54.5 million subscribers. While that number may be inflated by factors such as Disney+ being free for Verizon customers, those customers are also locked in for the extent of their Verizon contracts which reduces subscriber churn. Disney+ customers seem satisfied by their purchase: 72% of Disney+ users found the service to be just as good if not better than Netflix (Pipslay, 2020). Such success is bound to have some sort of impact on Netflix; Cowen & Co. (2019) estimated that Netflix lost 1.1 million subscribers to Disney+ within the first month of Disney+'s launch

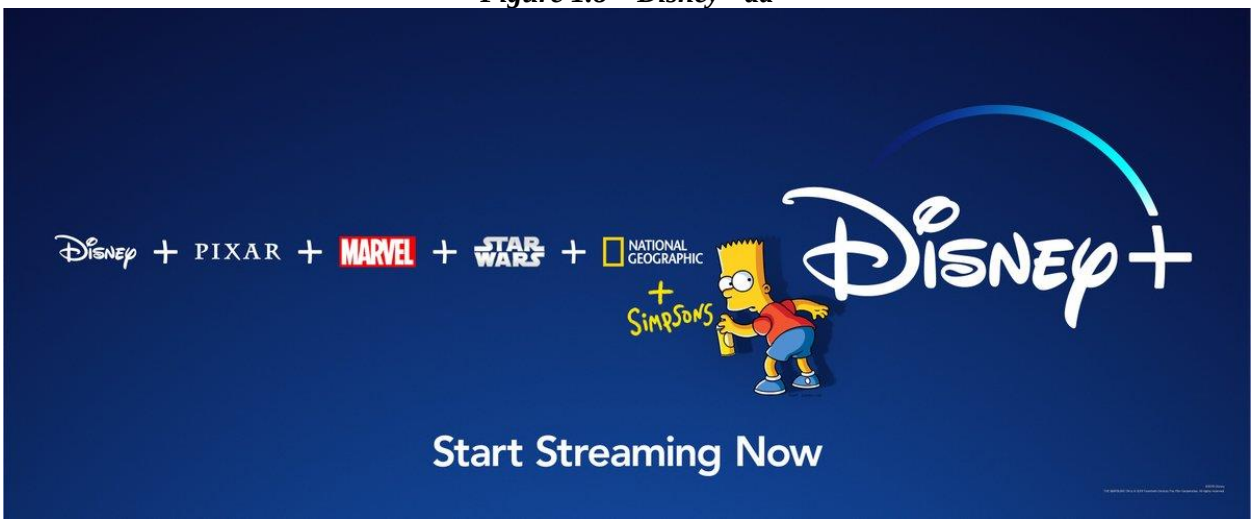
Disney holds a few advantages over Netflix.

Marketing

Disney is one of the most valuable brands in the world and the only entertainment studio to crack Brand Finance's 2020 top 25 brand value list. Disney has used its strong brand name in an all-out push to promote Disney+. Ricky Strauss, president of content and marketing at Disney+, described the marketing push as "a synergy campaign of a magnitude that is unprecedented in the history of the Walt Disney Company" (Barnes, 2019). The company spent around $250 million on marketing in the US and Canada in just the last three months of 2019 and industry insiders expect Disney will spend another $350M globally in 2020 (Rodriguez, 2019). The push has had initial success: A recent survey found that 88% of consumers were aware of Disney+, which was significantly higher than the awareness for Apple TV+ (66%), HBO Max (37%), and NBCU's Peacock (28%) (UTA IQ, 2019).

Numbers aside, perhaps Disney's biggest marketing advantage is the various different touchpoints its brands offer to consumers and the ease at which Disney can communicate these distinct offerings. The ad Disney has used for Disney+ (**Figure 1.8**) is a perfect example of this; it summarizes countless hours of Disney+ content by simply showing the logos of six of Disney's brands' - no additional messaging required.

Figure 1.8 – Disney+ ad



Meanwhile, on February 20th, when ViacomCBS revealed it would be expanding CBS All Access by launching a 'House of Brands' product, it left investors confused as to what that actually meant and what those brands are. Combined with its poor earnings, ViacomCBS' stock dropped nearly 20% that day. It goes to show how most streaming services will have a hard time matching Disney's level of brand clarity.

Low Prices

Netflix's standard plan, its most popular offering, which includes two screens and HD streaming, costs $12.99. Their premium plan, which allows users to stream on more screens at once, costs $15.99. Disney+, on the other hand, surprised consumers when it announced its $6.99 per month offering. The annual plan comes out to $5.83 per month and the three-year plan lowers the cost even further to $4.72 per month. As previously mentioned, the service is free to Verizon customers. Additionally, Disney unveiled a Disney+/Hulu/ESPN+ bundle at the same price of Netflix's standard plan. Nielsen's Total Audience Report (2020) found cost to be the top attribute consumers look for in a streaming service, with 84% of consumers listing it as one of their top two attributes. For now, Disney's offerings are winning in this regard.

Structural Advantages and IP

Unlike Netflix, which is strictly a content provider, Disney has theme parks, cruises, and a retail presence under its umbrella. To the surprise of many, only about 8% of Disney's operating income comes from their studio entertainment. It is the parks, experiences, and products that generate nearly 60% of operating income. In other words, while film and TV are being used to build its IP, it is the use of IP in other segments where the value truly lies. These structural advantages would be difficult for Netflix to replicate, especially since it has taken decades for Disney to cultivate its IP into the multi-generational classics that facilitate success in the other operational segments.

1.2.3 – Advantages of the Others

Similar to how Disney offers more than just content delivery, many of Netflix's competitors are part of larger conglomerates with diversified offerings. There are inherent advantages to operating in such a structure, most notable being that the entertainment divisions can function without having to be profit drivers. As Peter Chernin put it:

> You're talking about some of the biggest companies in the world — Google, Apple, Facebook, Amazon — who are now saying, 'We can afford to use content on what may appear to be a loss leader but will do the overall mothership so much good. And that is another huge paradigm shift' (Low, 2019b).

In the past, it was difficult to be a content distributor; technological advances, however, have made it so these conglomerates all have relatively cheap avenues into content distribution. While content is still expensive to produce (a show with *Game of Thrones*-like production quality will always cost hundreds of millions of dollars), the marginal cost per user is low considering the amount of users companies such as Amazon and Apple have on their platforms. This means companies can take a few more creative risks as not every piece of content needs to be evaluated on the basis of 'will this generate more subscriptions', but rather 'will this keep customers in my ecosystem'.

The strategy seems to be working. Prime Video's content spend was around $1.3 billion in 2014 and $6 billion in 2019. In that same period, Amazon Prime retention rates for first-year subscribers have jumped from around 80% in 2014 (CIRP, 2016) to 93% in 2019 (CIRP, 2019). This 13% difference amounts to over 10 million additional Prime subscribers. When you factor in consumer spending and the recurring revenue Amazon generates from these customers' subscription fees, that means Amazon gains tens of billions in market cap by offering Prime Video (Galloway, 2020). As Jeff Bezos said in 2016:

> When we win a Golden Globe, it helps us sell more shoes. And it does that in a very direct way. Because if you look at Prime members, they buy more on Amazon than non-Prime members, and one of the reasons they do that is once they pay their annual fee, they're looking around to see, 'How can I get more value out of the program?' And so they look across more categories — they shop more…Because we have this unusual way to monetize the premium content, we can charge less for the premium content than we would otherwise have to charge, if we didn't have the flywheel spinning to help sell more shoes. (Bezos, 2016, as cited in McAlone, 2016)

The fact that there is no 'flywheel' effect for Netflix leaves them at a disadvantage.

In summary, though analysts previously predicted Netflix could still achieve more domestic growth, it appears it is reaching saturation. To add insult to injury, Netflix's competitors, who are now putting in more of their resources to steal away Netflix's market share, have certain advantages over Netflix that could be worrisome for Netflix in the long run.

1.3 – Indirect Competition and Time Spent on Netflix

The other KPI we wanted to dig into is average time users spend on Netflix. In this section, we will explore how indirect competition (i.e., any other form of competition that is not a streaming service) affects user time on Netflix. Unlike how competing streaming services are just beginning to launch, these indirect competitors have been around for a while and thus allow us to better identify trends of how they affect Netflix.

Before beginning this analysis, it should be noted that while Netflix dismissed competition from other streaming services in the past, they have never taken competition from other forms of entertainment lightly, as evidenced by the infamous quote on their Q4 '18 earnings report, "We compete with (and lose to) *Fortnite* more than HBO." The Netflix 'Top Investor Questions' page states:

> We compete with all the activities that consumers have at their disposal in their leisure time. This includes watching content on other streaming services, linear TV, DVD or TVOD but also

> reading a book, surfing YouTube, playing video games, socializing on Facebook, going out to dinner with friends or enjoying a glass of wine with their partner, just to name a few.

Netflix's 'Long Term View' page adds: "If you think of your own behavior any evening or weekend in the last month when you did not watch Netflix, you will understand how broad and vigorous our competition is."

To properly comprehend Netflix's competition, it is important to define the market it resides in.

1.3.1 – Netflix's True Market

We will use the concepts of supply and demand substitutability to help define Netflix's market.

Supply substitutability looks at a supplier's ability to react to a change in the price or demand of a substitute good. For example, an airline carrier has relatively high supply substitutability. If they see the price of a route they do not offer has skyrocketed, that airline could shift its routes to offer the newly high-priced route and capture the benefits of those prices.

Demand substitutability looks at whether consumers have close substitutes for a product. In other words, if the price of Product A increased drastically, would the consumer be able to instead purchase Product B and be reasonably happy with that purchase?

When one defines the market solely through supply substitutability, the number of competitors one faces is limited. Film studios, for example, have traditionally had low levels of supply substitutability. While they can shift the genre of content they produce (e.g., switching to creating low-budget horror films to chase a latest box-office fad), if video games suddenly increased in popularity, film studios would have a difficult time transitioning to video game production – studio executives have production knowledge specific to film and the value of their relationships with filmmakers would not carry over. The reverse – a video game company struggling to transition into film production - also applies. Looked at from the lens of supply substitutability, a film studio's competition is then just other film studios.

However, when one defines the market from the perspective of both supply and demand substitutability, the field of competitors broadens.

In the past, movies and TV had low levels of demand substitutability. Movies, with their high production values and the benefits of the theater viewing experience, provided audiences with one of the more immersive forms of entertainment. Additionally, there were a variety of genres released on a weekly basis, so all types of consumers could be entertained, and the experience of going to the movie theaters could also be social if one desired. TV, with the advantage of being accessible at the comfort of one's home, allowed users to be entertained at their desired levels of engagement. One could get sucked into a serious drama or, conversely, have a program on in the background while multitasking. TV could be a source for news and education or a way to keep up with live sports and events. It also often ended up being the source of water-cooler conversation, especially when the Big Three networks dominated the TV landscape. So, how else were people to be entertained? By reading a book? Listening to the radio? Sure, some users preferred those mediums, but the masses found them to be inferior forms of entertainment to film and TV.

Nowadays, the demand substitutability of movies and TV has increased as there is a greater level of competition for audience's leisure time. Technological innovations have helped social media, YouTube, and video games all become viable alternatives to pass the time; it is part of the reason why TV primetime

ratings and box office ticket sales in the US have for years been in a steady decline (MPAA, 2020; Nielsen, 2019, as cited by Porter, 2019).

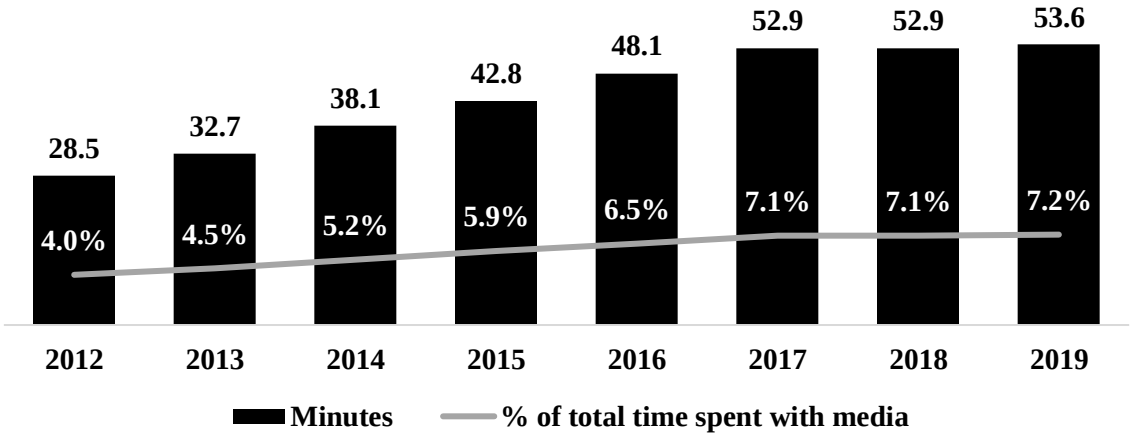
Because of the broadened competitive landscape, Netflix should no longer see itself as a film or TV producer. Instead, it should view itself as a content producer - a distinction that exposes the full extent of its competition. Netflix is competing against anybody producing content, against all other forms of entertainment, many of which are now just as, if not more, effective at entertaining audiences.

Technology and apps vying for consumers' attention give rise to the notion of the 'attention economy'. Attention is a scarce commodity, there is only so much time in the day. Since 2012 the time we spend per day with media has been consistently around 12 hours (Dolliver, 2019). In this sense, it is a zero-sum game; if a product gains someone's leisure time it usually comes at the expense of time with another product. The following sections will cover Netflix's biggest competitors in the attention economy.

1.3.2 – Social Media & The Internet

As shown in **Figure 1.9**, the average time spent per day on social media by US consumers in 2019 was about 54 minutes, nearly double what it was in 2012. Social networks now account for over 7% of people's time spent with media – more than a 3% increase since 2012 - meaning this increase has come at the expense of other forms of entertainment.

Figure 1.9 - Average time spent per day with social media in the US (minutes)



Source: eMarketer "Time spent with social networks, US"

Other countries use social media significantly more than in the US (Global Web Index, 2020) and the worldwide number of people on social media continues to increase at a drastic rate as well. It was estimated that 321 million people joined social media in 2019 (a 9% increase), bringing the global total to 3.8 billion social media users (Kemp, 2020). While streaming services battle to enter emerging markets, social media has already managed to achieve incredible penetration.

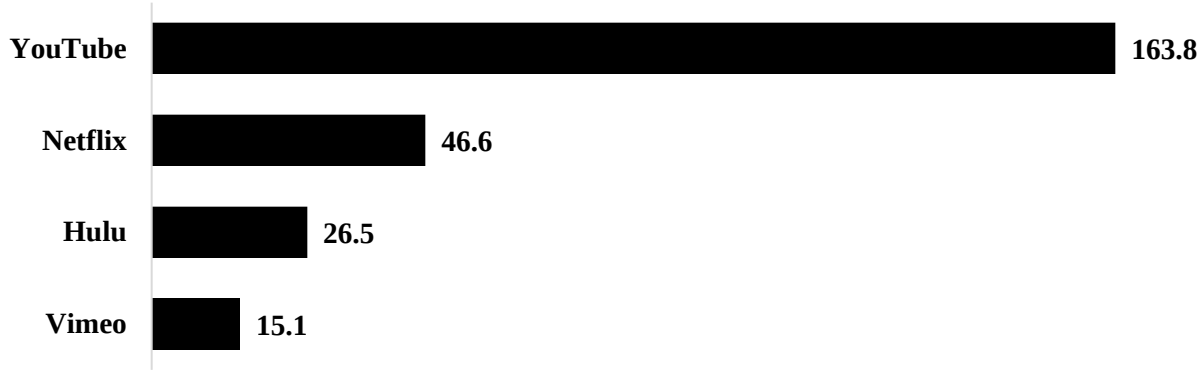
1.3.3 – YouTube

When consumers spend time on YouTube it often comes at the expense of Netflix. As Netflix revealed in their Q4 '18 earnings report, "When YouTube went down globally for a few minutes in October, our viewing and sign-ups spiked for that time."

2019 was the first time parent company Alphabet separated out YouTube revenues in its earnings report. To the disappointment of some investors, YouTube generated 'only' a little over $15 billion in revenue in 2019; reports had expected it would be closer to $30 billion (Bergen, 2020). For comparison, Netflix earned a little over $20 billion in 2019, though it is crucial to note that YouTube did not have to burn through billions in cash flow to achieve its revenues.

Revenues aside, YouTube is the most popular video streaming platform in terms of monthly average users by a fairly significant margin.

Figure 1.10 - Most popular video streaming services in the US, as of September 2019, by monthly average users (millions)

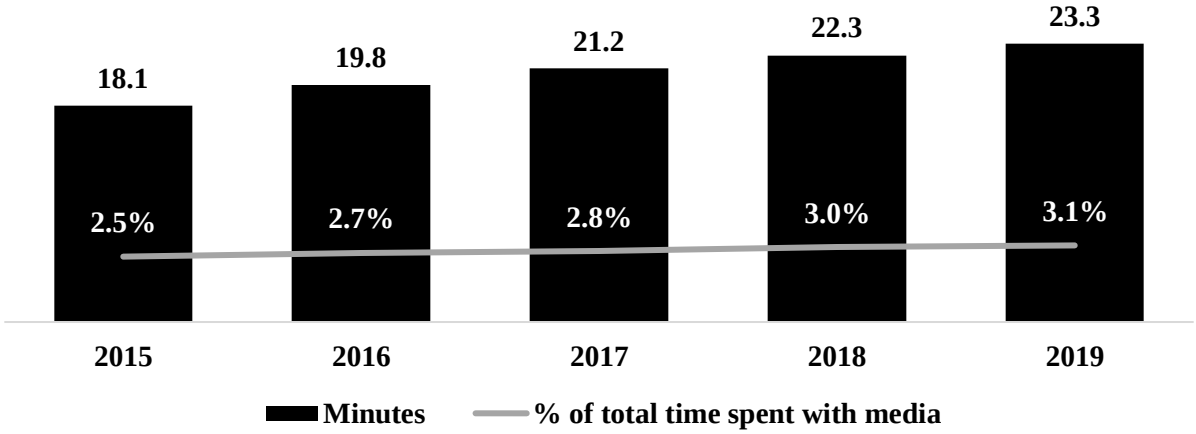


Source: Verto Analytics

The large user base stems largely from the fact that YouTube is free. The network effects of user-generated content also help: the more viewers on the platform, the more incentive for users to create content, which draws in even more viewers, and so the cycle continues. The platform has grown from having 100 hours of content uploaded per minute in 2013 (Robertson, 2015) to upwards of 500 hours per minute in 2019 (Hale, 2019); every day the platform gets over five billion views (Eizikowitz, 2018).

As seen in **Figure 1.11**, US consumers spend on average about 23 minutes per day on YouTube, which now amounts to a little over 3% of all of total time with media. For the past few years this time has been steadily increasing, almost at a consistent rate of a 1-minute per year.

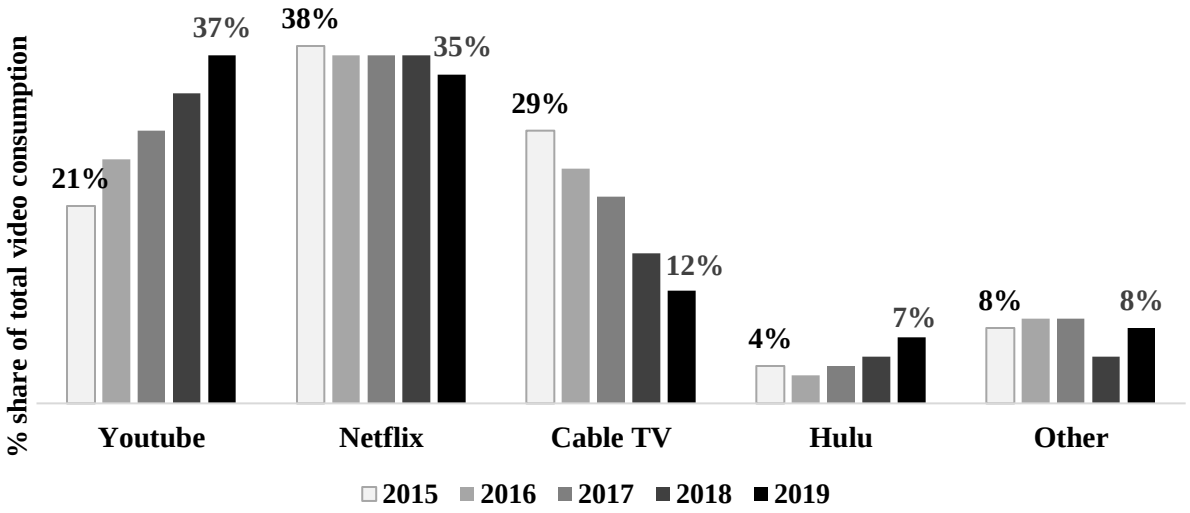
Figure 1.11 - Average time spent per day with YouTube in the US (minutes)



Source: eMarketer "Time spent with YouTube, US"

The YouTube viewing habits of teens are particularly interesting. In the past, daily time spent on YouTube was less than the time spent on TV and Netflix, which makes sense considering the short-form nature of YouTube's content. In 2019, however, YouTube overtook Netflix as teens' most used video platform per day.

Figure 1.12 - Distribution of daily video content consumption among teenagers in the US



Source: Business Wire

The consistent growth of YouTube use (and the rapid decline of Cable TV) among teens showcases how the next generation of consumers are growing up with drastically different viewing habits.

1.3.4 – Video Games

The size and reach of the video game industry is staggering. The gaming industry generates about $20 billion more in revenue than box office, home video, and digital revenues combined (MPAA, 2020; SuperData, 2020). More American homes have a video game console than a subscription to Netflix (Nielsen, 2018). In addition to all this, the rise of e-sports and live game streamers have made it so that those seeking a passive form of entertainment are still able to engage with gaming.

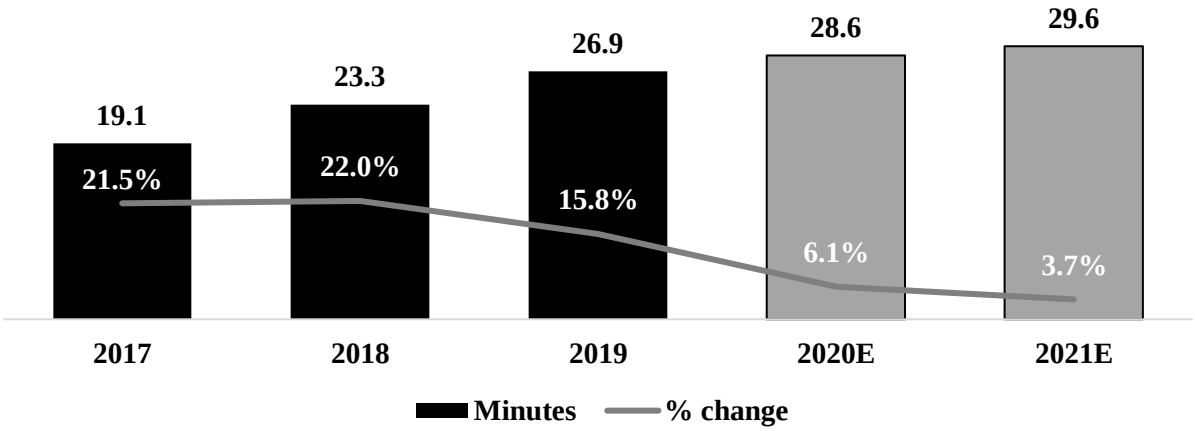
To demonstrate how direct the impact playing video games has on traditional media consumption, research Nick Yee (2005) performed a study on how MMORPG (massively multiplayer online role-playing game) players spend their leisure time. He found that MMORPG gamers spend on average 21 hours per week playing games and 7.7 hours per week watching TV. In contrast, the average time watching TV for nongamers was 28 hours per week. The study showed that time spent watching TV was directly displaced by gaming. In other words, our entertainment consumption habits are zero-sum.

eMarketer clusters gaming in with other categories in their surveys of time spent with media, so it is hard to get an apples-to-apples comparison of the average time users spend gaming in comparison to the social media and YouTube figures above; other sources estimate that on average gamers in the US spend around one hour per day playing video games (Limelight, 2020; Nielsen Games, 2019). The averages increase significantly in younger demographics with teenage gamers playing an average of 2 hours and 52 minutes of video games per day (Common Sense Media, 2019).

Gaming will only continue to increase in popularity as gaming subscriptions such as Apple Arcade and Microsoft's Game Pass provide users with a greater quantity of gaming content at low prices.[2]

How are these forms of media forecasted to grow in the coming years? Estimates have them growing at similar rates as they have in the past. How does this affect Netflix? As seen in **Figure 1.13**, average time spent by users on Netflix is similarly forecasted to continue to grow. Though that growth looks to be slowing, it is growth nonetheless.

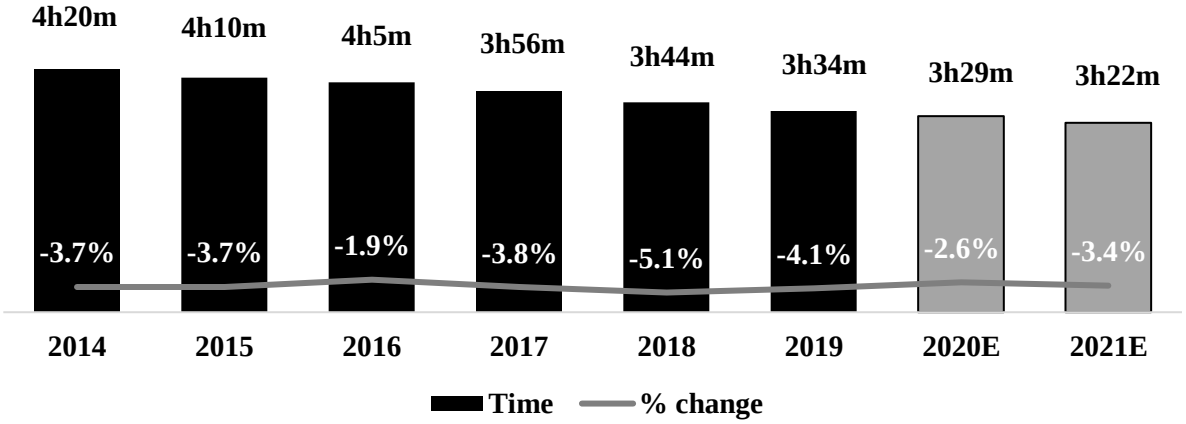
Figure 1.13 - Average time spent per day with Netflix among US adults (minutes)



Source: eMarketer "Time spent with Netflix, US"

It seems like the time spent with all forms of media is expected to continue to grow, but there is actually a big loser in all of this: TV. As seen in **Figure 1.14**, the average time spent watching TV has been steadily declining for the past few years and is expected to continue to do so.

Figure 1.14 - Average time spent per day with TV among US adults* (hours, minutes)



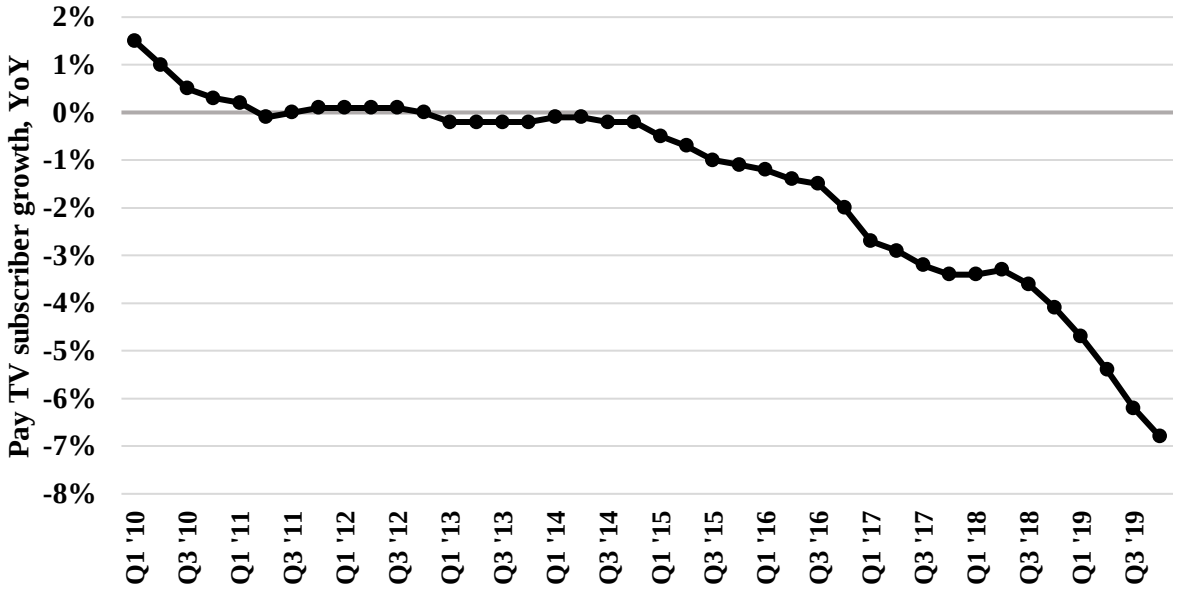
Source: eMarketer "Time spent with TV, US"
**Includes time spent on Netflix and other streaming services accessed through TV*

[2] Chapter 5 will discuss these services, along with the gaming industry as a whole, in much greater detail.

Not only has TV viewing time declined, the percentage of TV time spent on streaming services (e.g., watching Netflix on one's TV) has increased; that number went from 10% in 2018 to 19% in 2019 (Nielsen, 2020). In other words, it is cable TV that is taking a massive hit.

Supplementing this decline in cable TV viewing has been cord cutting rates. The pay TV penetration of US households at the start of the decade was 87.4%, but it has now fallen to 65.3% (Shaw, 2020). As shown in **Figure 1.15**, Pay TV companies are losing subscribers at faster rates than ever before.

Figure 1.15 - Pay TV subscriber growth, excluding vMVPDs



Source: Lucas Shaw 'Hollywood Torrent' newsletter

All of this leads me back to the original question: Is Netflix in trouble? The answer, I would say, is no. Not yet, at least. When looking at the KPI of time spent with Netflix, though Netflix faces plenty of indirect competition from other forms of media (especially with younger viewers), Netflix should continue to be able to gain viewer time at the expense of traditional TV (and print media). As for the KPI of subscriber growth, while Netflix may have reached a point of saturation in the domestic market, as **Figure 1.16** shows, there is still plenty of room for international expansion.

Figure 1.16 – Netflix market penetration

Region	Netflix 2019 Market Penetration	Netflix 2025 Market Penetration Estimate
US and Canada	55%	62%
Latin America	39%	53%
EMEA	19%	41%
Asia-Pacific	11%	25%

Source: Stifel, 2020, as cited by Levy, 2020

But what happens in five to ten years' time? This is where I worry. Eventually, Netflix will be in the same position internationally that it is currently facing in the domestic market: It will have reached a point of saturation and its competitors will be fighting to steal some of its market share. Some may argue that the fragmentation of the international marketplace makes it more difficult for competitors to catch up to Netflix internationally, especially considering Netflix's head start. While I could see this being true for

smaller companies like ViacomCBS, I do not think this logic applies for larger companies like Amazon, Apple, and Disney. Just look at how Disney, which had forecasted reaching 60 million to 90 million subscribers worldwide by 2024, has nearly reached those numbers within a month of entering the global marketplace. These companies are international conglomerates, with brand names that are recognizable worldwide. Soon enough they will shift the focus of their streaming services to international expansion, which will result in Netflix losing subscribers worldwide. Parallel to this, by that time, Netflix will be close to hitting a saturation point in terms of the user time it can steal away from traditional TV and print media; streaming services and other forms of digital media will have to start cannibalizing on each other for continued growth.

If you think these concerns are overblown, I remind you that it was Netflix's foresight to pivot into streaming in 2007 and original content production in 2011 – moves which many found nonsensical at the time - that led it to achieve market leading position in 2020. Without forward-looking thinking and innovation, you end up like Blockbuster, whose CEO Jim Keyes said in 2008, "Neither Redbox nor Netflix are even on the radar screen in terms of competition."

In many industries being the market leader with competitors fighting to steal market share is a fine position to be in. However, the ease at which consumers have to switch between streaming services makes it hard for these companies to build sustainable competitive advantages. Most streaming subscribers are on monthly plans which they can cancel at any time; in a matter of clicks, they can switch from one service to another free of charge. In that case, it is theoretically possible that if Netflix releases a string of misses for a month, and, say, Disney+ is slated to release its biggest hits that month, there would be an exodus of Netflix subscribers to Disney+ for that period. Having the potential to suffer such volatile returns based on factors outside of a company's control (e.g., unpredictable audience taste or quality of a movie) seems like a horrible business; it is exactly what film studios endured in the past and now aim to steer clear from by making safer films like sequels, remakes, and reboots, whose returns are more predictable.

Some may strategize that Netflix can avoid these issues and remain at the top solely by focusing on making the best content. The next section will discuss why that is a faulty argument and why Netflix should instead be focused on creating more sustainable competitive advantages.

1.4 – Sustainable Competitive Advantages

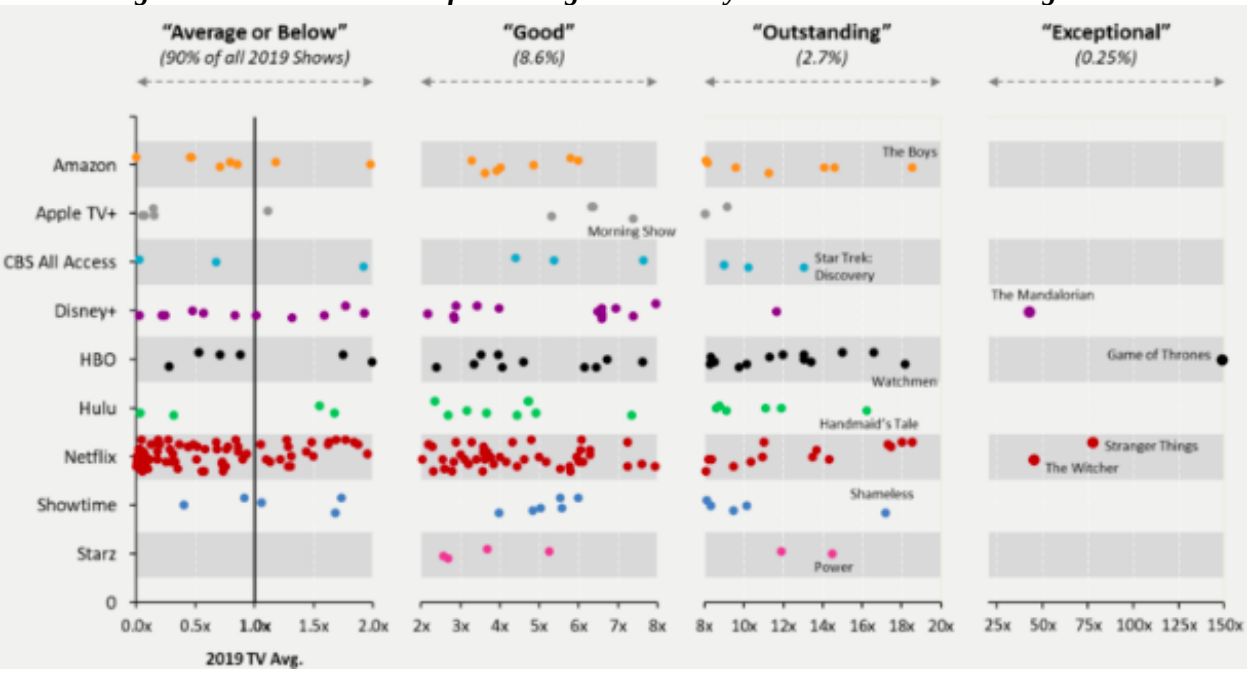
1.4.1 – The Content Trap

Content plays a crucial role in drawing and keeping users on a streaming service. Loss of content is the top consumer frustration with streaming services, according to Deloitte's "Digital Media Trends" survey (2019). In Nielsen's "Total Audience Report" (2020), 79% of consumers listed variety and availability of content as one of the top two attributes they look for in a streaming service. Younger consumers are especially swayed by content when deciding their streaming platform of choice: 61 % of consumers between the ages of 18-29 said they have switched streaming services exclusively to watch a specific show (Morning Consult, 2019).

While content is important, it cannot be looked at as a competitive advantage. When an entertainment company starts believing it can win in the media world purely through the quality of its content it has fallen prey to the 'content trap'. The term was coined by Harvard economist Bharat Anand in his 2016 book of the same name. Anand argues that this belief is a fallacy and I would tend to agree.

First, let us look at how unpredictable the success of content can be. **Figure 1.16** shows the distribution of 2019 original series by demand relative to the average show. The demand is calculated using data from Parrot Analytics, which tracks online traffic about a show – ranging from sources including search engines, social media, streaming traffic, and even piracy downloads – from over 2 billion users. The data is then weighted based on intentionality of the traffic (e.g., a full stream of a show is worth more than a google search of it) to determine the popularity of the show. It is not a completely perfect system, but it is a good proxy to gauge the demand of a series.

Figure 1.17 – Distribution of 2019 original series by demand relative to average show



Source; Ball, 2020c

What we see is that the popularity of these shows is pretty random. Sure, some companies may lean in a certain direction based on the company's development strategy (e.g., Netflix aims to have the largest content library so the company is okay sacrificing a bit of quality in favor of quantity and HBO wants to be known for prestige content so it can be more patient in its development approach), but overall most companies end up performing at around the same level.

This is not to say that these companies should not be striving for good work processes that maximize the potential of their content, but simply that most companies end up reverting back to the mean. There are too many variables at play for any studio to ever be able to guarantee the success of its content.

Knee et al., in their 2011 book *The Curse of the Mogul*, looked at the performances of the major studios and concluded similar results about these companies reverting to the mean. They analyzed the market shares of these studios from 1988 through 2006 and found that on average, only about 5 percent of the majors' overall market share changed hands between them during this time period (p. 115). Their market shares could be extremely volatile (which led to very poor returns), but, overall, they would almost always end up equalizing each other out. Knee et al. concluded that this was due to entertainment studios often not having meaningful competitive advantages. Film studios like to brag that they have better relationships with talent than their competitors, but Knee et al. would push back and say that the competition between studios push talent fees up to the point where too much financial value is lost. As streaming services compete with each other for A-list talent, fees for creators like JJ Abrams, Ryan

Murphy, and Shonda Rhimes get pushed into the nine-figure territory. It goes to show that these relationships are not competitive advantages, but simply a service a studio must pay market price for.

Netflix was by far the most profitable media stock of the past decade. The content on Netflix certainly helped, but the main reason for its success was the fact that it was the first to enter into a market that incumbents (for various reasons, including technological limitations) were slow to get into. As incumbents have figured out the technology and are now beginning to enter the streaming space, Netflix must find itself a new sustainable competitive advantage.

As we have discussed, content creation is not a true competitive advantage. The hit-and-miss nature of the film industry often leave studios with erratic and unpredictable returns. It is what caused Bob Iger, when he took over Disney and analyzed former Disney distribution labels Touchstone and Miramax, to proclaim, "That's an awful business. Awful," (Fritz, 2018) before moving the studio almost exclusively in the direction of franchise blockbusters (intellectual property *is* a competitive advantage!).

In the era of streaming, the misses may not have as direct an impact on a company's bottom line, but they can have a direct impact on subscriber count and churn. After failing to meet subscriber addition forecasts in Q2 '19, Netflix's earning report explained the misfire by saying, "We think Q2's content slate drove less growth in paid net adds than we anticipated…Q3 has started with *Stranger Things* season 3, and the first two weeks of Q3 are strong" (note: they missed forecasts in Q3 as well). To be reliant on content, whose success and popularity is so out of one's control is a trap

Yes, content may still be king, but since it cannot help you establish a sustainable competitive advantage it means it cannot be relied upon to build a kingdom.

1.4.2 – Building a Moat

In *Zero to One*, Peter Thiel and Blake Masters (2014) write, "All happy companies are different: each one earns a monopoly by solving a unique problem. All failed companies are the same: they failed to escape competition" (p. 34). All companies, in other words, should be striving to operate in monopoly. Not to the extent where the company faces legal regulations, but to the point where it does not have to constantly worry about the competition; in an industry with perfect competition, price wars will always erode true profitability. There is a stigma around the idea of monopolies, but sometimes they make consumers' lives better. Companies facing competition are focused on making sure their short-term profits are greater than their competitors'; monopolies, on the other hand, have the luxury of not constantly looking over their shoulder and thus have the freedom to innovate for the future.

Monopolies all have some sort of moat that stops competitors from encroaching on their market position. Some of those moats include:

1) Proprietary technology – E.g., some sort of patent that stops competitors from recreating one's product.

2) Economies of scale – I.e., spreading out your fixed costs over a greater quantity of sales, making it hard for smaller competitors to enter the market.

3) Network effects and switching costs – I.e., having a product's utility increase with the more people that use it and having consumers incur a cost (often times non-financial) to switch to a competing product.

The competing forms of digital media we discussed in Section 1.3 have done a great job making use of network effects and switching costs. In regards to social media, the fact that one's friends were on Facebook meant that there was no reason to join Google+. When people upload their pictures on the site it creates a switching cost as people would have to reupload all those pictures to join a different network. YouTube, as we previously mentioned, benefits from the network effects of user-generated content. The more users that upload videos, the more reason for consumers to browse the platform, which means there are more viewers to incentivize content creators. When someone uploads videos or subscribes to multiple channels it creates a cost to switch to a different platform. In gaming, when one's friends are playing a game it creates more incentive for that user to join. More users playing at once means more people to compete with and so the game grows in popularity. When one gets good at the game there is the switching cost of learning a new game and giving up the skills acquired in the current game. Additionally, consumers sometimes spend money on a game to improve their characters or avatars and they do not want that investment to go to waste.

Netflix has never been able to accomplish such effects. Sure, it is great for users to have others watching the same shows so they can have conversations around the content, but the content does not actually get better if it has more viewers.[3] As for switching costs, one could argue that a cost of switching services for Netflix users would be losing the Netflix recommendation algorithm, which potentially has years of data on users. If there was a great show on a competing service, however, would consumers really avoid switching services purely because the other recommendation algorithm would fail to be as effective?

In the past, cable TV benefitted from high switching costs. Users would have to physically return their cable box, wait for a provider to install their new service (which could sometimes take weeks), and potentially be left without internet while they wait. None of that applies with streaming; a consumer can cancel a service online and have a new streaming service within minutes at no extra cost.

I believe the reason streaming services have not been able to make use of network effects and switching costs is that they are still obeying traditional limitations of film and TV creation. In the past, studios would create content that would be watched on one medium, for consumers that could not interact with the content. Nowadays, storytelling universes can be created that transcend mediums (e.g., it is common for a movie universe to be expanded into a TV show), the content can be seamlessly watched across mediums (e.g., one can be watching a TV show on his or her computer, then switch to watching it on his or her phone if he or she needs to be on the go), and the mediums have the capability to incorporate interactivity and social connectivity within their platforms. These are the affordances of having a DTC platform - a streaming service like Netflix should be making better use of them in order to improve the user experience.

In later sections we will see how other forms of digital media have used their affordances successfully, often to build moat-like competitive advantages, and how Netflix can implement some of these features on their own platform. Before doing that, however, it is important to understand why users go to these platforms in the first place - in other words, why we seek entertainment. By having a better understanding of what audiences are looking it becomes much easier to develop content and a platform that successfully engages users.

[3] Maybe more viewers means the budget of a show increases, but it is not always a certainty that the content will improve.

Chapter 2 – Uses and Gratifications Research

We will be looking at why audiences consume media through the paradigm of uses and gratifications theory (UGT). UGT proposes that consumers actively seek out media to gratify certain wants and needs. For example, if someone has a long day at work he or she may decide to watch a sitcom for emotional release. Or maybe one is looking to get information on the latest political debates so he or she turns on the news. Essentially, a user's internal needs initiate the desire to seek out media in order for the user to gratify those needs.

As we will see in this part, studies have shown that the more effective media is at providing a gratification the more likely a user is to spend time with and return to that form of media. We will also see that there are some core gratifications that consistently arise in U&G research. In other words, some of the reasons people turn to media have remained constant over time and across mediums - we will refer to these as the fundamental gratifications. While new technologies have the potential to alter existing or induce new gratifications (think social networks enhancing our desire to status seek) and change the primary gratification we obtain from a medium (think the rise of TV shifting radio from being a source of entertainment to becoming primarily a source of news), the fundamental gratifications continue to emerge in U&G research.

In the past, most mediums had to prioritize providing certain gratifications over others because of the limitations of the medium. For example, TV wasn't interactive so it could never gratify the need for achievement and competition in the same way a game could. I believe that advances in technology and the convergence of mediums have made it so that media today has the potential to better gratify more needs through singular platforms. By understanding the fundamental gratifications, Netflix – as a DTC streaming platform - has the potential to provide more of these gratifications since they don't face the same limitations that traditional forms of entertainment do.

Before determining the fundamental gratifications it is important to go through an overview of UGT to explain its validity.

2.1 – Overview of Uses and Gratifications Theory

2.1.1 – Brief History of UGT

Traditionally, communications research was focused on the negative consequences of media - how people, often unknowingly, are affected, and at times even manipulated, by their exposure to media. This pessimistic perspective stems from the fact that said research was driven by mass society theory and the fear of propaganda that was common in the early and mid-20th century. Under a mass society ideology, the elites persuade and control society through mass media (McQuail, McQuail's mass communication theory, 2005). Media research thus focused on how media is used to manipulate its audience.

For these reasons, research in the field was funded by those who had something to gain from understanding media's impact on society. Government agencies performed studies on topics such as the effectiveness of political propaganda and the impact of dramatized violence; the ad industry explored ad effectiveness and found more effective methods for measuring audience size. Audiences were seen as passive and nobody stood to gain from research on why consumers sought out media in the first place. As a result, little research was done on the topic.

Herta Herzog was one of the first researchers who focused on media from an active-audience perspective (i.e., focusing on what people do with media, rather than what media does to people). In 1944 she

interviewed 100 radio soap opera listeners and identified that listeners obtained three major types of gratifications from the show: emotional release, the opportunity for wishful thinking, and receiving advice from the show. The communications community, however, viewed this type of research as inferior: How could scientific rigor be applied to such subjective audience responses? Aren't the gratification groupings that Herzog identified just arbitrary categories that she created?

It wasn't until the 1960s and 1970s, when TV established a dominance in the media landscape, that active-audience approaches to media research began to gain traction. Baran and Davis (2013), identified three factors in particular that led to the rise of U&G research:

1) In the 1970s, a new generation of media researchers began specializing in new survey and data analysis techniques which allowed for more systematic and objective methods for understanding consumer motivations for seeking media. These researchers maximized the potential of these methods through computer resources, which were becoming more widely available at that time.

2) Research began to emerge that showed consumers that watch content intentionally (i.e., they actively choose it) process it more effectively than when they watch it incidentally; this idea later came to be known as intentional exposure theory (Lord & Putrevu, Advertising and publicity: an information processing perspective, 1993). It is why students often don't enjoy books they're assigned, even though there's a chance they would have enjoyed them had they actively sought them out. These sorts of findings make researching active-audience perspectives more worthwhile.

3) Researchers were growing tired of focusing exclusively on the negative effects of media. Source-dominated media theories assume the consumer is passive and, in many ways, lacks control. Audience-centered perspectives, on the other hand, are more optimistic about a consumer's relationship with media. One can see why the latter would be a more enticing field of research.

The findings from U&G research in the 1970s and early 1980s were predominant in the field for quite some time. More recently, UGT experienced a revival of sorts with the changes in media that the internet brought about.

2.1.2 – Assumptions of UGT

Katz et al. (1973-1974) - some of the pioneers of U&G research – stated that UGT rests on five assumptions:

1) "The audience is conceived of as active, i.e., an important part of mass media use is assumed to be goal oriented." The exact definition of an 'active' audience is up for debate (more on this later). As Blumer (1979) writes, "[the] active audience had conflated an extraordinary range of meanings … [including those of] utility (using media to accomplish something), intentionality (choosing media based on prior motivations), selectivity (choosing media based on interests and preferences), and impervious to influence (constructing your own meaning from media)." No matter the exact terminology, at the core of these definitions is an audience that can make the decision to consume one form of media or piece of content over another - e.g., choosing to watch Netflix over spending time on social media, choosing to watch a comedy over a drama, etc.

2) "[The] initiative in linking need gratification and media choice lies with the audience member." In other words, audiences are not only active in choosing media, but also autonomous in regards to the effects it will have on them. As Schramm, Lyle, and Parker (1961) write about children and TV, "the term 'effect' is misleading because it suggests that television 'does something' to

children … Nothing can be further from the fact. It is the children who are most active in this relationship. It is they who use television rather than television that uses them." The same logic applies to all audience members.

3) "The media competes with other sources of need satisfaction." That is, media doesn't only compete with media when it comes to user gratification. If one is seeking information on politics he or she could, for example, satisfy that need through watching the news or reading a newspaper. It is also possible, however, that a conversation with a friend provides one with the political information one was seeking, thus eliminating one's desire to watch the news.

4) "Methodologically speaking, many of the goals of mass media use can be derived from data supplied by individual audience members themselves." In other words, people can provide researchers with an accurate assessment of their media use and motives for that use.

5) "Value judgments about the cultural significance of mass communications should be suspended while audience orientations are explored in their own terms." That is to say, it should not be up to a researcher to place judgment on whether something the viewer is watching gratifies a need. For example, a researcher may find reality TV harmful to a consumer, but if the consumer obtains some sort of gratification from it then the researcher's point of view is irrelevant. Audiences are free to derive their own interpretation of content, which ultimately influences the purpose that the content serves.

2.1.3 – Criticisms of UGT

The above assumptions lead to a few criticisms of UGT, including:

- Many key components of UGT are unmeasurable. First, some subjects may be dishonest in their reporting – they may feel ashamed about the total time they spend consuming media and choose to underplay it. Second, even if subjects were completely honest, the research is still relying on self-reports. Like all self-reported data, there is bound to be some inherent inaccuracies, especially when measuring the extent to which a gratification is obtained.

- Gratifications are heavily dependent on input by researchers rather than the subjects. Though progress in survey methods allow for more accurate results, the researchers still play a heavy role in the synthesizing of the data.

- UGT downplays media effects, all the while giving too much credit to the individuals. Critics would argue, in other words, that by assuming audiences are active and autonomous, UGT doesn't take into consideration the impact media has on its audience. For example, if a consumer is reading a fashion magazine, is he or she doing so because they had an inborn need to gratify? Or was this need the effect of mass media pushing the fashion industry until it became a 'need' for consumers? A sort of chicken-and-egg situation emerges, with dissidents of UGT arguing that what are believed to be sought-out gratifications are actually just manipulations by mass media.

- Audiences may be less active than UGT perceives them to be. Media is often forced upon audiences. Other times, audiences simply go through media on "automatic pilot" without being deliberate in what they consume.

These criticisms boil down to (1) the lack of objective measurability in this type of research and (2) disagreements over audience activity levels.

In regards to the measurability of U&G research, it is a weakness that I acknowledge, though I don't feel discredits the theory. Though gratifications may be somewhat dependent on input by researchers, by looking at various UGT studies we should be able to examine commonalities in their findings to get a sense of gratifications that are more universal.

As for audience activity levels, we can combat these criticisms by understanding recent trends in media consumption habits. We will need to take a quick detour to look at consumers' evolving relationship with media in order to grasp just how active audiences have become.

2.1.4 – Consumers' Evolving Relationship with Media

It was only a little over four decades ago that just three big networks dominated the TV landscape and only one decade ago that audiences had little flexibility in deciding when and where they would watch content. To highlight how consumers' relationship with media has changed in recent times, it is worth exploring two terms: (1) convergence culture and (2) participatory culture.

Convergence Culture is a theory coined by Henry Jenkins, a famed media scholar and former head of the Comparative Media Studies program at MIT, in his 2006 book of the same name. Underlying the theory is the belief that there has been a shift in the way audiences consume media. Content now flows across different media platforms (instead of being on just one medium) and audiences have the ability to and are content with migrating between platforms to seek the type of entertainment experience they desire.

Some key elements of convergence culture include:

- Collective intelligence: A term introduced by Pierre Levy in 1994. It refers to the idea of a shared intelligence that stems from the collaboration of individuals in a community. As Jenkins argues in *Convergence Culture*, media consumption has become a process where virtual communities work together towards being able to make meaning of content. A typical example of this would be fan forums, such as the reddit page for *Game of Thrones*. At the start of 2020, it was the most popular reddit page in terms of subscribers (Murphy, 2019) and, as of April 13th, has 2.4 million members. Before the show's finale, members used the subreddit to speculate and post theories in order to collectively decipher the show's plotlines. Participation in collective intelligence doesn't necessarily have to involve actually posting on a message board. Those who are 'lurking' on a forum or reading an article about the show are still reaping the benefits of the collective intelligence and thus part of the community in their own way (it is worth noting that they would have little difficulty posting something if they decided to do so). The internet has made the process of participating in the collective intelligence more commonplace. This is especially true for younger viewers as they have grown up with collective intelligence privileges that previous generations of fan communities didn't have. In fact, 51% of millennials cited often going on Wikipedia to learn more about a show's topics or characters and 47% of millennials cited looking up spoilers for the following week's episode of a TV series (Video Advertising Bureau, 2018). The numbers may not seem significant to some, but they underscore the ease at which new generations can participate in fandom.

- Transmedia storytelling: Jenkins (2007) defines transmedia storytelling as "a process where integral elements of a fiction get dispersed systematically across multiple delivery channels for the purpose of creating a unified and coordinated entertainment experience." In an ideal world, each delivery channel maximizes the unique qualities of its medium (e.g., the visual elements in a film, the elements of interactivity in a video game, etc.). The *Star Wars* franchise is a great example of transmedia storytelling excelling in today's media landscape. Audiences now get to

enjoy *Star Wars* films, spin-off TV series like *The Mandalorian*, and video games like *Star Wars Jedi: Fallen Order*. Each of these pieces serve as a different entryway into the *Star Wars* universe and audiences are content switching between delivery channels to get their desired entertainment experience. We will dive further into transmedia storytelling in Chapter 4.

- Participatory culture, which is important enough in this context to warrant additional attention below.

Participatory Culture is another term coined by Jenkins in *Convergence Culture*. The idea refers to a culture in which individuals not only consume media, but also participate in the creation and distribution of it. As Jenkins defines it in his 2006 blog post 'Confronting the Challenges of Participatory Culture', a participatory culture is one:

- With relatively low barriers to artistic expression.
- With strong support for creating and sharing one's creations with others.
- With some type of informal mentorship whereby what is known by the most experienced is passed along to novices.
- Where members believe that their contributions matter.
- Where members feel some degree of social connection with one another (at the least they care what other people think about what they have created).

Participatory culture doesn't necessarily focus on determining the exact level of audience activity, but instead highlights consumers' expectation of having the opportunity to participate. Not all consumers will be contributors, but many consumers now expect that if they choose to participate content will be easier to share, that they can play a role in shaping content, and that there will be easily accessible communities to discuss the content with. Media, in many ways, is now here to serve consumer interests as opposed to being a one-way street where producers feed content to consumers. As Jenkins (2006) put it, "Rather than talking about media producers and consumers as occupying separate roles, we might now see them as participants who interact with each other according to a new set of rules that none of us fully understands" (p. 14).

American Idol is a great example of participatory culture in action. By getting to vote on the winners, audiences can influence the outcomes of the show rather than simply being guided through content by a show's creator. YouTube videos are another example, since creators often use fan comments for ideas on topics for subsequent episodes.

Fan fiction and user-generated content, which have become more commonplace through the internet, are other areas where participatory culture exists. These user-created works may be sponsored by the show or simply developed by a user on their own. It is undeniable, however, that this content can find its community easier than ever before and as a result it impacts the consumer-media relationship. "Relations between producers and consumers are breaking down as consumers seek to act upon the invitation to participate in the life of the franchises," notes Jenkins (2006, p. 31).

More than ever before, media creators are listening to consumers and even subverting viewer expectations of what the consumer-media relationship can be. For example, when fans bombarded the reddit page for *Westworld* with theories trying to debunk the plot of season two before it aired, creators Jonah Nolan and Lisa Joy held an AMA ('ask me anything') where they announced they would post a video containing all the season spoilers so that those who wanted to have the knowledge upfront could watch the video without spreading misinformation based on their fan theories. The post ended up being a joke by Nolan

and Joy, but it demonstrates that creators have taken notice of their viewing community, which can potentially influence the way in which content is developed.

All of this is not to say that every consumer is always an active one. Majority of audiences are still satisfied watching something without feeling like they have to take part in it. However, as Jenkins et al. (2013) write:

> even those who are 'just' reading, listening, or watching do so differently in a world where they recognize their potential to contribute to broader conversations about that content than in a world where they are locked out of meaningful participation. (p. 154-155)

Quite simply, consumers have recognized that their relationship with media doesn't always have to be as passive as it once was.

Hopefully this section has sufficiently demonstrated that consumers have shifted towards the more active end of the spectrum in regards to activity level. As Sundar and Limperos (2013) discuss in their paper 'Uses and Grats 2.0', what we formerly referred to as the 'audience' is now referred to as 'users', and by definition being a 'user' implies "volitional action, not simply passive reception." Not all audience members will actively post on a show's message board or create fan fiction, but the ease of access to do so has changed audiences' expectations for how they can connect with media. Even on a simpler level, it is hard to disagree that the advent of streaming – with features like video-on-demand, extended content libraries, and the opportunity to interact with content – has placed users more in control and made them more active decision makers when deciding between Netflix versus other streaming services or forms of entertainment.

UGT's assumptions of an active and autonomous audience are more valid than ever before. This undermines the strongest criticisms of UGT and makes UGT the best approach for understanding why we consume media.

2.2 – Uses and Gratifications Research in Relation to Different Mediums

The question then becomes: What are the gratifications we seek to obtain from media? This section looks at the most accepted U&G research in relation to TV, the internet, video games, and social media. We will ultimately see that there are some fundamental gratifications that consistently emerge across mediums.

2.2.1 – TV

McQuail et al. (1972) believed that the notion that audiences simply seek TV for 'escape' was overly simplistic. They sought to understand what the term 'escape' implied and uncover other motives to explain why audiences watched TV. They surveyed audiences to see what gratifications these audiences obtained from different types of TV programs (e.g., game shows, soap operas, etc.) and found the results could be clustered into the following gratifications:

1) Diversion: to escape from routine or problems; an emotional release
2) Personal relationships: for social utility for conversation; companionship through media
3) Personal identity: for value reinforcement or reassurance; self-understanding
4) Surveillance: to seek information about things which might affect oneself or will help one do or accomplish something

McQuail (1983) later slightly altered the terminology into:

1) Entertainment: to escape; relax; fill time; emotional release
2) Integration and social interaction: for social empathy; sense of belonging; to find a basis for conversation
3) Personal identity: for reinforcement of values; to find models of behavior; to gain insight into oneself
4) Information: to find out about news and events; to learn; to satisfy curiosities

Katz et al. (1973) developed thirty-five human needs that came from literature on social and psychological functions of mass media and classified them into five meaningful groups:

1) Cognitive needs: to acquire information, knowledge, and understanding
2) Affective needs: for emotional pleasure or an aesthetic experience
3) Personal integrative needs: to strengthen credibility, confidence, stability and status
4) Social integrative needs: to strengthen contact with family, friends, and the world
5) Tension release needs: for escape and diversion

Through surveys, they found that different media satisfy these needs to different extents (e.g., TV released tension more effectively than books; books were more effective for cognitive needs than TV).

Rubin (1983) found that there were two types of television users: those who use TV for entertainment and those who use it for information seeking. Within those two user types there were nine motives for watching TV:

1) Relaxation: to unwind; rest
2) Companionship: to feel less lonely
3) Habit: just because it is there
4) Pass time: something to occupy oneself with
5) Entertainment: it is enjoyable; amusement
6) Social interaction: to be with others while watching TV; a basis for conversation
7) Information: to learn about self and others; education
8) Arousal: it is exciting
9) Escape: to forget or get away from what one is doing

Among other findings, he discovered that time spent with and affinity towards TV increases if one experiences entertainment, passage of time, and companionship when using TV.

2.2.2 – The Internet

Pacharissi and Rubin (2000) surveyed college students on their internet use and found the following motives for internet use:

1) Interpersonal utility: to participate in conversations; help others; see other viewpoints
2) To pass time: for when one is bored or has nothing better to do
3) Information seeking: for research; free source of information
4) Convenience: it is an easy way to communicate with others; it is cheap
5) Entertainment: it is an enjoyable activity

It is worth pointing out how convenience in this case was primarily convenience in communicating with others (e.g., "it is easier to e-mail than to tell people", "People don't have to be there to receive email") – in other words, social convenience.

2.2.3 – Video Games

Sherry et al. (2006) conducted focus groups to understand why people play video games. Their analysis resulted in six 'dominant dimensions' of gaming:

1) Arousal: to stimulate emotions of fast action and high-quality graphics
2) Challenge: to push oneself; for personal accomplishment; to beat a game
3) Competition: to show your skills are better than your opponent's
4) Diversion: to escape from stress; relax; pass the time
5) Fantasy: to able to do something you cannot do in real life
6) Social interaction: to interact with friends and learn about others

They also concluded that these variables were strong predictors of time spent playing video games – the more users obtained these dimensions, the more they played.

Yee (2007) surveyed over 3,000 users of MMORPGs to determine gamer motivations. His analysis revealed 10 subcomponents of motivation that grouped into 3 overarching components:

1. Achievement: for competition; advancement in the game; optimizing character performance
2. Social: to establish and maintain relationships; teamwork
3. Immersion: to discover things other players hadn't; role-playing; customizing characters; escapism

2.2.4 – Social Media

Park et al. (2009) surveyed nearly 2,000 college students to determine the gratifications they obtained from using Facebook Groups. Their findings revealed four reasons for participating in Groups:

1. Socializing: to get support from people; meet new people; belong in a community
2. Entertainment: it is entertaining, funny, and/or exciting
3. Self-status seeking: to look cool; peer pressure
4. Information seeking: to get information about ongoing events; to learn about products

Ku et al. (2012) compared gratifications obtained from social networks, instant messaging, and email to see if they could find general gratifications that applied for all three forms of communication. Their results were similar to Park et al. (2009), aside from some slight nuances:

1. Relationship maintenance: to keep in contact with, and feel closer to, friends and family
2. Information seeking: to obtain useful information
3. Amusement: entertainment; relaxation
4. Style: to look stylish; a status symbol
5. Sociability: to meet new people
6. Killing time: to relieve boredom; joke with friends

Joinson (2008) surveyed Facebook users and found the following gratifications:

1. Social connection: to connect with people one would've otherwise lost contact with; to find out what old friends are doing
2. Shared identities: to join groups; to organize or join events; to communicate with likeminded people
3. Photographs: to view and tag photos
4. Content: to use apps within Facebook; games; quizzes
5. Social investigation: to 'stalk' people
6. Social network surfing: to browse through other people's friends; to look at profiles of people you don't know
7. Status updates: to update your status; see what others have put as their status

2.3 – The Fundamental Gratifications

There are a couple of key takeaways from these findings. First, Rubin (1983) and Sherry et al. (2006) found a positive relationship between obtaining gratifications and time spent with media. If users feel a piece of media is successfully gratifying certain needs their time spent with that piece of media increases. This finding has been consistently observed in U&G research (Luo, 2002; Wu et al., 2010). It attests to the idea that media creators would benefit from understanding the gratifications their content provides since this understanding can help better the user experience and make users more likely to return to their product.

Second, the extent to which a need can be gratified varies across mediums. For example, TV and film are primarily associated with gratifications like amusement, diversion, and escape; the internet with information-seeking; social networks with social connection; and video games with social connection and achievement. This may seem obvious, but "a worthwhile insight to keep in mind that is backed up by empirical evidence.

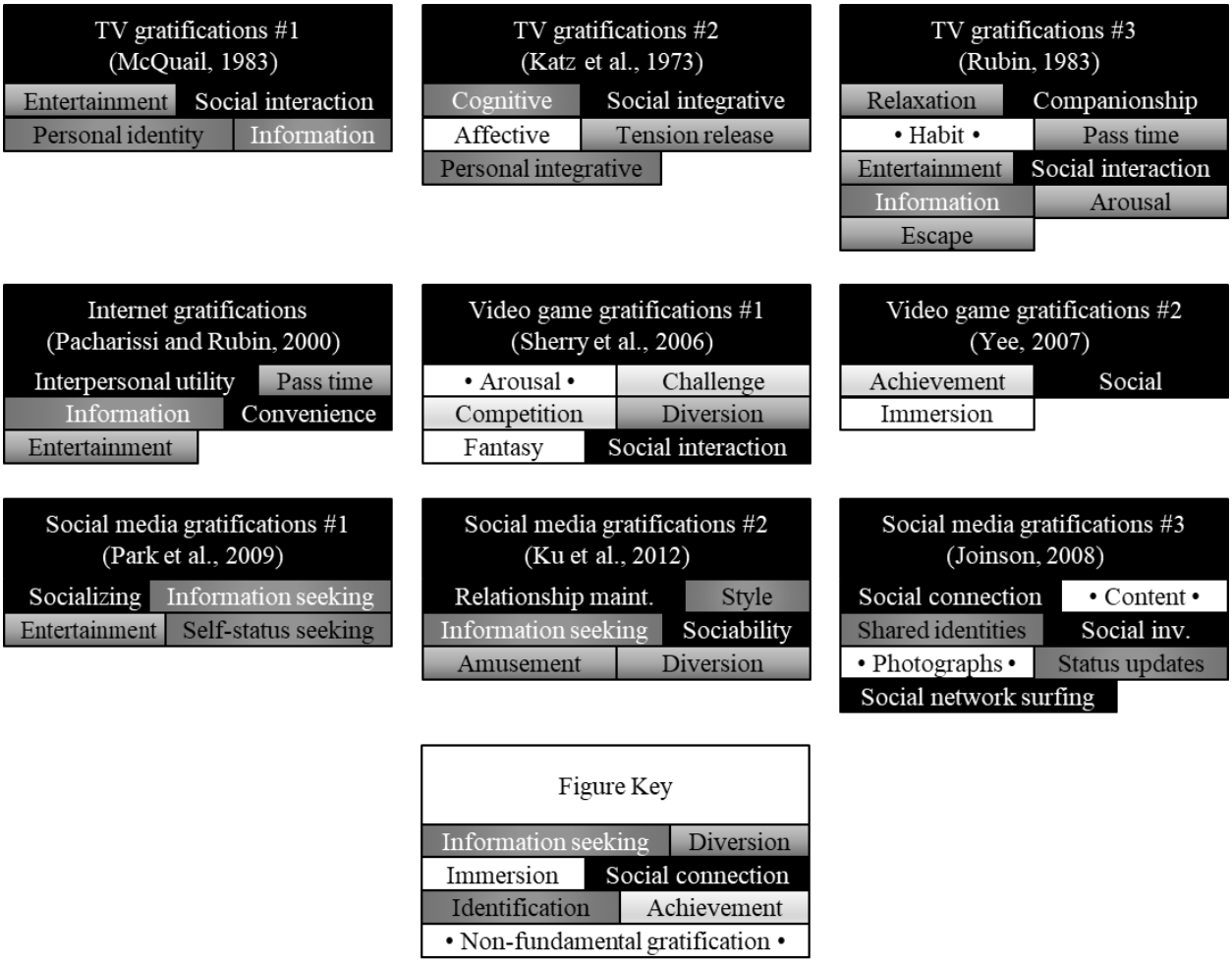
Finally, there's the point of fundamental gratifications: Even though the above studies span across multiple decades and deal with different mediums, there are sets of gratifications that continually emerge. This is not to say that all gratifications originate from innate needs. As Sundar and Limperos (2013) point out, new technologies do create new gratifications and often lead to broad gratifications becoming more nuanced – a belief congruent with the 'consumers don't know what they want until you show it to them' mindset. It is hard to argue, however, that there aren't some consistently recurring principle needs at the heart of the gratifications discussed in the previous section.

Based on this belief, I posit that most gratifications found in the research of the previous section can be grouped into the following fundamental gratifications:

1) Information seeking: for research and education; to stay up to date on events
2) Diversion: for tension release; amusement; to pass time; to relax
3) Identification: for self-understanding; to find models of behavior; to identify with like-minded people; to demonstrate status
4) Immersion: to get sucked into a world; to role-play
5) Social connection: to build, maintain, and strengthen relationships; to have a basis for conversation; for companionship
6) Achievement: to compete against others; to seek a challenge or mastery; for personal accomplishments

Figure 2.1 illustrates how the gratifications from the research fit into these fundamental gratification buckets.

Figure 2.1 – Overview of media gratifications and the fundamental gratifications



Some things to note about this framework:

- A piece of content can gratify different needs for different individuals and users may seek to obtain more than one gratification at a time. For example, *Game of Thrones* is a show that can gratify diversion and immersion, though the primary gratification a user obtains from the show will change depending on the investment he or she is willing to put into the program.

- Media that gratifies the need for immersion will often gratify diversion as well. To understand the distinction between the two, one should imagine immersion as requiring a more active investment from users and diversion requiring little investment and often being found in more mindless entertainment (e.g., reality TV, sitcoms, TV many would consider 'guilty pleasures').

- Very few gratifications don't fit into the fundamental gratification buckets.

Sundar and Limperos (2013) argue that new technology gives rise to more nuanced gratifications. Along that mindset, we could endlessly debate the nuances of the fundamental gratifications: How, for example, social media has made status-seeking a more prominent element of identification; or the difference between presence (i.e., the illusion of being elsewhere created through a communication medium) and transportation (i.e., being transported into a storytelling world through a narrative) within immersion. While these discussions may be worthwhile for media scholars to investigate, they're not necessarily ones that Netflix should focus on. Instead, Netflix should be looking to ensure that it is satisfying the fundamental gratifications, which have consistently surfaced in research for decades, to the greatest extent possible.

The affordances of a medium, or lack thereof, limit the gratifications that medium can provide. For example, because TV lacked interactive elements it could never provide gratifications like achievement that require user control. But since Netflix doesn't have the same limitations of traditional TV and film, why should Netflix not try to create content that gratifies needs such as social connection, immersion, and achievement in ways that traditional media could not?

The convergence of media and the affordances provided by new technologies allow media platforms to increase the amount and extent of gratifications they provide for users. As an example, one can look at gaming consoles. Back in the day, when users turned on a Super Nintendo they would do so to play video games. Now, when users turn on a PlayStation 4, they have the ability to play games, socialize with friends through online gaming, or watch Netflix - obtaining the gratifications of achievement, social connection, and diversion, respectively. Phones are another great example of this. They were previously used strictly for calling and texting, but now have the capability for social networking, gaming, and video. By studying how other mediums achieve gratifications, Netflix can implement some of the same features onto its platform. And by gratifying more user needs on a singular platform (and gratifying them at a greater capacity), Netflix will increase its ability to keep users coming back to its service.

The rest of this paper will focus on the fundamental gratifications of social connection, immersion, and achievement. Out of the six fundamental gratifications, these are the three that are either the most powerful in driving consumer behavior or that Netflix has the most room for improvement in. By fully comprehending these gratifications, Netflix will be better able to cater its platform to users' wants.

There are a couple reasons we will not focus on the other three fundamental gratifications (information-seeking, diversion, and identification). We will disregard information-seeking as the internet will always be the best medium for it due to the nearly infinite amount of information it possesses. Sure, Netflix can gratify a user's need for information-seeking through documentaries, but the extent of the gratification will never rival the internet so it is not worthwhile to delve into. As for diversion, it is a gratification that TV has always specialized in and that Netflix already excels at. Finally, in regards to identification, there is some interesting research has been done on the topic, though I ultimately feel it is not as strong of a consumer need as some of the other gratifications and thus it will not be a focus of the paper.

PART II

Chapter 3 – Social Connection

Each of the following three chapters will focus on one of the aforementioned fundamental gratifications that Netflix could be looking to improve – social connection, immersion, and achievement. The chapters will explore why that gratification is so powerful at driving consumer behavior, some examples of other media companies that provide that gratification for its users, and some ideas for how Netflix can make use of similar features on its platform.

We will start with social connection. As we will see, consumers have a long history using the social elements of TV as a way to build and maintain relationships. Most recently, the phenomenon of the second screen has gained a lot of traction and now companies like Facebook have incorporated elements of social TV on their platforms. By doing a case study on the Facebook show *Red Table Talk*, we will discuss some ways in which Netflix could implement features such as in-video comments and synchronous viewing to provide a more social experience for its subscribers.

3.1 – TV as a Social Experience

In 2008, the Comparative Media Studies department at MIT surveyed over 13,000 *American Idol* viewers to understand their social viewing habits. Some of the key findings included: (1) majority of viewers discovered the show from word-of-mouth and watched it regularly because their friends also watched, (2) 78% of respondents watched the show with family or friends, and (3) 74% of respondents said they talked about the show in between episodes with friends (as cited by Jenkins, 2016, pp. 82-83). Though *American Idol* may be a particularly social show, these results underscore TV's role in bringing people together - a phenomenon that scholars have observed for decades (Katz & Lazarsfeld, 1955). Television is commonly cited as being able to provide a social experience in two ways: as a source of conversation and as an opportunity for companionship.

In regards to TV as a source of conversation, media scholar Charles K. Atkin came up with a seminal finding in his 1972 paper, 'Anticipated Communication and Mass Media Information-Seeking'. Atkin began his paper by showing a positive correlation between the number of news sources people follow and the amount of conversations people have about the news. He also showed a positive correlation between the amount of conversations people had about the presidential campaign and the degree to which they sought information on the campaign. Even when controlling for levels of interest in the campaign, educational level, and socioeconomic status, those with low interest in the campaign still sought out information on it if they knew it would come up in conversations.

Atkin then took it a step further by asking: Can we anticipate the media content that people will gravitate towards based on the conversations they anticipate having? The results of his experiment overwhelmingly showed that if people anticipate having a conversation on a certain topic they will seek out media relating to that topic. In other words, we don't seek to educate ourselves on a topic purely for the joy of learning; instead, we learn about a topic because it provides what Atkin called 'communicatory utility', defined as "the anticipated usefulness of information for future informal interaction with family, friends, co-workers, and acquaintances" (p. 188).

The concept of communicatory utility is consistent with the U&G research that was beginning to emerge at that time and which we highlighted in the previous part of this thesis. People seek out content that provides communicatory utility not just when looking at the news, but also across different types of programming (Wenner, 1976). These findings continue to be true today as evidenced by the previously discussed *American Idol* results, Southwell and Torres' (2006) findings which showed that watching science-related TV content predicted conversations on the topic, and Purcell et al's (2010) Pew study

which found that 72 percent of users follow the news because they enjoy talking with others about what is happening in the world.

As for TV creating opportunities for companionship, we can turn to James Lull's 1980 paper, 'The Social Uses of Television', in which he details how TV is used by families "for the construction and maintenance of desired relations at home" (p. 197). Beyond the ways in which we watch TV in the company of others, Lull also notes that TV can create companionship when it is employed as an 'environmental resource', i.e., when it is used as a companion while doing chores or when it is used to contribute to the "overall social environment by rendering a constant and predictable assortment of sounds and pictures which instantly creates an apparently busy atmosphere" (p. 202). Complementing Lull's observations, later studies have found that for many the time spent together watching TV is more important than the actual content they watch (Webster & Wang, 1992; Wonneberger et al., 2011).

These two components that make TV a social experience – conversation and companionship - can be grouped under the umbrella of helping people create, maintain, and strengthen relationships with those around them.

3.1.1 – Social Networking Sites

Social networking sites (SNSs), as their name may give away, also serve the purpose of helping people create, maintain, and strengthen relationships with those around them. However, while social connection may just be a part of the reason people watch TV, it is the primary reason to be on an SNS (Park et al., 2009).

SNSs have been quite effective at creating social connections between users. A Pew survey found that 67% of online adults are better informed about friends than they were five years prior because of the internet (Purcell & Rainie, 2014). Another Pew survey found that 81% of teens found social media made them feel more connected to their friends (Anderson & Jiang, 2018). The drawbacks of SNSs can be debated, but it is clear they enable connections between users.

In his book *A Social Strategy: How We Profit from Social Media*, Mikolaj Piskorski (2014) outlines why social networks are so effective at establishing social connection. He brings up the idea of 'social failures,' i.e., "interactions that do not occur, but would make two people better off if they did" (p. 9). As one can make the connection, there are many beneficial interactions that, for one reason or another, don't take place in the 'real' world, but can now occur through SNSs.

The act of TV viewing will inherently never gratify our need for social connection to the same extent as social networks. However, the rise of mobile use and the popularization of social media, gave way to the concept of the second screen, which showed that TV and SNSs can be used concurrently to augment the TV viewing experience.

3.1.2 – Social TV

Ji and Raney (2015) defined social TV as "the growing set of technologies that enable synchronous social interaction between television viewers at a distance" (p. 223). Though many definitions of social TV make mention of the use of the second screen (e.g., Giglietto & Selva, 2014; Auverset & Billings, 2016) - largely due to the prominence of research related to Twitter's effects on TV viewing - the history of social TV reveals that the practice is not restricted to second-screen use, thus making Ji and Raney's definition a more accurate one in this context.

Time Warner was one of the first to formally experiment with social TV when they released QUBE, an interactive cable system, in 1977. QUBE allowed for programming such as interactive game shows and its features included local chatting and audiences being able to rate performers on variety shows. QUBE went defunct in 1984 due to Time Warner's ongoing financial struggles and user privacy concerns, but it brought about innovations such as pay-per-view and interactive programming, as well as helping develop MTV and Nickelodeon (later sold to Viacom during Warner's financial distress). "The principal lesson of the Qube experiment is not that interactive media can't compete with traditional one-way mass media. Rather, interactive media must be developed in a viable economic and technical context," wrote John Carey, of the Columbia Institute for Tele-Information, in 1996 (p. 7).

A subsequent attempt at social TV came in 1980 when Zenith launched the Space Phone, a hands-free speakerphone that was connected to Zenith's high-end TV sets. Users could make calls with their remote controls and watch TV while on the call. The product failed to catch on and was discontinued after a few years (Wohn & Na, 2011).

Then came WebTV, which launched in 1996 and was purchased by Microsoft in 1997, and AOL TV, which AOL launched in 2000 in an effort to compete. The services were created to in an effort combine TV and the web, with AOL TV allowing users to browse the internet and chat, while watching TV on the same screen. Both of these services were discontinued fairly quickly.

It is hard to pinpoint the exact reason these platforms failed to reach widespread adoption, but intuitively it seems the technology of the times didn't adequately help these services accomplish their desired outcomes; they feel gimmicky rather than being devices that actually foster a sense of social connection for users.

Social TV has experienced a revival of sorts in recent times. A prime example of this was AMC's Story Sync, which launched in 2012. The feature allowed viewers on the AMC website to synchronize their messages with other viewers, even if those viewers were watching the program at different times. Story Sync included interactive elements such as polls that asked what actions a character should take next or a 'threat level' meter that asked participants to rate how much threat a character faced in a specific situation. Story Sync also facilitated the sharing of thoughts to social media, driving social media buzz and increasing the awareness of AMC programming (Bishop, 2014). While the network never released Story Sync user numbers, AMC executives said the number of people using Story Sync "favorably compares" to the amount of people that tweet about TV's most popular shows (Bishop, 2014). *The Talking Dead*, the companion aftershow for *The Walking Dead*, in particular has done a really good job incorporating features of social TV such as social media, online polls, and phone-ins to help "minimize the social distance felt between the show's live audience and the virtual audience, thereby increasing levels of engagement for all viewers" (Auverset & Billings, 2016, p. 4). *The Walking Dead* was the most social program according to Nielsen's Social Content Ratings (measured by average tweets per episode) from 2014 through 2016. It was the second most social program in 2013, with the top spot going to *Breaking Bad*, demonstrating AMC's success in fostering social TV.

As previously mentioned, the most prominent form of social TV in recent times has come from the use of Twitter and other social media as a second screen.

3.1.3 – Why the Second Screen Has Worked

TV, or topics related to TV, frequently trend on Twitter (Deller, 2011). This should come as no surprise since 88% of Americans reported using a second screen, at least occasionally, while watching TV (Nielsen, 2020).

Twitter has become, as Harrington et al. (2013) coined it, a 'virtual loungeroom', a live, communal space connecting audiences and amplifying their activity at unprecedented levels. As Harrington et al. go on to write, "the shared sense of watching a show together is especially heightened; here, Twitter becomes a metaphorical 'watercooler' in the cloud, but one where the watercooler conversations take place instantly, rather than at work the following morning" (p. 406). On the topic, Highfield et al. (2013) add that "Twitter and other social media are used to establish and maintain communities of fandom, to exchange fan knowledge, and to plan fan activities" (p. 337).

There has been plenty of research done on the type of tweets people make when watching TV. Wohn and Na (2011) found that majority of tweets are used as opportunities for viewers to express themselves and their personal opinion on characters and scenes. Schirra et al. (2014) studied live-tweeting habits for viewers of the show *Downton Abbey* and noted that audiences found plot twists to be the most obvious 'have-to-tweet' moments. They also found that 'triggers' for tweeting most often involved moments in the show that caused grief, dealt with character development, or invoked humor (which contrasted to the show's serious nature). Auverset and Billings (2016) looked at social media activity of *The Walking Dead* fans and observed that about one fifth of all comments were 'anticipatory in nature' - i.e., expressing a sense of urgency for an upcoming scene or building hype for an upcoming episode - demonstrating that viewers not only tweet to react to a show's plotlines, but also to build suspense for the rest of the show's community.

These findings suggest a user desire to tweet in order to be part of a phenomenon larger than themselves. This is in line with research on user motivations for participating in social TV, which has shown that the primary reason TV viewers engage in second screen activity is to satisfy the innate need to belong and the desire for a sense of connection with a community (Auverset & Billings, 2016; Cohen & Lancaster, 2014; Doughty et al., 2012; Harrington et al., 2013; Highfield et al., 2013; Ji & Raney, 2015; Schirra et al., 2014; Wohn and Na, 2011). A subject of Schirra et al.'s study best summarized this feeling by explaining that the difference between watching *Downton Abbey* with and without Twitter is "sort of like the difference between watching a movie at home on a DVD and watching the movie in a movie theater … Like when you go to a movie theater and you feel like you're part of an experience because there are other people sharing it with you" (p. 6).

Gardner et al. (2000) argue that on an evolutionary level people are wired to monitor their social environment for cues that help them assess how well they fit in with others. Cohen and Lancaster (2014) tie that argument into the motivations for second screen use. They note that by using SNSs while watching TV users are exposed to greater amounts of social information, which lead to a greater sense of community. These findings demonstrate that second screen viewing can create a greater social experience than traditional TV viewing. As Wohn and Na (2011) write, "Twitter picks up where formal social television systems failed: people are using the tool to selectively seek others who have similar interests and communicate their thoughts synchronous with television viewing."

Related to the sense of belonging is the viewer desire to experience companionship or to simply not feel alone. In the study by Schirrah et al. (2014), several participants noted their live-tweets became topics of conversation among their real-life friends and thus helped strengthen those relationships. Others were particularly motivated to tweet while watching TV alone because they found it comforting since they had no one else to talk to.

Noteworthy within this research is that users don't necessarily need to interact with others to feel a sense of social connection (Cohen & Lancaster, 2014). Simply sharing a virtual environment provides users with what is called 'social presence' – i.e., the sensation of being in the company of others. Social presence makes users feel closer to coviewers, even when they've had little to no interaction (Huijnen, 2004). Cohen and Lancaster (2014) suggest that second screen viewing offers a "sense of belonging with

no interaction strings attached," (p. 512) and add that it "provides a viable alternative to in-person coviewing for those who dislike the distractions of physically present coviewers, or simply prefer to control the coviewing environment" (p. 516).

The concept of social presence is so powerful that it is also prevalent in other forms of media. A study of over 150,000 World of Warcraft players by Ducheneaut et al. (2006) found that, on average, players spend 70 percent of their time on individual missions barely interacting with others, but still considered themselves to be in - and enjoying - the virtual company of others in the game. The researchers dubbed this phenomenon 'playing alone together' and it seems that, for many, second screen TV viewing could be considered 'watching alone together'.

3.1.4 – Best Content for Social TV

Research has shown that there are specific types of content best suited for social TV.

Voorveld and Viswanathan (2014) looked at genre differences in media multitasking through the prism of previous work on information processing, cognitive systems, and decision making. Though their experiments focused on media multitasking, social TV comprises much of that multitasking time, thus making their research relevant in this context. The three theories they built on, and their hypotheses of how they related to media multitasking, were as follows:

- **Intentional exposure theory** states that editorial content is usually watched intentionally when advertising is watched incidentally (Lord & Putrevu, 1993). Voorveld and Viswanathan hypothesized that since there's less intentionality with incidental TV viewing there should be more media multitasking during that time.

- **Limited capacity theory** argues that peoples' information processing capacities are limited and thus people should allocate their resources accordingly between tasks (Lang, 2006). Voorveld and Viswanathan hypothesized that genres that required fewer cognitive resources would lead to higher levels of media multitasking.

- **Decision theory** suggests that people only multitask when they expect to benefit from it (Sanbonmatsu et al., 2013). Voorveld and Viswanathan hypothesized that users would only engage in media multitasking in genres that they felt would benefit from the use of another medium.

Voorveld and Viswanathan looked at viewer media habits across the 'genres' of news, entertainment, sports, commercials, and channel surfing, and their hypotheses turned out to be largely correct. Media multitasking was most prevalent when people watch sports or engage in channel surfing, and less prevalent with news, entertainment, and commercials. Channel surfing had the highest level of media multitasking as it is less intentional and requires the least cognitive resources. Sports viewing had the second highest level of media multitasking, presumably as the viewing experience benefits from activities such as checking stats on the phone and texting others about the game. Additionally, the cognitive resources required to keep up with the game are quite low since the games constantly show extensive replays and the score of the match. Entertainment and news showed lower levels of media multitasking, as predicted, due to the fact that they require greater levels of attention. The only surprise was commercials showing a low level of media multitasking; Voorveld and Viswanathan suggest that may be due to the fact that viewers may use commercial breaks for other activities such as talking with family members or performing household activities.

Voorveld and Viswanathan's findings were supported by later research done by Ralph et al. (2018), which found that "people modulate the extent to which they engage in media multitasking in accordance with the demands of their primary task" (p. 2) and that people often indulge in media multitasking to reduce boredom.

In another study, Park et al. (2019) looked at media multitasking from the perspective of transportation theory. Transportation refers to "a distinct mental process, an integrative melding of attention, imagery, and feelings" (Green & Brock, 2000, p. 701) – in other words, getting completely immersed in a narrative experience[4] Past research around transportation theory shows that:

- engaging in a secondary task is taxing on one's cognitive resources and distracts individuals from being able to reach full mental engagement in the primary task (Wang & Tchernev, 2012)
- users who are 'transported' into a narrative find the content they were experienced to be more enjoyable (Green et al., 2004)

These findings are congruent with limited capacity theory mentioned above. Building off this research, Park et al. found that tweeting while watching a show makes it less likely that a user is transported into the show, thus meaning they have a weaker emotional response to the show, which ultimately results in enjoying the show less.

Park et al. also made an interesting suggestion based off Jeong and Hwang's (2016) research on task contiguity, i.e., the physical proximity between tasks. Tasks performed on a single medium (e.g., having two separate windows open on a computer, one for news, one for video) are physically close, which means they have high task contiguity. On the other hand, tasks performed on separate mediums (e.g., having news open on your computer and watching TV on a separate screen) are physically distant, which means they have low task contiguity. Jeong and Hwang found that tasks low on contiguity (i.e., those that are physically distant) require users to expend more cognitive resources when shifting between the tasks. Park suggested that this switching between tasks would lead to lower levels of transportation, which would make content less enjoyable. Though this hasn't been tested by research, it seems like a reasonable assumption given Jeong and Hwang's findings. This is relevant as it would mean that services offering in-video chat, such as AMC's Story Sync or Twitch, may make for a more enjoyable social TV experience than using a second screen.

3.1.5 – Social TV Takeaways

In summary, the research regarding social TV shows the following:

- Users want to be part of a community and engage in a phenomenon bigger than themselves.
- Majority of comments are expressions of opinions. Social TV provides people with a greater pool of social information to find others with similar opinions, which satisfies people's desire to belong and be part of a community.
- Interactions don't necessarily need to take place for users to feel a social connection; social presence is enough.
- Users prefer to partake in social TV when they're bored or when viewing requires less cognitive resources. This implies that reality TV and unscripted programming are best suited for social TV.

[4] We will dive into this concept further in Chapter 4.

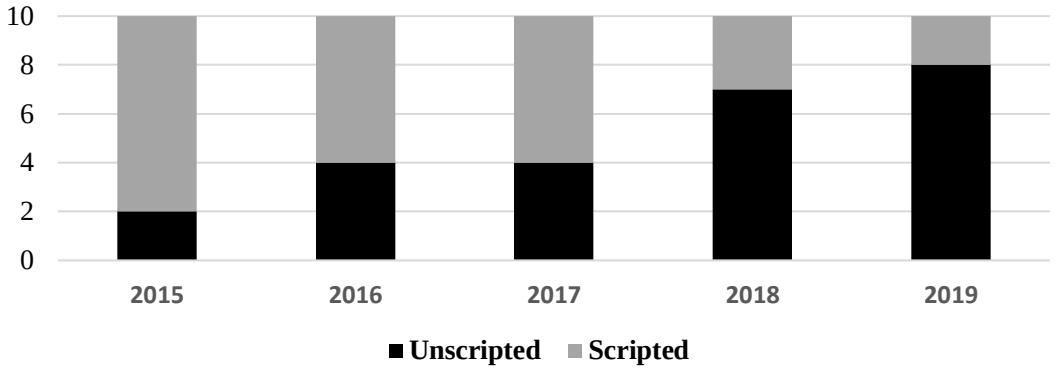
- Media multitasking makes it harder for users to get 'transported' into a show. Programs that require more cognitive resources are less likely to be enjoyed when partaking in social TV. This implies that serious dramas aren't suited for social TV.

- Tasks low on contiguity require users to expend more cognitive resources when shifting between tasks. Though not yet proven, this implies that in-video chat should be a more effective form of social TV since it allows users to expend more of their cognitive capacity on the content or on socializing, rather than on task-switching.

Many of these takeaways are verified in Nielsen's Social Content Ratings. Major live events (e.g., sports and award shows) are consistently atop the list, receiving millions of social interactions (top TV episodes average only in the hundred-thousands). The one-off nature of these events heightens the live experience, drawing a lot of viewers in, and making social TV users feel like they're part of a bigger phenomenon. Additionally, these events require low levels of cognitive resources when viewing.

When looking at Social Content Ratings for just TV series (**Figure 3.1**), the top 10 list has increasingly been moving towards unscripted programming.

Figure 3.1 - Scripted vs. Unscripted in Nielsen Social Top 10 Series Ratings



Source: Nielsen Social Content Ratings

I would venture to say that as users become more familiar with what they find enjoyable in social TV, they're discovering that unscripted programming is a better fit for social TV since it requires less cognitive resources. Nowadays, the only dramas that are able to crack the top 10 list are shows like *Game of Thrones*, which have managed to achieve massive phenomena level.

One service that has done a particularly effective job at implementing these social TV findings has been Facebook Watch.

3.2 – Facebook Watch

Facebook unveiled Facebook Watch in August of 2017. Videos were already a big part of Facebook's newsfeed, but the purpose of Watch was so users could have one dedicated place for just video and to emphasize shows that could foster elements of community. Among the type of content they thought would be successful on the platform, Facebook listed 'shows that engage fans and community', 'live shows that connect directly with fans', 'shows that follow a narrative arc or have a consistent theme', and 'live events that bring communities together' (Facebook, 2017).

One key feature of Watch was that viewers could see comments from other users, make comments themselves, and partake in in-video chat with friends and other viewers while watching a program. "We've learned from Facebook Live that people's comments and reactions to a video are often as much a part of the experience as the video itself," wrote Facebook (2017) when it rolled out Watch. Facebook clearly understands viewers seek to gratify the need for social connection when using media.

Facebook reported being willing to spend $1 billion on content the first year of its launch (Seetharaman, 2017) and that figure has reportedly increased to $1.4 billion in 2020 (Dotan & Toonkel, 2020). At launch, it was reported that Facebook was paying around $10,000 to $25,000 per episode for original shows. Most creators were making episodes between 5 to 10 minutes in length, though Facebook was open to longer formats. Watch would make money by showing ads before or during videos, with creators getting 55% of ad revenues and the rest going to Facebook (Castillo, 2017).

The genres of content on the platform vary. There are docuseries, such as *Humans of New York*, a video series based on the popular internet blog that features conversations with strangers in the city; reality TV, such as *Ball in the Family*, which follows Lavar Ball and his family; dramas, such as *Sorry for Your Loss*, a Watch original starring Elizabeth Olsen; and comedies, such as *The Real Bros of Simi Valley*, a short-form satirical comedy that was picked up from YouTube. Facebook even had an agreement with the MLB to broadcast one live game per week on Watch.

Watch has had mixed success. In a 2018 study, half of adults surveyed had never heard of the platform (The Diffusion Group, 2018). After Facebook acquired the rights to *Buffy the Vampire Slayer*, *Angel*, and *Firefly* in 2018, Mashable noted that some episodes failed to break more than a few hundred views[5] two weeks after being uploaded (Binder, 2019) and many have struggled to reach 100,000 views since then. But that's not to say the platform has been a failure. In June 2019, Facebook released some stats that showed Watch had a global daily user base[6] of 140 million, who on average spend 26 minutes per day watching video. Just six months earlier the daily user base was at 75 million, showing that the platform is rapidly growing. Those may not be YouTube numbers, but they are sizable considering Watch has only been around a couple of years.

I would argue that it is too early to be calling Watch a success or failure, when what's actually happening is that Watch is just in the early stages of discovering what type of content works best on its platform. For instance, at the end of 2018, The Information revealed that Watch, just six months after launching a slate of shows from CNN, ABC News, and Buzzfeed, among other outlets, was cutting the funding for its news shows (Toonkel et al., 2018). Earlier this year, Watch canceled the dramas *Sorry for Your Loss* – which was later picked up by Netflix – and *Limetown* as it looked to scale back on scripted programming (Andreeva, 2020). The quality of these programs wasn't an issue – *Sorry For Your Loss* drew critical acclaim and *Limetown* had not as glowing, yet still positive reviews. The real problem was more likely that users had little desire to turn to Watch for scripted series when streaming services like Netflix are already making content with bigger budgets and higher production value. Watch's value add for consumers are the social features it offers, but dramas and news shows, which require higher cognitive resources from viewers, don't benefit from these features.

Some of Facebook's unscripted series have had much more success while also being cheaper to produce. *Red Table Talk* has been one of, if not, the most successful show on the platform. As we will see, the show effectively implements the social TV findings we previously discussed.

[5] A view is counted as anything more than three seconds of watching by a viewer.
[6] A daily user is anyone who spends at least one minute on Watch for the day.

3.2.1 – Red Table Talk

Red Table Talk (RTT) is a talk show starring Jada Pinkett Smith, Willow Smith, and Adrienne Banfield-Norris. The show premiered on Facebook Watch on May 7, 2018 and is currently in its third season. Episodes usually feature candid conversations between the three hosts and their guests. Guests have ranged from actors such as Tiffany Haddish, to musicians such as Snoop Dogg. Sometimes episodes will feature non-celebrity guests and discuss more personal topics like divorce, addiction, and domestic abuse.

Season 1 and 2 had a combined 50 episodes, with episodes usually in the twenty- to thirty-minute range. All episodes currently have more than 2 million views (it is common for them to reach 10 million) and the top episode, an interview with Jordyn Woods of Kardashian fame, has over 33 million views. As of May 1, 2020, the show has 8.7 million followers.

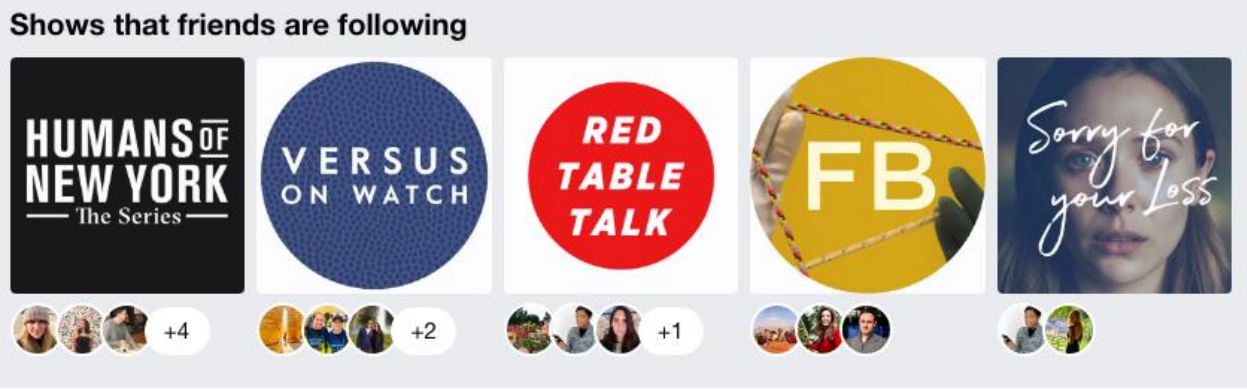
The program has been praised for its honest conversations. In an article titled, 'The Understated Genius of Jada Pinkett Smith', The Washington Post wrote, "there's an authenticity woven throughout the episodes that makes Red Table Talk stand out amid a surplus of celebrity-hosted talk shows" (Butler, 2018). USA Today wrote "Jada Pinkett Smith and family are refreshingly open, making 'Red Table Talk' a must-see" (McDermott, 2018). In 2019, the show was nominated for a Daytime Emmy for Outstanding Talk Show.

While the show has been praised for its authenticity, it is the show's ability to engage its community on the Watch platform that makes RTT so unique.

3.2.2 - The RTT Experience

As seen in **Figure 3.**2, when users enter the Watch platform, they're able to see shows that their friends are following. This is big part of Facebook's social strategy – it has realized that people are more likely to comment on content if their friends are also in the conversation (Facebook, 2018a).

Figure 3.2 – Watch 'Shows that friends are following'



As we've discussed, people often turn to media for a source of conversation. Knowing which friends are watching what programs allows users to better determine what shows can potentially provide the most communicatory utility, which may be helpful in swaying indecisive viewers.

Upon entering the RTT page, users can go through the different seasons to find the episode that they want to watch. At this point, instead of just showing activity of friends, users see the overall number of views, reactions, and reaction types each episode has received (**Figure 3.3**). This helps users feel like they're part of a larger phenomenon.

Figure 3.3 – RTT episode list

Once a user decides on an episode, the Watch platform has high levels of task contiguity for partaking in elements of social TV. Users have the ability to 'like' the video and 'share' with friends or to one's story, among other features (**Figure 3.4**). One of these features is the 'watch party' option (**Figure 3.5**), which was introduced in January 2018 and allows users to watch videos together with friends in real time. Users have the ability to chat with their friends as the video plays synchronously for everyone in the party.

Figure 3.4 – Watch sharing features

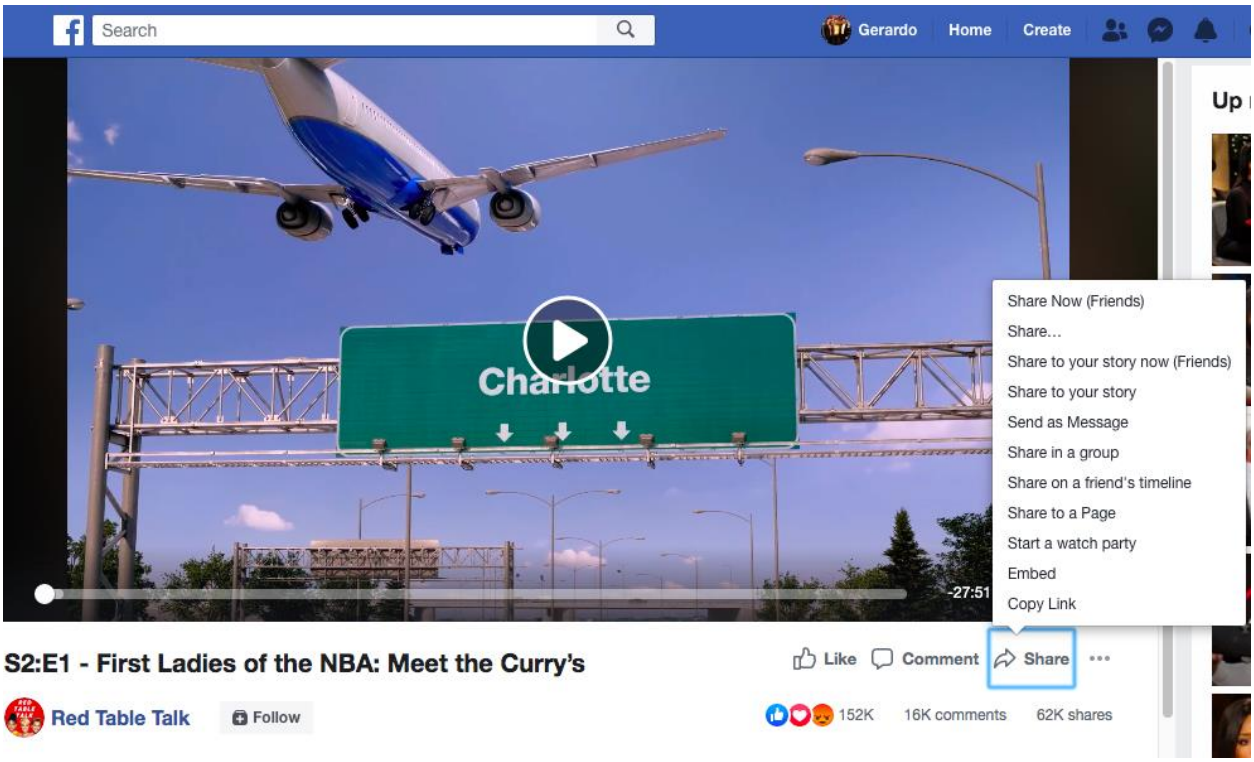
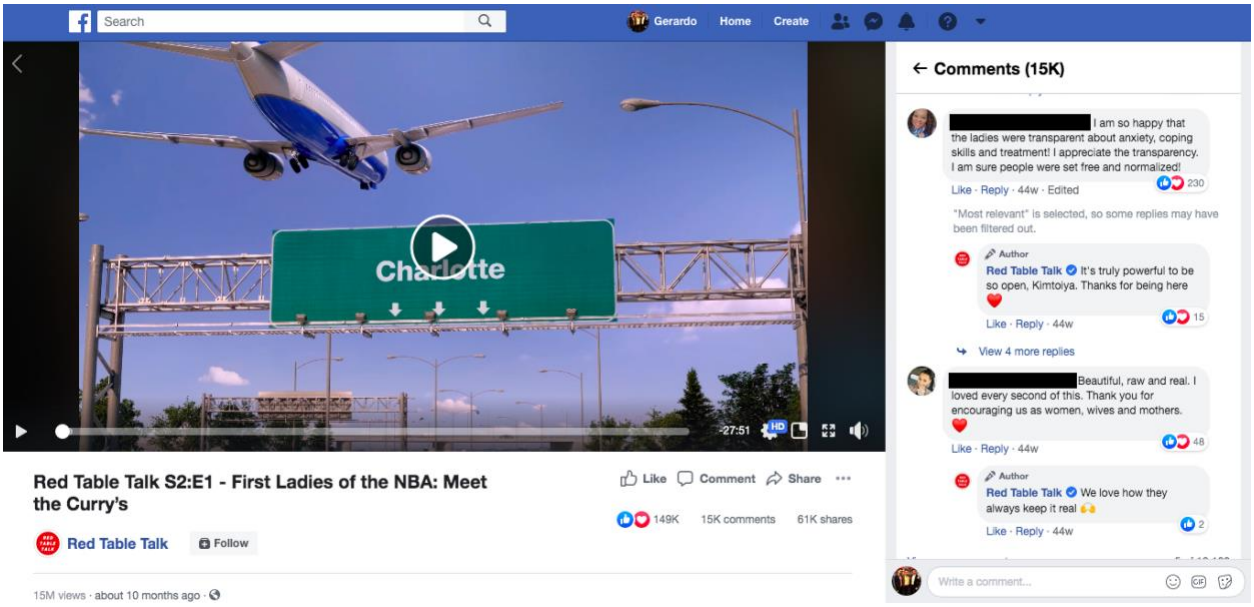


Figure 3.5 – Watch Party

The watch party feature appears to have had initial success. In November of 2018 Facebook announced that there had been 12 million watch parties since the feature's inception (Facebook, 2018b) Though the watch party feature started as an option only available for those within Facebook Groups, Facebook has now extended it to all videos on its platform. Facebook has noted that users are eight times more likely to make comments on a video when part of a watch party than with non-live videos (Facebook, 2018b).

Returning to the Watch Platform, users also have the option to open up the comments sidebar. It allows users to see previous comments by others (the video in **Figure 3.6** has over 15,000 comments!), reply to those comments, or make a comment themselves. Note, again, that there's no need for a second screen; the platform has high levels of task contiguity.

Figure 3.6 – Watch comments sidebar



The first comments users would see are comments from their friends, if they've made any. Then, similar to most comment platforms, users see the most 'relevant' comments based on the amount of likes and replies they've received. As we've noted, majority of social TV posts by users are done to express opinions. RTT facilitates the posting of those comments by often encouraging users to share their stories or including prompts related to episode topics at the end of the episode.

As seen in **Figure 3.**7, top comments end up being incredibly personal, echoing the show's candidness and honesty. Notable is how responsive RTT's show page is in replying to these comments. The RTT account replies to over 200 comments every episode, leaving personalized and encouraging comments for their fans. Users experience a sense of belong seeing such intimate comments from other community members and the RTT account. Even those that don't necessarily want to post are able to find companionship through the social presence of the platform.

Figure 3.7 – RTT comments

The show is well-suited to take advantage of all of these social TV features since it is unscripted. Viewers don't have to be fully engaged in the show to follow along and if a topic feels boring to users, users can entertain themselves by reading through the comments. Topics of conversation move quickly so that by the time a user is finished reading through comments, the show may have moved on to a topic that is of more interest to the user.

Maybe the greatest testament to RTT's community is the official RTT group page. At the end of every episode, RTT asks the RTT 'family' to join the show's group page. As of May, 2020, the group has over 625,000 members (the show has 8.7 million followers, so about 7% of followers have joined the group page). The page states the purpose of the group is to create a community "where we can ALL be open to important conversations regarding various topics discussed on and off the Red Table." To ensure active and committed group members, each person looking to join the group has to be accepted into the group by RTT admins. Before one joins, one must answer questions such as "Why do you want to join the group?", "Which of the hosts you most relate to?", and "Which guests you'd like to see on the show?". It is a great way to get feedback and a sense of show demographics, while vetting out potential trolls. Once one joins the group, there are a couple of rules to follow, including, "being courteous to everyone's point of view", "what happens at the table, stays at the table", and "be yourself". Such rules encourage community building and create a sense of belonging for users.

As seen in **Figure 3.8** and **Figure 3.9**, the group page is a place for members to share whatever is on their mind – sometimes it is directly related to a show's topic, other times the posts are just people looking to get advice and support from other community members. There are new posts daily and they range from engagement announcements, relationship issues, and show suggestions – members aren't afraid to get personal. Some posts generate thousands of likes and hundreds of comments of discussion.

Figure 3.8 – RTT group post #1

Figure 3.9 – RTT group post #2

The group page is also a great place for the show creators to get episode ideas and feedback. The episodes that don't feature celebrities usually involve fans of the show or are inspired by fan feedback. The show quickly responded to the coronavirus pandemic by seeking to understand how it was affecting its audience (**Figure 3.10**) and then answering common concerns in a new episode (**Figure 3.11**).

Figure 3.10 – RTT coronavirus post

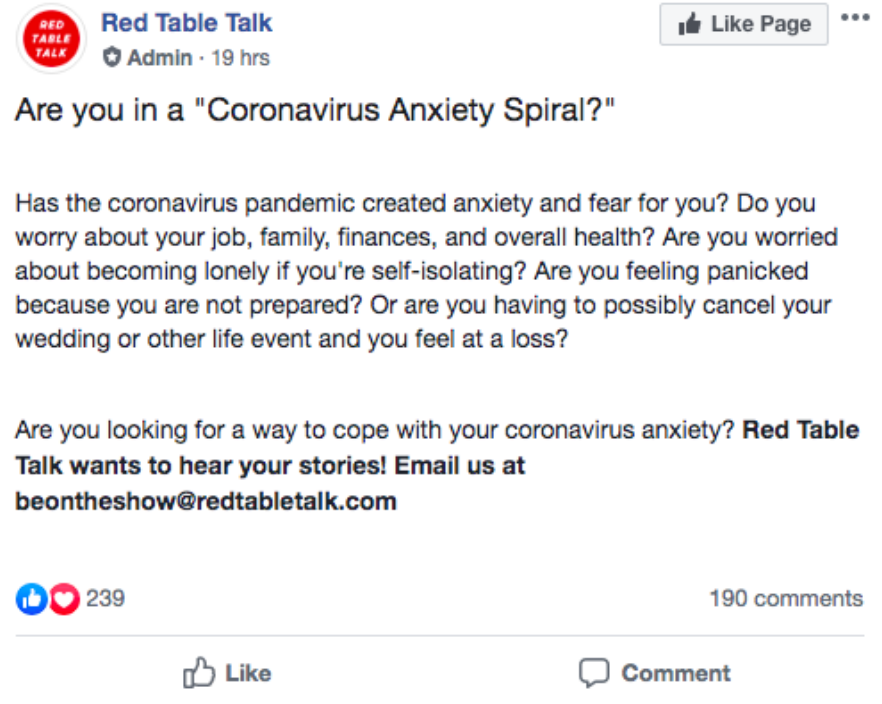
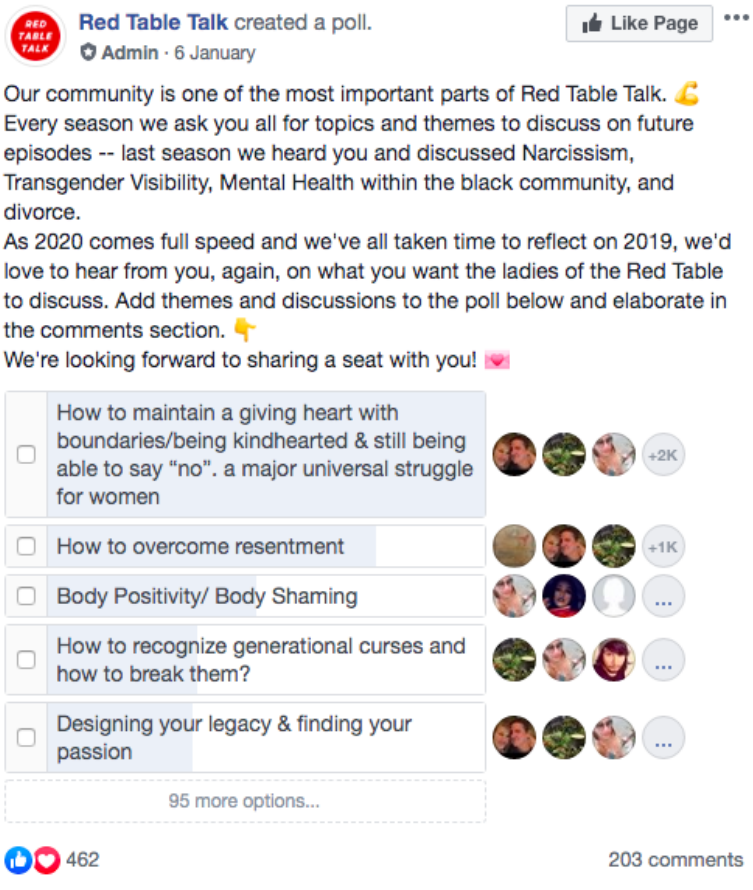


Figure 3.11 – RTT coronavirus episode

Admins will also post polls to get a sense of future episode topics that audiences want (**Figure 3.12**).

Figure 3.12 – RTT poll



In the previous season, topics such as narcissism and transgender visibility were voted as ones audiences wanted to see most on the show. As of May 2020, those episodes had 5.1 million and 3.8 million views respectively, demonstrating that eliciting audience feedback is an effective way to engage the community and earn views without always having to attract high-profile celebrities on the program. Most shows would be envious of having such an engaged fanbase and the ability of the show to adapt to feedback so quickly.

In summary, here is how RTT and Facebook Watch employ the research findings discussed in the previous sections:

1) They allow users to easily like, comment, and share. Showcasing that a show has millions of views and thousands of comments and reactions gives people the sense that they're part of a phenomenon larger than themselves – one of the reasons users partake in social TV.

2) Shows like RTT encourage fans to express their opinions in both the comment section of videos and the group page. The vast amount of comments and posts means users are likely to find others who share their viewpoints, helping people fulfill their need to belong.

3) There are so many social interactions occurring that even those who don't want to participate can still find a comforting social presence.

4) RTT is an unscripted show that doesn't require a lot of cognitive resources for audiences to follow along. The show is perfectly suited for multitasking, allowing users to engage in the social activity of the platform.

5) In-video chat means high levels of contiguity. Switching between watching a video and socializing on the platform doesn't require cognitive resources from users, allowing viewers to better enjoy the experience.

3.3 – Netflix Takeaways

Do I ever expect Netflix to have a community similar to the RTT group page on the Netflix platform? No. I think the nature of a group page like RTT's leans too heavily in the social direction. Netflix's service would probably benefit little considering fans can create those pages on their own through social media sites.

That being said, I do think Netflix would benefit from implementing features such as in-video comments, similar to what Watch does, and synchronous viewing with friends, similar to Facebook's 'watch party' option. These features would gratify the need for social connection *through* TV viewing, augmenting the Netflix experience for users who want to interact with others while watching or those who simply want to experience social presence.

These social connection capabilities would be especially pertinent for Netflix's unscripted series. This year Netflix released the reality TV shows *The Circle* and *Love Is Blind*. These shows weren't Netflix's first foray into reality TV, but their release schedule was different than other shows in the past. *The Circle* released four episodes every week over three consecutive weeks. *Love Is Blind* released five episodes upon release, four episodes the following week, the series finale the week after that, and then finally a cast reunion episode. This is a big change from the binge release model Netflix is known for. Prior to that, the only shows that had strayed from the binge-release model were the music reality TV show *Rhythm +*

Flow and the British reality cooking show *The Great British Bake Off*, which Netflix released weekly a couple of days after the episodes aired on Channel 4. Netflix had said this sort of releasing wouldn't be the standard, tweeting: "The weekly release of licensed titles (like Great British Baking Show) is not new and in hopes of keeping Rhythm + Flow's winner a surprise, we're trying something new! but not happening with more shows than that" (Netflix, 2019). But the fact that they've come back to this release model signals that a one-size-fits-all approach to how they distribute their material may not always work. Along these lines, some shows like *The Circle* and *Love Is Blind*, which thrive on week-to-week discussions by fans, would be well suited to implement elements of social TV. Perhaps even other unscripted genres - such as Netflix's talk shows, which have often struggled to gain traction on Netflix (Koblin, 2019) - could benefit from features like in-video chat.

As for synchronous viewing, two interesting developments recently occurred. First was Instagram's launch of a new feature called Co-Watching – released on March 24th - which lets users video chat with their friends as they watch liked, saved, or Instagram-recommended video from users' feeds. The feature is similar to Facebook's watch party option and it would surprise me if Instagram released such a feature unless Facebook has seen positive results from watch party. Second was the trending of 'Netflix Party'. Netflix Party is a third-party Google Chrome extension users can download for free that allows them to synchronously watch Netflix with friends and chat on the side (**Figure 3.13**).

Figure 3.13 – Users watching Love Is Blind while using Netflix Party

The extension started trending in 2020 as people looked for social experiences they could enjoy while self-quarantining due to the coronavirus. 'Netflix Party' was the 12th most-searched term in the US on Google on March 17th with over 200,000 searches that day. On March 18th, an article posted on reddit explaining Netflix Party reached the front page of reddit, amassing over 58,000 upvotes. The extension has been downloaded over one million times - not bad for a third-party extension.

It remains to be seen whether Netflix Party is just a fad stemming from people socially distancing or if this will be a more long-standing change in consumer viewing habits. However, the research on second screen use and the success of shows like RTT (we have not even touched upon the success of platforms such as Twitch, which will be touched upon in Chapter 5) demonstrate that social TV has the potential to work.

One concern worth mentioning is that in-video comments may lessen the conversation about a program on SNSs like Twitter. One could argue that it is public conversations, seen by those who aren't fans of a show, or even those who don't have Netflix, that draw new users into a program. By lessening the conversation on Twitter, one could argue, Netflix may lose the hype surrounding a series, which, as we've noted, is important since consumers want to feel like they're part of a wider phenomenon. This is a fair concern and one that's not fully addressable without further insights into Netflix users' data. What I will say, however, is that I don't anticipate these features of social TV to be expensive to develop (Netflix Party was developed for free after all!); Netflix should at least be experimenting with these features in order to determine their viability. Being able to construct a service that allows for elements of social TV is an affordance Netflix has as a DTC platform and it should be taking advantage of it!

Chapter 4 – Immersion

The next fundamental gratification we will discuss is immersion. For the sake of this paper, we will define immersion as the desire to get sucked into another world. Immersion, in its simplest form, can come from being enthralled in a storytelling universe while watching film or TV; in its most elaborate, it can result in meticulously crafted role-playing games - like Dungeons & Dragons or *World of Warcraft* - that aim to simulate life in another world.

This chapter will focus on how Netflix can utilize transmedia storytelling (i.e., the use of multiple mediums to tell a narrative) to create more immersive story worlds for its audiences. As we will see, though transmedia narratives have historically been difficult to execute, Netflix does not face the same limitations traditional media bumped against when trying to establish these types of stories in the past.

Before delving further into immersion and transmedia storytelling, however, it is important to discuss what we will refer to as the one-stop shopping fallacy. Understanding the fallacy, and how Netflix can overcome it, will help better frame the ideas proposed over the next two chapters.

4.1 – The One-Stop Shopping Fallacy

Imagine a couple is on a long drive and they want some food for the road. One person wants pizza, the other is craving mac and cheese. Coincidentally, they pass by a store that sells both. The couple is able to buy their food at the same spot – how convenient!

Now let us say this store did not exist. Instead the couple stop at a rest stop that has a pizza place and a separate restaurant serving mac and cheese next door to each other. Is the couple worse off? Not really. They lose some of the convenience of being able to go to the same spot, but they each still pick up their desired meal and eat on the road without having to make an extra stop as they had initially intended. In fact, the couple may even be better off now that they have gotten food from restaurants that specialize in making what they were each craving. This is all to say that while there is value for businesses in being a one-stop shop (i.e., they want to make as many sales as possible), often times there is really no additional value for consumers because they can often get their desired products at nearby specialty stores.

In Chapter 3, we discussed how Netflix can provide subscribers with the gratification of social connection by implementing features of social networks on its platform. In Chapter 5, we will discuss how Netflix can provide subscribers with the gratification of achievement by implementing features of gaming on its platform. Consumers already have these forms of entertainment at their disposal and they are created by companies that specialize in making them. With this in mind, how can Netflix avoid the one-stop shopping fallacy and manage to create value for consumers?

I will explain by circling back to the pizza and mac and cheese analogy: What if there were a restaurant known for its incredible cheese? The couple still has the option of going to different restaurants that specialize in pizza and mac and cheese, respectively. But there is now another restaurant that makes both and manages to stand out by specializing in making fresh cheese! Maybe then the couple realizes that it was not pizza or mac and cheese in particular that they really wanted, but rather that they had a craving for great cheese. The restaurant is no longer a one-stop shop that inadequately provides a bit of everything, instead it is a specialty restaurant with a quintessential ingredient that allows it to serve multiple customer cravings.

In the case of Netflix, their ‘cheese’, if developed correctly, would be its intellectual property (IP). IP is one of the few sustainable competitive advantages entertainment studios can capitalize on. Because of

copyrights and trademarks, competitors cannot mimic another studio's success if that success stems from IP. Additionally, studios often own the IP, therefore they are not beholden to individual filmmakers or actors - and the rising fees that come with them - in order to continue using the IP. IP is the reason Disney has been around for so long and dominated the market in recent years. Disney has been able to do live-action remakes of its animated IP (e.g, The Lion King), made sequels to long-standing film franchises (e.g., Star Wars), and propelled the success of characters and films that likely could never have been made as standalones by connecting them to popular story universes. (e.g., Ant-Man and Guardians of the Galaxy likely would not have succeeded were it not for the success of Iron Man, Captain America, and the Avengers before them).

In psychology, the exposure effect is a phenomenon by which people develop a preference for things – be it shapes, landscapes, consumer goods, or media – merely because people are familiar with them. Relatedly, there is the psychological phenomenon of fluency: Studies have shown that ideas and products that are processed more fluently (i.e., more smoothly or requiring less thought) are given a higher value and make people feel better. This is why good IP is crucial - it gives audiences a sense of familiarity, which is something they crave. As Derek Thompson (2017) notes in his book *Hit Makers*, "when people see an artwork that reminds them of something they have been taught is famous, they feel the thrill of recognition and attribute the thrill to the painting itself" (p. 43).

Consumers claim they are tired of sequels and remakes. Often times, however, if it were not for the familiarity of a storytelling universe, consumers would be hesitant to spend time with and pay for a story that is completely unknown to them. It is why the *The Cellar*, a well-written low-budget script, struggled to get made, but ended up grossing $110 million at the box office when it was retitled *10 Cloverfield Lane* and labeled part of the already commercial *Cloverfield* universe. It is why *The Mandalorian* – a slow to develop series without notable stars, inspired by Westerns and samurai films – can be given a $15 million per episode budget (Andrews, 2019) simply because it is tied to the Star Wars universe. Audiences do want new things, but without a guarantee of quality they are scared of wasting their time and will instead turn to what is already familiar. As Derek Thompson's (2017) thesis of his book states: "Most consumers are simultaneously neophilic – curious to discover new things – and deeply neophobic – afraid of anything that's too new" (p. 7).

Netflix will likely never be able to fully displace Facebook or *Fortnite* in their respective markets. But if Netflix offers ways to meet gratifications such as social connection and achievement in a way that invokes its IP - and if its IP is strong enough – it gives users another reason to log on to Netflix. The hope is that rather than using Facebook to socialize on a certain day, two users will instead decide to chat through the Netflix Party function while watching a new episode of *Love Is Blind*. Or that rather than playing *Fortnite* one evening, a user may instead decide to play a newly developed *Witcher* mobile game on the Netflix platform; *Fortnite* may have better gameplay mechanics, but the *Witcher* game is an opportunity to spend more time in the *Witcher* storytelling universe, which that user had fallen in love with through the TV series, books, and video games that preceded it. In these cases, it is not a specific social network or video game (pizza or mac and cheese) that consumers are seeking, instead it is Netflix's IP (cheese!) that is drawing users in - a crucial point to remember throughout this chapter.

As we discuss transmedia storytelling, it will inherently involve proposals to extend into mediums (e.g., podcasts, short-form videos, gaming) that other companies already specialize in. Netflix, however, can set itself apart by interweaving its IP across the different mediums for a storytelling experience that competitors would have a hard time rivaling. If executed correctly, this system of storytelling creates a reinforcing loop as it makes IP even stronger, which then makes Netflix's transmedia storytelling approach more effective and harder to replicate.

With these ideas in mind, we can now move to discussing immersion.

4.2 – Immersion Overview

Immersion is closely tied to the concept of transportation, which we briefly mentioned in the previous section. Transportation into a narrative world was defined by Green and Brock (2000) as an "integrative melding of attention, imagery, and feelings." It is usually accompanied by a loss of awareness of surroundings – it is why people sometimes say they got 'lost' in a story.

I consider immersion to be a subset of transportation. Diversion – one of the other fundamental gratifications we have identified – is a separate subset of transportation. The difference between diversion and immersion is that while diversion (which Netflix currently does a great job providing) encompasses the desire to escape from the mundane day-to-day of the real world as a form of tension release, immersion is a much more active desire to be transported into a different world. For the purpose of this chapter we will use the terms immersion and transportation interchangeably, though it is worth highlighting there is a difference between the two.

Another distinction to make is between transportation and presence (sometimes also referred to as telepresence). Presence can be summarized as the illusion of being elsewhere created through a communication medium. It is why many prefer the movie theater experience over watching something at home: the all-encompassing screen, surrounding darkness, and minimization of distractions make it easier for audiences to feel they have entered into a storytelling universe. High levels of presence are also why many proponents of virtual reality believe in the future of the medium. Rather than focusing on how a medium and its technological capabilities enable viewers to 'enter' a world, transportation looks at how viewers get 'lost' in a world through narrative. This paper will focus on transportation and not presence, as the purpose is to determine how Netflix can *currently* improve its service, rather than speculating on whether future technology will help achieve more seamless levels of presence in entertainment.

4.2.1 – Importance of Immersion

Transportation is highly correlated with levels of enjoyment (Busselle & Bilandzic, 2009; Green et al., 2004). Consequently, transportation theory states that levels of enjoyment can benefit from transportation into a narrative world and the consequences that come from that immersive experience (Green & Brock, 2000). Some of these consequences include (Green & Brock, 2000):

- A greater liking for protagonists
- Beliefs more in line with the story's conclusion
- Experiencing stronger emotions towards the narrative

Additionally, individuals who show high levels of transportation are more likely to recommend the story to someone else and are willing to pay more for the sequel (Green et al., 2004). Overall, immersion is a powerful gratification that if properly harnessed can increase audience enjoyment of a story, consequently having the potential to increase sales through word-of-mouth and build demand for sequels.

4.2.2 – Immersion & Details

There are a couple factors that have been shown to affect a viewer's immersion levels, these include empathy created for characters (Slater & Rouner, 2006), audience familiarity with the themes or topics in story (Green et al., 2004), and narrative consistency (Busselle & Bilandzic, 2008). The one that we will focus on, however, is the level of detail in a narrative and its impact on immersion.

Green et al. (2004) performed a study in which they compared reader levels of transportation in stories with different levels of detail. One group read the first chapter of Carson McCuller's *The Heart is a Lonely Hunter* in its original form, the other group read a condensed version that kept all the plot elements but removed extraneous details about the setting or daily actions of the characters. The study showed that the individuals who read the more detailed story experienced higher levels of transportation and enjoyment. Green et al. postulated that this was either due to the richer details allowing readers to form more vivid mental images of the story or feel closer to the characters.

Unfortunately, not a lot of other research has been done on the impact details have on immersion since then. But when we think about the most successful media franchises, at their core they all seem to be built on extravagant levels of narrative detail. Franchises like *Lord of the Rings*, *Star Wars*, and the Marvel Cinematic Universe have developed such epic, intricate storytelling universes that one could go as far as labeling them encyclopedic narratives. They give such extensive views into a storytelling world to the point where one could find encyclopedic levels of detail about the world if one desired. The painstaking level of detail in these stories make their universes more vivid for the audiences, helping transport them into the worlds, increasing their enjoyment of the stories, thus creating an affinity for the franchise – it is why audiences have gravitated towards these encyclopedic narratives for centuries.

4.3 – Encyclopedic Narratives

4.3.1 – History of Encyclopedic Narratives

Star Wars: Episode IV – A New Hope, released in 1977, was the first installment of the *Star Wars* series. Episodes I, II, and III had not come before it, nor would they until two decades later. During the making of *A New Hope*, Mark Hamill asked George Lucas why it was being called *Episode IV*. Lucas replied, "To give the audience the feeling that they had missed something and that they were coming into the middle of this story" (Oxford Union, 2016).

This was not a new technique – it is called 'in media res', Latin for 'into the middle of things', a term used when a narrative opens in the middle of the plot – in fact, it is one of the main characteristics of an epic. Epics date back several millennia, with *The Epic of Gilgamesh* (c. 2500-1300 BC) being the first recognized epic and Homer's *The Iliad* (c. 1260-1180 BC) being another noteworthy epic of that time.

Other characteristics of epics include a vast setting covering many nations, the world, or the universe; heroes that embody values of civilization; a tragic hero's descent into some sort of underworld; and epic 'catalogues', which are extensive lists of objects, places, and people of the storytelling universe (e.g. the Catalogue of Ships in *The Iliad* lists leaders of each contingent of the Achaean army that sailed to Troy, the settlements represented by each contingent, and the number of ships used by the contingents) (Harmon & Holman, 1999). All of these techniques help create the sense of an encyclopedic narrative.

The stories in Greek mythology are another great example of encyclopedic narratives. In these stories gods and goddesses continually reappear in different tales. These deities are rarely formally introduced, with stories dropping us in media res, as the readers and listeners were likely already familiar with them and their surrounding mythology.

In these encyclopedic narratives, the storytelling universe is always larger than a single plot. These universes carry a sense of permanence and continuity – almost as if that universe carries on even after one stops reading. The encyclopedic narrative also offers almost endless discussion points for fans, such as character origins, the rules of the universe, etc. This endless discussion helps the content spread.

Many encyclopedic narratives have become classics in Western literature, including Homer's *The Iliad*, Dante's *Divine Comedy*, and Milton's *Paradise Lost*. Newer encyclopedic narratives continue to find success in today's day and age, as seen by the reach of *The Lord of the Rings*, *Star Wars*, and Marvel.

4.3.2 – Modern-Day Encyclopedic Narratives

J.R.R Tolkien wrote ***The Lord of the Rings*** in 1954, initially as a sequel to his 1937 novel *The Hobbit*, though it eventually morphed into a much larger project. The series introduced a universe that spans several millennia, from the creation of Arda - the world of Middle Earth - up to the Fourth Age. Many of the details of the universe are irrelevant to the main plot of the series - The War of the Ring, which took place in the Third Age - yet Tolkien insisted that these specifics be kept in his trilogy. Tolkien's vision of Middle Earth was so elaborate that *The Return of the King*, the final installment of the trilogy, contained six appendices, comprising nearly a third of the book's length, with information on Hobbit family trees, calendars, and languages of Middle Earth's inhabitants. Tolkien referred to *The Lord of the Rings* universe as a Secondary World because of the breadth and expansiveness of the series. After his death, his son published *The History of Middle Earth*, a 12-volume series that compiled and analyzed all material relating to Middle Earth. *The Lord of the Rings* is the best-selling novel of all time; *The Return of the King* film adaptation is tied for the record for most Academy Award wins; and in 2017 Amazon bid $250 million for the rights to bring the series to TV. It is estimated it will cost Amazon over $1 billion total for the series when factoring in production expenses (Siegel, 2018).

The first film in the ***Star Wars*** series was released in 1977. During that time, Lucasfilm partnered with Marvel to also release a comic book tie-in of the films. Though movie tie-ins previously did not sell well, the comics exceeded commercial expectations. Jim Shooter, Marvel's editor-in-chief at the time, credits the strong sales of the *Star Wars* comics for saving Marvel from bankruptcy at that time (Shooter, 2000).

In 1978, the comics expanded the *Star Wars* universe by featuring storylines that were not part of the original films. The body of media became known as the *Star Wars* Expanded Universe. It included novels, radio series, role-playing games, and video games. *Heir to the Empire*, written by Timothy Zahn as the first novel in the *Star Wars Thrawn* trilogy, reached #1 on the New York Times bestseller list upon release in 1991, eight years after the release of *Episode VI*. In *The Secret History of Star Wars*, author Michael Kaminski credits the renewed interest in *Star Wars* during the 1990s as a factor in Lucas' decision to create the prequel trilogy (Kaminski, 2008, pp. 289-291).

In 2000, Lucasfilm's publishing department decided it would create what would be known as the Holocron, a database of characters, locations, species, and vehicles in the *Star Wars* universe. It now consists of over 55,000 entries (Chee, 2012), divided into different levels of canons ranging from G-canon (George Lucas canon; i.e., events that take place in the film) to N-canon (non-canon; i.e., 'what if' stories such as the *Star Wars Tales* comic anthology that featured stories separate from, and not necessarily in continuity with, previous storylines) (Whitbrook, 2015). When Disney acquired Lucasfilm in 2012, Disney declared the Expanded Universe as non-canonical and said it would replace the previous hierarchical canon with a more cohesive one. It has since expanded the *Star Wars* universe with the release of a new trilogy, *The Mandalorian* TV show, and video games such as *Battlefront*, among others.

Marvel has perhaps been the most successful at executing encyclopedic storytelling in recent times, as evidenced by the success of the Marvel Cinematic Universe. Marvel debuted *The Avengers* comic series in 1963, though superheroes had made appearances in each other's comics before that period. DC Comics' *The Justice Society of America*, later renamed *The Justice League*, premiered in 1940 and was the first time a team of superheroes joined forces in one comic (Daniels, 1995). Stan Lee would go on to borrow the concept of a team of superheroes with his own Marvel characters, realizing that a shared universe heightens the stakes for the readers and can increase sales. Fans could read *The Avengers* as

standalones, but often reading the comics of individual superheroes would enrich the experience as readers would notice Easter eggs or pick up information that helped make more sense of the characters.

Particularly unique about *The Avengers* comics was that its storyline took place in New York City and not in a fictional world, making it easier for the readers to feel as if they were closer to their favorite superheroes. When Marvel released *Iron Man* in 2008, producers had thousands of Marvel comic books to choose from to decide the best direction of the cinematic universe. Marvel has now released 23 films and is the highest-grossing film franchise of all time.

These modern-day narratives may be framed as groundbreaking, but they've really just been following the storytelling conventions that have existed for centuries in epics. These stories begin in media res, include vast settings, have heroes that embody values of civilization and descend into some underworld, and have epic catalogues for audiences to sink their teeth into. Audiences can immerse themselves in these worlds through the encyclopedic array of information the stories provide.

What's unique about the modern-day encyclopedic narratives, however, is the medium(s) they use to create their worlds. As Matthew Ball and Jonathan Glick (2019a) put it, "The scale and scope of the MCU story feels unprecedented. Yet its main innovation is not narrative – it is that it is told via film, rather than voice, or text." These stories aren't being told just through film. As Derek Johnson (2012) writes of the Marvel Cinematic Universe:

> Dangling scenes and quick character teases in Marvel's films foster not just narrative expansion but also an audience participation that extends the commercial viability of the films into new media markets beyond theatrical distribution.

As mediums converge, studios can provide fans with countless hours of access into a storytelling universe. When audiences finish *Avengers: Endgame* they can now turn to Marvel's *WandaVision* TV series; when they finish *WandaVision* they can switch over to the thousands (and counting) of comic books Marvel has released; if that's still not enough, fans can venture further into the Marvel universe through Marvel's mobile game *Super War* or the soon-to-be released *Avengers* console game. As we mentioned in Chapter 1, this idea of multi-media entertainment is called transmedia storytelling.

4.4 – Transmedia Storytelling

Henry Jenkins (2007) defines transmedia storytelling as "a process where integral elements of a fiction get dispersed systematically across multiple delivery channels for the purpose of creating a unified and coordinated entertainment experience." A few principles that transmedia storytelling, in its best form, should follow are (Jenkins, 2006a):

- Each narrative piece should be self-contained so that fans don't have to experience one narrative to be able to enjoy another.

- Each narrative piece should make a distinctive contribution to the whole by building on or adding to previous storylines.

- Each medium should make use of its unique storytelling capabilities to ensure it maximizes its contribution to the whole story. For example, film should be used to portray the most visual elements of a story universe; video games to allow users to take control, etc.

- There should be a synergy between the content and mediums so that those who have watched, read, played, or listened to previous material will have an experience that is greater than the individual sum of the parts. Their experience will be greater than those who had no prior exposure to the story world, though, again, each story is still self-contained so it can be enjoyed on its own.

It is hard to envision the balance of being able to appease die-hard fans while making content accessible to casual viewers. A good analogy for how this can be executed is thinking about the way the World Cup manages to please a spectrum of fans with different levels of fandom. There are the devout fans who watch all the games and keep up with news on a continuous basis. They know the history of the tournament, the managers, the formations, the impact a good game will have on a player's legacy, etc. Then there are the fans who watch a couple of club games throughout the year and keep up to date on big transfer news and league winners. They have a solid understanding of the game, but not to the extent of the devout fans. Finally, there are the casual fans who rarely watch soccer, but tune in every four years to support their country and because they know everyone else is watching. The casual fans' experience is shallower than that of the devout fans, but the casual fans are able to enjoy the tournament nonetheless. If they so desire, casual fans have the information available to follow more closely, but as Jenkins (2006a) notes, "going in deep has to remain an option – something readers choose to do – and not the only way to derive pleasure from media franchises".

For the most devout fans that want to put in the work to fully immerse themselves in a storytelling universe, the information available must be encyclopedic. These storytelling universes must give the illusion that they are constantly progressing – that they existed before a fan tuned in and that they keep moving even when audiences step away from the story. Even if most fans will rarely engage to such levels of fanaticism, audiences should always have the option to learn more about a world should they so choose.

Many attempts at transmedia, encyclopedic narratives have failed in the past due to limitations of storytelling mediums. The following sections will highlight four of these shortcomings and detail how Netflix, with the affordances of being a DTC streaming service, is primed to overcome them.

4.4.1 – Transmedia Shortcoming #1: Limitations of Traditional TV Storytelling

The Problem

Traditional TV was primarily episodic, meaning that each episode had to conform to working as a stand-alone. The reason for this was simple: shows were scheduled at set times and networks didn't want viewers to feel like they could no longer watch a series if they missed an episode. Networks wanted their audience to be as broad as possible and a serialized storyline would mean losing viewers. As a result, shows would essentially reset at the end of every episode. Procedural dramas and sitcoms are great examples of this: *NCIS* and *Seinfeld* are both self-contained shows that audiences can keep up with even if they're joining halfway through the season.

Before the year 2000, the Emmy for Outstanding Drama was primarily given to procedurals in which a problem was introduced and solved in its entirety within one episode – *Law & Order, NYPD Blue, ER,* etc. In 2000, *The West Wing* won the award and the award has been given to serialized dramas like *The Sopranos*, *Breaking Bad,* and *Mad Men* ever since. This shift signals the power of serialized content: it allows for complex storylines, nuanced and evolving characters (at times antiheroes), and greater worldbuilding. Overall, if audiences are willing to put in the time, serialized storytelling provides a more rewarding experience for its viewers.

Babylon 5 was one of the first shows to follow a serialized format and is a perfect example of how traditional TV could limit a story's potential. The show ran on Warner Bros. Prime Time Entertainment Network (PTEN) from 1994 to 1997 and TNT for its final season in 1998. *Babylon 5* is especially notable for having planned out its entire five seasons before shooting, unlike other shows which develop a new season's storyline after each season's end. The show's creator, J. Michael Straczysnki, labeled the series a "novel for television" since the five-year story was conceived in advance (Straczysnki, 1993).

The show was also unique for its use of online message boards, which were gaining popularity around the time of the show's release. Straczynski made use of the message board "rec.arts.sf.tv.babylon5" to interact with fans, answer questions regarding the show, and post background information on the show's setting, mythology, etc. This type of access was unprecedented for sci-fi fans who in the past couldn't participate in fan communities with such ease.

The show became a cult hit amongst sci-fi fans. In its review, IGN called it "the best sci-fi show to ever grace television" (Conrad, 2002). Many were also appreciative of the technical achievements of the program, with the show being hailed as having "launched the new era of television CGI visual effects" (NewTek, 2011). The test pilot movie for the show won an Emmy for Achievement in Visual Effects in 1993 and the series won an Emmy for Achievement in Makeup in 1994.

Despite the show's cult following, it also experienced many difficulties due to its ambitious storytelling aspirations. First, the ratings were never great. The show started off strong with the pilot movie reaching a 9.7 Nielsen rating. The pilot episode, released a year later, scored a 6.8 which was still solid. After that the show never really recovered. The second episode got a 5.0 and the rest of the series averaged in the 3s (Dempsey, 1995). Maybe the quality of the show was just not great, but the ratings also speak to audiences of the time not having the patience to follow multi-episode plot arcs on linear TV. Though not high, the ratings were steady throughout seasons two through five, showing the show had a loyal fanbase but had a hard time attracting new viewers.

Second, the filming of multi-episode arcs caused a lot of constraints, which was especially problematic for a show that didn't have a big budget. As a way to save costs, actors were hired for a certain number of episodes per season. That's not a big issue for episodic shows as creators can quickly rewrite or adapt a storyline since arcs are self-contained within an episode, but when a character's arc is developing over multiple episodes this can lead to logistical headaches. For instance, what if during shooting, the show's creator felt an arc was underdeveloped so he or she wanted to add a small scene for the character in an episode the actor hadn't been hired for? The show cannot just hire the actor for one scene, it has to pay the actor for the entire episode. Straczynski (2019) described the dilemma in an interview saying, "So do I move the arc piece earlier, or pay the extra fee to have the actor come in? Or give the arc slot to someone else? It is like this giant LEGO set. But the difference is the pieces are always moving."

Finally, and this was perhaps the biggest issue *Babylon 5* experienced, the show endured creative mishaps due to the threat of cancellation. Going into season 4, it seemed that PTEN, the channel on which *Babylon 5* aired, was going to be split off and Straczynski knew this meant season four would be the show's final season. The major plotlines which *Babylon* had been building towards (character arcs, wars, dissolution of empires) were meant to be resolved over five seasons, not four. With his five-season plan at risk, Straczynski had to cram as many season five storylines into season four. PTEN did end up splitting up after the fourth season of *Babylon*, but TNT picked up the show for its fifth season. Straczynski had at that point resolved many of the plot's big storylines so now he had to come up with new ones. Season five ended up being anticlimactic for many. As The Guardian wrote:

> Unexpectedly, however, the show was renewed, but by that point the plasma tanks were running on empty. All the plotlines were used up. Fans who stuck with it to the end were treated to one of

> the most emotional show finales ever, but even that was tinged with disappointment as it had originally been filmed for the fourth season. With the big bad species the Shadows defeated in season four a new, less powerful, threat was introduced in the form of a servant race who described themselves as "a shadow of a shadow". They might as well have been describing the show's limp send-off. (Gazur, 2019)

Overall, the case of *Babylon 5* underscores how a series aiming to build an encyclopedic narrative could be hampered by the limitations of traditional TV.

The Solution

A streaming platform can overcome many of these limitations. In fact, in this day and age these issues may seem insignificant due to how streaming platforms have changed audiences' viewing habits over the past decade.

The biggest way streaming has changed viewing habits is through on-demand viewing. If *Babylon* fans, for example, had something come up the night of an episode's release, it meant missing out on plotlines and having to find a rerun. If viewers missed out on a couple of episodes in a row the chances of being able to catch up were slim and viewers would have to catch up in between seasons. The snowball effect continues, eventually causing the program to take a hit in the ratings. With on-demand viewing on streaming platforms users are never at risk of falling behind.

Some viewers have even shown that they prefer to wait for the entire season of a program to air on TV in order to binge the series when it is available on-demand without week-long breaks in between episodes. Such viewing habits have led to shows experiencing a rating bump after making their previous seasons available on Netflix. The best example of the 'Netflix bump' was seen in *Breaking Bad*, as ratings indicated audiences caught up on the show through Netflix and then tuned in to AMC for the airing of its final season. The show consistently averaged 2.1 million viewers for its first five season premieres, then jumped to 5.9 million for the premiere of the final season; the season finales averaged less than 2 million viewers over the first five seasons, then jumped to over 10 million viewers for its final episode. The bump in ratings for the series was so gargantuan for its last season that it led Variety to wonder if "maybe the studio should be paying Netflix instead of the other way around given you could argue that the studio gets more marketing muscle than the streaming service gets from the content addition" (Wallenstein, 2013).

The show increased in quality from season to season - the first season had a Rotten Tomatoes score of 87% and a Metacritic score of 73; the final season had Rotten Tomatoes and Metacritic scores of 97% and 99 respectively - but the increases in ratings cannot solely be attributed to the change in quality. *The Wire*, another five-season show that experienced a similar season-over-season increase in RT and Metacritic scores and is widely recognized as one of the top TV shows of all time, only declined in viewer numbers as the series progressed, which show creator David Simon (2006) attributed in part to audiences struggling to keep up with the show's complexity. Unlike *Breaking Bad*, *The Wire* didn't have easy on-demand viewing access for audiences. It is possible that if *Breaking Bad* were only available on linear TV it would have had a similarly tough time acquiring new audiences.
Another notable beneficiary of the Netflix bump is the show *Riverdale*. After putting its first season on Netflix, *Riverdale* experienced a 60 percent ratings increase in the premiere of its second season; teen viewers quintupled in that time span (O'Connell, 2017). "Probably more people watched it on Netflix thinking it was a Netflix show," said Rick Haskins, a CW executive (as cited by O'Connell, 2017).

There are various other similar examples and they indicate that viewers, at times, may not tune in to a program simply because there is no flexibility in the program's viewing schedule; allow those users to watch the program on their own time and there's a better chance they'll be hooked. These advantages of

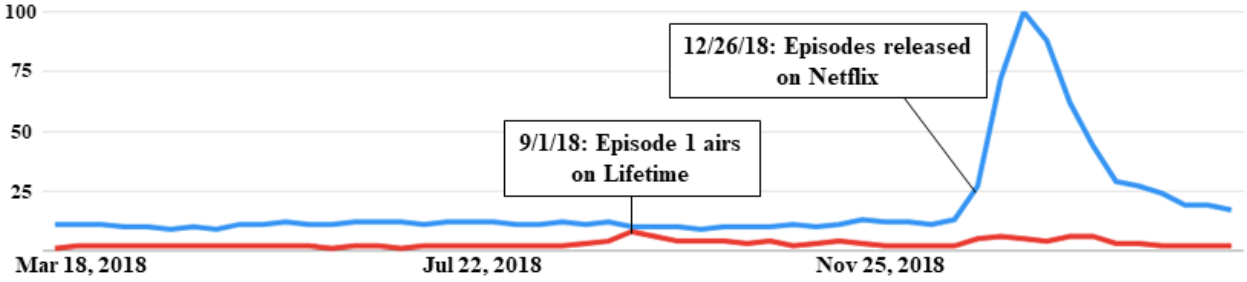
on-demand viewing seem particularly beneficial for encyclopedic narratives. Massive sci-fi or fantasy blockbusters sometimes struggle to gain traction at the box office due to audiences not having familiarity with that blockbuster's storytelling universe. Maybe the $10 ticket to see the movie in theaters was too big of an investment for audiences, but if that movie is available to them at the comfort of their homes, on a service they're already paying for, then audiences may be more inclined to tune in.

Tied to this is the benefit that a sci-fi or fantasy show can experience from the binge release model. Netflix has found that most series have a 'hook' episode – 70% of viewers who get to the hook episode go on to watch the entire season (Netflix, 2015, as cited by Travers, 2015). From the show data it released, the hook episode for the sci-fi, fantasy, and superhero series was on average nearly two episodes after the hook episode for all other series. I would posit that the reason for this is that the success of these genres is predicated on proper worldbuilding, which require additional episodes to establish the rules of the universe. When these episodes air on a week-by-week basis audiences may not have the patience to stick around for the hook episode, but when they can binge through a season of a series it is much easier to get hooked. I would also venture to say that all of these reasons are why shows like *Game of Thrones* and *The Witcher* have experienced recent success (the first season of *Game of Thrones* didn't have particularly strong ratings, but it coincided with the launch of HBO Go so it was one of the first series HBO users could binge after release).

Most recently, it is beginning to appear that Netflix's advantage extends beyond just providing convenient viewing time for users; it now seems that, through refinements it has made over the years to its recommendation algorithm, Netflix can heavily influence the discovery of its programs. This can be seen in shows like *You* and *Waco*, which were ignored in their traditional TV runs but became hits on Netflix.

You premiered on Lifetime in 2018 to small viewership. Only when it started streaming on Netflix at the tail end of the year did it take off. Complex wrote, "Thanks to Netflix, 'You,' a Show From 2018, Is 2019's First Hit" (Tharpe, 2019). As seen in **Figure 4.1**, Google searches[7] for the term '*You* Netflix' spiked dramatically upon the release of the series on the platform, whereas searches for '*You* Lifetime' were almost nonexistent during the show's network run.

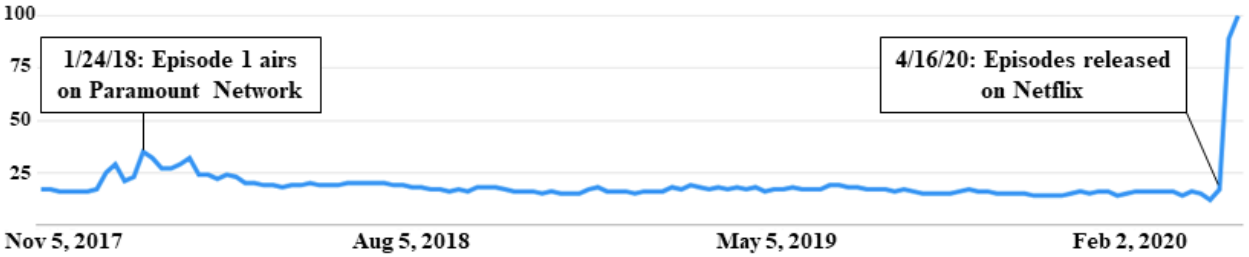
Figure 4.1 - Google trends for 'You Netflix' (Blue) vs. 'You Lifetime' (Red)



Waco, a six-episode miniseries, originally aired on the Paramount Network in 2018. The show received mixed responses from critics, with a 68% Rotten Tomatoes score, and averaged only 840,000 viewers in its run. It was released on Netflix in 2020 and managed to become a top four most-watched show on the service the week of its release. As shown in **Figure 4.2**, Google searches for the show spiked upon its release on Netflix, while they were significantly lower during the show's linear TV airing.

[7] Google search trends is admittedly an imperfect measure of a show's popularity, but it is nonetheless a useful metric in this context considering Netflix often does not reveal other viewership metrics.

Figure 4.2 – Google trends for Waco



After seeing the success of *Waco* on Netflix, Forbes wrote:

> Netflix has a unique power that it seems to be beginning to understand. It can take a halfway decent show, completely ignored on a more traditional TV Network, adopt it into its Netflix family, and then turn it into a hit by the simple fact that it exists on the service (Tassi, 2020).

This advantage cannot be understated. Not since the era of the big three networks has a distributor had so much power in controlling the fate of its content. This is not to say that Netflix has a Midas touch capable of making bad content popular. But if Netflix can ensure that new series are at least given a shot by viewers, it eliminates one of the uncertainties of content development. Too often on linear TV of the past - due to reasons ranging from inadequate timeslots to poor marketing – worthy shows failed simply because they were never discovered by their would-be audience.

One more advantage Netflix has in this regard is that it follows less rigid release formats, which is advantageous to the creative process. The often-discussed example of this is *House of Cards* not having to manipulate story arcs to create arbitrary cliffhangers at the end of every episode, a big change from traditional TV which encouraged artificial moments of suspense before every commercial break. Netflix continues to double down on this strategy, allowing filmmakers the creative freedom to tell each individual story the way it is meant to be told. In a recent interview, Ted Sarandos discussed how Netflix received a feature script that executives really enjoyed but felt had countless storylines that went unresolved by script's end. When the issue was addressed with the writer, he admitted to having cut out 150 pages from the script to conform to feature film conventions. The script was instead adapted into a miniseries format, with room for the creator to fit in all the storylines he originally had in the script. The series, *Godless*, achieved critical success, scoring an 85% on Rotten Tomatoes. "Tell this show, make this film in exactly the running time you need," Sarandos (2020) implores of filmmakers – a big change in the freedom and flexibility filmmakers have in comparison to what creators like J. Michael Straczynski experienced in their relationships with networks of the past.

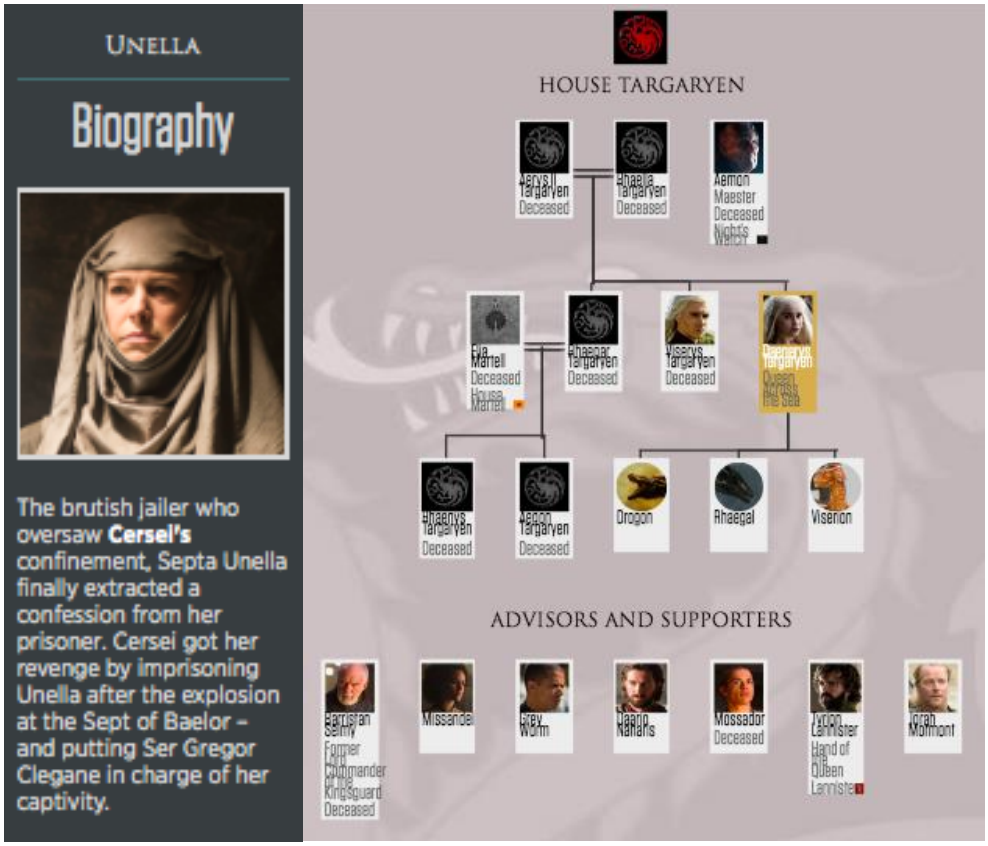
Though previously it may have been difficult for TV audiences to keep up with and engross themselves in the sci-fi and fantasy genres, viewers can now watch these series at their own leisure without having to worry about falling behind and can more easily get hooked. Additionally, improvements in discoverability have made the process of shows finding their audience more effective. Coupled with the newly found creative freedom artists have working in the streaming space, this all bodes well for the future of encyclopedic narratives on streaming services. Broad audiences now have the chance to engage with encyclopedic narratives (of potentially higher quality) in a way that they weren't able to before.

4.4.2 – Transmedia Shortcoming #2: Inability to Measure Transmedia Success

The Problem

Studios and networks have used transmedia campaigns to market their content in the past. Some of these efforts have been successful. For instance, at 2018's SXSW, HBO created a *Westworld* exhibition by refurbishing a 'ghost town' amusement park to recreate Sweetwater, the setting for the show. It earned HBO a lot of positive press, including headlines like Esquire's "Westworld's SXSW Park Was an Incredible Mindfuck of a Social Experiment" (Miller, 2018). Often, however, these transmedia attempts feel clunky. For *Game of Thrones*, HBO built out interactive maps, character pages, and histories of each house, but this material is hard to navigate and feels like a marketing throw-in rather than a well-thought-out addition.

Figure 4.3 – Game of Thrones house/character page



The issue with these campaigns is that it can be hard to measure their effectiveness. Their sole purpose is to keep viewers engaged and attract new audience members. But the question is: do any of these efforts actually bring in new viewers? Were the dedicated fans going to watch the show anyway, with or without these marketing initiatives? It ties back to the classic saying in marketing: "Half the money I spend on advertising is wasted; the trouble is I don't know which half."

Because it is unclear how effective these materials are for increasing viewer count, they often receive limited budgets and little detail from the show creators. Without direction from those guiding the vision of the show, the materials can often feel disjointed from the actual series.

The Solution

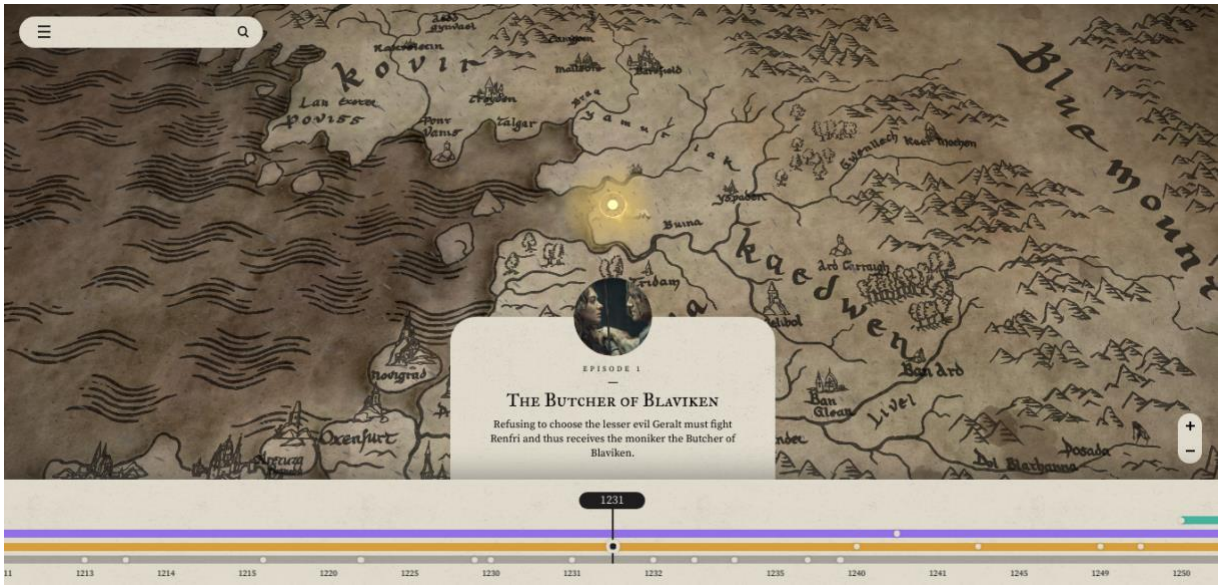
Being a DTC platform mitigates this issue for Netflix. As a streaming service, the endgame is not just increasing subscriber count, it is also increasing consumer time on the platform – as we mentioned, a KPI for Netflix is hours per subscriber. So, if an initiative gets users to spend more time on the Netflix platform (a figure which is easily measurable), it can be considered a success. Theoretically, this allows Netflix to spend more resources developing these materials. The key to this strategy is that these transmedia materials must be on the Netflix platform and not on external sites.

The Witcher is an example of a recent Netflix show that employed transmedia materials. The show relies on elaborate - at times confusing - worldbuilding so Netflix released a character timeline two weeks after the show's release to help explain the multiple timelines of the plot. The tweet containing the timeline, posted by Netflix's 'NX' account, which focuses on sci-fi and fantasy content on Netflix, received nearly 20,000 likes, a pretty sizable number considering the account has less than 200,000 followers.

Figure 4.4 – The Witcher character timeline

Additionally, Netflix created a website containing an interactive map of the Witcher continent (**Figure 4.5**), which drew positive media buzz. (Maas, 2020; Roberts, 2020).

Figure 4.5 – The Witcher interactive map



There is no reason that these interactive maps and timelines shouldn't be on the Netflix platform. Some may raise the concerns that including these materials on the platform could overcomplicate the service for users, that Netflix would lose the clarity of its offerings if it began providing more than just film and TV series on its platform. But there are definitely ways to offer these materials without confusing users. For example, when a Netflix user currently clicks on *The Witcher*, there is a tab for 'trailers and more'. This tab could be what provides access to the necessary transmedia materials. Instead, it contains a few short *Witcher* clips such as character introductions and behind-the-scenes extras about the show's writing process – similar to the extras one could find at the end of a VHS or DVD. It is hard to believe that the nature of these extras has not changed over the course of decades! Unlike traditional TV, Netflix has the affordance of interactivity; Netflix should be taking advantage of it by creating more immersive transmedia material on its platform to keep users on the service.

Many sci-fi and fantasy series have wiki fandom pages containing in-depth information on the show's lore. This content should also be on the Netflix platform (and, again, there are ways to enable users to access this content without crowding the home page). Not everyone will spend time with these transmedia features, but it could certainly increase the time that the most devout fans of a series spend on the Netflix platform. With the data Netflix can obtain on these transmedia efforts, it can better determine their effectiveness and, if successful, dedicate more resources to them. If these efforts have shown they can draw in audiences and have bigger budgets behind them, then perhaps filmmakers will be more motivated to lend their creative vision to improve them further. Ultimately, these features shouldn't be seen as mere marketing materials, but rather additional content that can help improve the chances of transporting users into the worlds of encyclopedic narratives.

4.4.3 – Transmedia Shortcoming #3: Lack of Incentives for Talent & Inadequate Organizational Structures

The Problem

When accepting the Oscar for Best Director, Bong Joon-ho said in his speech, "When I was young and starting in cinema there was a saying that I carved deep into my heart which is, 'The most personal is the

most creative.'" That saying, he revealed, came from Martin Scorsese. A director's work is heavily influenced by the work of directors before them and giving praise to those directors is part of the culture of film and TV.

This brings up an issue facing transmedia storytelling: up-and-coming creatives want to follow in the footsteps of directors before them, but because there haven't been many creatives pull off, or even attempt, a transmedia narrative, creatives don't grow up saying they want to be transmedia storytellers. And the fact that, in the current Hollywood system, directors are judged only by the quality of their film or TV series means there is little incentive for them to spend the time and energy to create a transmedia production.

Filmmakers are the ones who have the creative vision to execute proper worldbuilding. When they have little involvement with transmedia materials, the quality of those products will not be in line with the rest of the series, rendering them useless. For instance, *Lost* co-creator Damon Lindelof had no involvement in the creation of the show's first tie-in novel and thus it is no coincidence that when Lindelof finally got around to reading it he put it down after a chapter and a half thinking, "This is terrible" (as cited by Manly, 2006). Lindelof then created a *Lost* tie-in book of his own that ended up making the NYT best-sellers list. Even after the book's success, however, he admitted that he worried he was devoting "too much attention all those extracurricular projects, and shortchanging his primary responsibility" (as cited by Manly, 2006).

Without a filmmaker's involvement, these attempts at transmedia storytelling end up being just shallow marketing materials. Ivan Askwith (2007) notes of the pre-Lindelof *Lost* novel:

> …even if the books had been well-written, the simple fact that they were written by authors with no formal connection to the series - and as such, no knowledge of how Lost's central mysteries will be resolved - made their connection to the series itself almost meaningless. The most significant problem with the licensed Lost novels was their lack of meaningful connection to the show's larger narrative mysteries. While careful readers of the novels might recognize certain important elements from the show's core narrative, the spin-off novels did not offer any new, substantial, or useful insight or information about the show's larger narrative enigmas. (p. 127)

Ancillary branding used in this manner is a way to make a quick buck rather than an opportunity to connect with fans on a deeper level. It is lazy cross-promotion and not something that will help transport audiences into a storytelling universe. This sort of cross-promotion is typically done through licensing, which creates a couple of issues, best summarized by Jenkins (2006a):

> The current licensing system typically generates works that are redundant (allowing no new character background or plot development), watered down (asking the new media to slavishly duplicate experiences better achieved through the old), or riddled with sloppy contradictions (failing to respect the core consistency audiences expect within a franchise). (p. 121)

A great example of this is seen in video game adaptations of movies, which have been phased out in recent years but were popular in the 1990s and 2000s. Trevor Elkington (2009) did a great analysis that looked at critical responses to various film-based games to understand why they failed. He concluded that "players reject video games that rely heavily upon cinematic conventions" and that what consumers seek from adaptations "is not a simple, interactive rehearsal of film events but in fact further expansion of a narrative world via an engaged relationship with an interactive medium" (p. 219). Many of these adaptations were just recreations of their respective films with gameplay that paled in comparison to top video games. If a film exists, what's the point of retelling the plot through a video game with poor gameplay mechanics? Elkington adds, "in trying to be more like each other, the texts manage to sacrifice

the strength of their own medium without realizing the strengths of the other, thus leading to a self-defeating project achieving negative synergy" (p. 220),

One reason for these games being so poorly made is that they were often rushed: the games were an afterthought to studios and the video game developers were at the beck and call of a film's release schedule. The reason it is a problem to be on a film's release timeline is that good video games take longer to get made, but it would be risky to start the development of a game early due to the uncertainties that surround the preproduction of a film. A script gets bought, talent comes on board, rewrites are requested, then talent falls through, and the project ends up in development limbo. When a film finally begins shooting it will likely take 12 to 18 months before it hits the big screen. Games like *Call of Duty* or *Madden* can be released in that timeline as they're just modified and updated versions of last year's game. Making a high-quality game from scratch, however, can be significantly more time-consuming. Elkington mentions the average AAA video game spends 24 months in development (p. 225), but the development process can last much longer: *Red Dead Redemption 2*, one of the most popular releases of 2018, was in development for eight years! The quality of a game will inevitably suffer when it is rushed to meet a film's release date.

This leads to a conflict of interest, as what may be best for the game is not what's best for the film, and vice versa. The game developers may be less concerned about preserving the quality of the intellectual property so it may just rush the game to meet the release schedule. On the other hand, if the film studio prefers a strong collaboration for the sake of its IP then that creates a slowdown in the process. In Elkington's analysis he observed, "because of the lack of central design and franchise management, the various parties quickly pursued design decisions that best fit their medium and market needs, regardless of how these development decisions fit into the larger franchise" (p. 230).

For these reasons, it is not surprising that film studios have veered away from film to video game adaptations[8]. Though this issue of differing release schedules may be specific to video games and film, the "lack of central design and franchise management" are common in many forms of transmedia development, leading to ineffective final products.

The Solution

In recent times, Marvel and Riot have created the blueprint for organizational structures driven by either a central creative vision or a more cohesive collaboration across company divisions. The success of these companies shows that such organizational structures can execute the worldbuilding require for successful encyclopedic transmedia narratives.

Marvel

Derek Johnson (2012) wrote an in-depth piece on Marvel's effect on the entertainment industry after Marvel gained creative control of its films in 2005. As he notes, Marvel's disruption came not only in the content it produced, but also in how it "aimed to restructure (Hollywood's) industrial hierarchies of labor and creativity" (p. 9). Its ingenuity in this regard came in the form of having self-labeled 'fanboy' executives in charge and a central creative figure overseeing the entire cinematic universe.

In regards to the fanboy labels, this is a narrative that Marvel Studios has pushed since the inception of the studio. In a 2004 feature of Avi Arad (founder and former CEO of Marvel Studios) in the New York

[8] We're now seeing more of the reverse. Though video game to film adaptations were in the past notorious for flopping at the box office, *Detective Pikachu* and *Sonic the Hedgehog* experienced recent success; HBO also recently announced they'll be adapting the bestselling video game *The Last of Us*.

Times, writer and comic enthusiast Michael Chabon is quoted as saying, “I was expecting someone more interested in leveraging and marketing, but the guy knows Spider-Man backward and forward -- all the minor super-villains and their secret identities” (Levine, 2004). In a 2007-piece, Fortune quizzed David Maisel, chairman of Marvel studios at the time, on his comic book knowledge and concluded “Maybe Maisel is the right guy for this job after all” (Leonard, 2007).

Kevin Feige, Marvel’s chief creative officer, is known as the biggest fanboy of them all. He picked up and fell in love with Marvel comics while working on the 2000 *X-Men* film and he often wondered why other executives and producers on the movie didn’t do the same:

> I would hear people, other executives, struggling over a character point, or struggling over how to make a connection, or struggling over how to give even surface-level depth to an action scene or to a character. I'd be sitting there reading the comics going, 'Look at this. Just do this. This is incredible.' (Leonard, 2014)

Feige’s fanboy-ness is well documented and it is a label he’s quick to lean into. In a 2007 interview he empathized with the fanboys’ struggle, saying, “[the fanboy] is enthusiastic at the mere prospect of something he loves being brought to the screen…But he's cynical until he sees the goods. He's been burned the past 20 years with movies that aren't faithful to the source material” (as cited by Bowles, 2007).

Though this identification with fans is genuine, it also serves Marvel in a couple of ways. First, it establishes Feige’s credibility to be leading the charge at Marvel; he understands the disillusionment fanboys have experienced with Hollywood and wants to do something different. Second, it creates positive word of mouth that reaches mainstream audiences; important since though it is crucial to please fans of the comics, Marvel needs a much larger audience for its films to succeed. Third, it helps attract top talent to work on Marvel films; Feige has pointed out how they champion and support actors and filmmakers, such as when he said, “I hope with our track record that people can see us as a place that makes product that a lot of people will see, and that at the same time there's a comfort factor that we will not hang them out to dry” (2009). Such sentiments have helped draw A-list talent behind and in front of the camera on Marvel films.

As far as the notion of a central figure leading the storytelling universe, traditionally it was directors who would provide a franchise’s singular vision, but Marvel handed that role to Feige instead. It began with Maisel, who having not spent time at a studio before, found the separation of roles between production executives and producers to be wasteful and nonsensical. “Forget how things have been done…How should they be done?’” he asked Feige (Fritz, 2018, p. 67). Thus Feige became Marvel’s sole producer. Ike Perlmutter, Marvel Entertainment’s notoriously cost-conscious CEO, approved of the strategy to save on producer fees, and Maisel and Feige thought this would be the best approach to execute on Marvel’s ambitious storytelling ideas. “We’re trying something that’s never been done before,” said Feige in 2009 regarding Marvel’s grand plans for their cinematic universe. After the *Incredible Hulk* in 2008, Feige has primarily been the only producer credited on Marvel films, with the only exception being Amy Pascal also listed as producer in *Spider-Man: Far From Home* – a concession that was likely necessary for *Spider-Man* rights holder Sony to allow Marvel to reintegrate Spider-Man into the MCU.

In his role, Feige is able to oversee more movies than a single director could. As he has revealed, he has mapped out the MCU releases all the way until 2028 (Leonard, 2014). Yet his fanboy qualities also allow him to focus on granular details of the projects. After difficulties in the production of the 2008’s *The Incredible Hulk*, Feige took control of editing himself (Fritz, 2018, pg. 69). A Bloomberg article mentions Feige stopping by James Gunn’s office while Gunn was editing *Guardians of the Galaxy* and giving notes

as meticulous as, "The evildoer needs to be farther away in the frame so he looks more imperious" and "Those don't need to be rockets – maybe gravity disks?" (Leonard, 2014).

By playing such a central role in the creative vision of the MCU, Feige's influence has spread to other mediums. When asked whether Marvel's comics team has a say in the direction of the films, Anthony Russo, one of the directors of *Endgame* and *Infinity War*, said, "The comics side has input, but it is filtered through Kevin Feige" (Rogers, 2013). With a clear front person leading Marvel's creative charge, especially one with fanboy credibility, it is made the collaboration process with licensees in other fields, such as video games, a much more effective one. As Dan Vondrak of Raven Software, which have worked on a couple of Marvel games, said, "Marvel is interested in both sides – they are true geeks. Marvel's good at having a business side to interact with Activision, and a more geek side to interact with us" (Johnson, 2012).

Feige's overarching role in the MCU led Entertainment Weekly's Anthony Breznican (2017) to ask, "Is the age of the director over?" adding, "Feige, among others, have elevated the role of the producer into an artistic one…They have often come to supplant the director as the dominant force in the filmmaking process, telling the stories while the directors execute them." This central producer model is much more reminiscent of the TV system in which a showrunner oversees various episode directors to ensure they're working towards a singular vision. A more apt description of Feige's role, however, would be the term 'world-runner', as he oversees an entire storytelling universe and not just one series.

At the end of 2019, Feige was upped to chief creative officer of Marvel Entertainment, in addition to his existing role as president of Marvel Studios. Under this organizational restructuring all creative executives across film, TV, and publishing will now report to Feige. Marvel's separate TV division, which had created shows such as *Daredevil* and *Agents of S.H.I.E.L.D.*, folded over into Marvel Studios. Feige will now oversee TV efforts planned for Disney+, such as *WandaVision* and *Hawkeye*, which will have stronger tie-ins to the MCU. As Disney's means of distribution have begun to converge, the studio has doubled down on the idea that a central planning figure is best to create a singular vision of a story told across mediums.

Other studios have tried to replicate this model but failed. In a piece contrasting DC and Marvel's approach to crafting a storytelling universe, Wired's Adam Rogers (2013) wrote, "Ask the folks at DC and Warner Bros. who's making the plan for them and the answer is…not forthcoming." The same could be said of Universal and its Monsterverse universe, which seems to consistently go through false starts. The issue is that these studios often lack executives or producers with a Feige-like passion for their source material. Executives will often read the material because they're assigned to the project, rather than making the project because they love the material, as is the case with Feige. Even when the studios do find someone with that passion, they fail to give this executive or producer the authority and freedom to guide the universe's creative vision. There are hundreds of millions of dollars at stake and, in fear, they end up with too many cooks in the kitchen. Their failures should be viewed as lackluster imitations, rather than evidence that this organizational structure cannot succeed. Feige and Marvel, after all, have crafted one of the most successful transmedia narratives of our time on the backs of the super-producer model.

Riot

Riot, the developer of the *League of Legends* (LoL) video game, recently stepped up its transmedia storytelling efforts with comic books, a soon-to-be released animated TV series, and an expansion of games into genres that go beyond the traditional LoL style.

The majority of these efforts are not intended to be revenue drivers (Webster A. , Why it took a decade for Riot to follow League of Legends with a new game, 2019b). "The comics are meant to give you an

appetizer between game releases and a way to engage in small chunks, to keep players involved in the LoL universe," said Greg Street, head of creative development (Salkowitz, 2019). Instead, these entries into other mediums allow Riot to overcome the storytelling limitations of video games. "Because our games are combat-oriented, it is hard to build out much of a backstory. Too much exposition in the game setting can seem ridiculous," explains Street (Salkowitz, 2019).

The LoL comics were done in partnership with Marvel, as Riot sees similarities in their IP. "LoL is superhero IP fundamentally," notes Street (Salkowitz, 2019). In partnering with Marvel, Riot understands the importance of quality across mediums in transmedia storytelling. "We respect the medium, we don't want this to be seen as a marketing ploy," adds Street (Salkowitz, 2019).

Riot's organizational structure is a bit different than Marvel's; it doesn't have a super-producer model in place. What makes Riot's organizational structure apt for transmedia storytelling, however, is the cohesion across divisions in its development process.

In the development process of new champions (i.e., game characters), Riot uses small creation teams that are referred to internally as 'pods' (Gallagher, 2015). Each pod has what they refer to as their own DNA, that is **D**esigners, **N**arrative writers, and concept **A**rtists (Riot Games, 2017). These three disciplines work together throughout the entire creation process to make sure the final products don't feel disjointed. The process is divided into the following six stages:

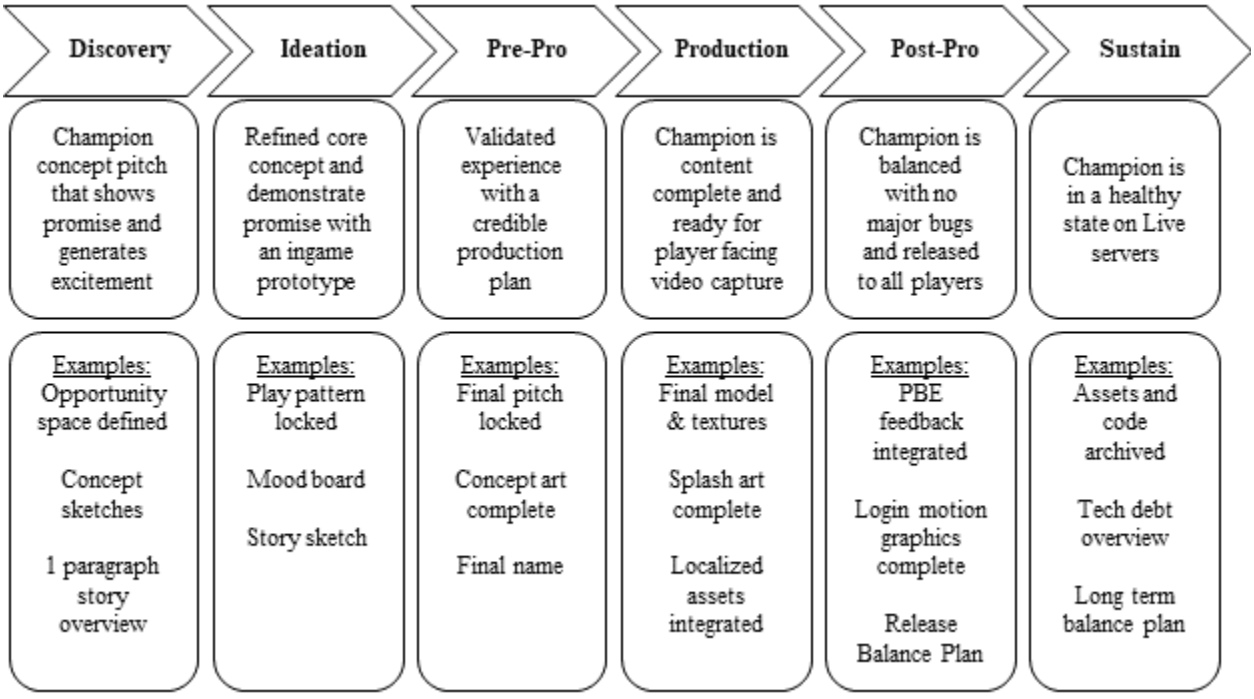


Figure 4.6 – LoL Champion framework
Source: Reformatted from Lee, 2017

The discovery process often times starts with certain parameters being set, either a mold that the champion must fall under or sketches from concept artists. Once the parameters have been set the team will move into the ideation stage, a process that resembles a TV writers' room. Writers will research mythologies and story tropes and use that research to pitch ideas for the characters. "It's one of the most collaborative processes I've ever been involved in. We usually all want to come to a good consensus," says Matthew Dunn, a writer for Riot (Gallagher, 2015). Making changes to a champion becomes more

burdensome once teams get to the production stage of development. As a result, it is crucial that they get a diverse set of perspectives from different disciplines so that even the smallest details are accounted for. "Our analysts…work alongside developers from early in the development process to ensure we are thinking about quality at every step of the way — not just toward the end, when it can be hard to change what we're doing," says Jane Jeffers, a 'Quality Assurance Architect' (Dol, 2020).

Unlike TV, where ancillary and transmedia products often get developed by people with no involvement in the creative process, Riot has multiple disciplines collaborating simultaneously even as they make products across different mediums. This process ensures that the 'DNA' of the LoL universe remains consistent. To add another layer of consistency, roles like Head of Story Development and Head of IP Businesses and Partnerships oversee the entire process, so that the LoL vision is properly executed inside and outside of the game.

Riot Forge, a third-party publishing label announced by Riot in December 2019, showcases how important consistency is for Riot. Forge will partner with small game development studios to create games in the LoL universe. Essentially, it provides resources and support for smaller developers, along with access to the LoL characters and storylines, in return for content to keep fans in the LoL universe. While Riot could've simply chosen to follow a traditional licensing model, they instead chose to create a special division led by Riot executives that oversees the quality of these games and makes sure they're consistent with the rest of the LoL universe.

Another advantage of Riot's process is that it can take its time with development timelines. In the past, Riot has delayed patches (Mickunas, 2019), game features (Gwilliam, 2019), and game modes (Radcliffe, 2018). Sometimes these delays are due to user feedback and other times they're simply due to Riot feeling like something is just not ready for release. Most recently, in October 2019, Riot announced they would be releasing its animated TV series in 2020, yet no additional information has since been given on specifics. Riot announced a new shooting game in October as well. The release was set for Summer 2020, but no official release date has since been announced and the game remains in closed beta. These projects can be delayed until their quality meets Riot's standards. "Riot is only going to do a few big games over time, because we want players to know what to expect from Riot in terms of commitment: quality of service, great IP, really high-quality gameplay," said Riot co-founder Marc Merrill (Webster, 2019). The only real downside of Riot's approach is the opportunity cost of not making revenue at an earlier date, which pales in comparison to the risks traditional media studios face when delaying a release: MGM is estimated to have lost between $30-$50 million after pushing James Bond due to theater closures from the coronavirus outbreak (Siegel, 2020).

Netflix has a similar advantage to Riot in terms of releasing. Netflix doesn't have contracts with theaters or networks that force it to meet specific release dates. Because its shows are viewed on-demand it also doesn't have to worry about competing for specific timeslots or release weekends in the same way networks and film studios do. All of this means a more flexible release approach that can benefit the development of transmedia properties. Rather than having to rush a piece of ancillary content to match a series' release date, that series can now be delayed with little cost to ensure the accompanying ancillary content is ready to be unveiled. After all, while studios set their release dates months and years in advance, Netflix has the luxury of being able to set release dates one to three months out. All of this mitigates one of the risks of transmedia storytelling.

The examples of Marvel and Riot showcase two companies that have laid out blueprints for successful organizational structures for the development of transmedia properties. Marvel's organizational success comes from having a 'world-runner' at the helm of its cinematic universe and Riot's comes from a cohesive collaboration across company divisions. They each have advantages and disadvantages, but both

of these approaches help create a unified vision for a transmedia narrative. While implementing these processes would require change on behalf of Netflix, at least Netflix now has successful frameworks it can emulate to create the worldbuilding required for encyclopedic transmedia narratives.

4.4.4 – Transmedia Shortcoming #4: Difficulties in Execution

The Problem

Creating a film or TV series is hard enough. Executing a narrative through multiple mediums becomes that much harder.

The making of *The Matrix* series, perhaps the most ambitious transmedia storytelling campaign to ever take place, underscores the difficulties in executing a transmedia narrative.[9] After the success of the series' original film in 1999, the Wachowski siblings (the film's creators) decided to expand the universe into animation, video games, and comic books. What separates *The Matrix* from other franchises is that instead of licensing out the IP to expand into other fields, the Wachowski siblings were active in the creative process of all of these properties. With such control, they made the decision that each entry into *The Matrix* universe would build off each other, taking it to the point where the final film of the series didn't make complete sense to audiences who hadn't closely monitored the story developments across the mediums. This upset fans and critics. In a piece about the series, The Independent's Fiona Morrow (2003) noted, "You can call me old-fashioned – what matters to me is the film and only the film. I don't want to have to 'enhance' the cinematic experience by overloading on souped-up flimflam." By providing such in-depth content for their diehard fans, the Wachowskis alienated more casual viewers.

This dilemma of how deep to go with content is one that encyclopedic narratives – including ones that aren't transmedia – constantly struggle with. Damon Lindelof and Carlton Cuse (2007) of *Lost* often found themselves struggling between pleasing diehard fans of the show who sought out hidden clues and the average fans who tuned in weekly but didn't engage with the show beyond that. Jonah Nolan and Lisa Joy (2016) mention similar concerns with *Westworld* and so did JJ Abrams with *Star Wars* (as cited by Petski, 2019) - the list goes on.

Transmedia storytelling creates additional headaches. If a new piece of content builds off another in the series, how should it be conveyed to audiences that they are better off watching the previous series first? How can new information be dispersed to audiences while avoiding spoilers for those who are not up-to-date? For creators, it is no longer just about creating a good story, but also figuring out the puzzle of how best to release the story.

With these difficulties in mind, coupled with the fact that franchises can cost hundreds of millions of dollars to make, it makes sense that studio executives would want to develop content the way it is traditionally been produced rather than taking a risk on transmedia storytelling.

The Solution

Some may argue that Netflix has the advantage of having individual user data that would solve the issue of information dispersion. For example, Netflix knows where users are in a series and it can decide what transmedia materials become available based off individuals' progress in a series. If there is a piece of transmedia content that could spoil a series finale, a user would not be able to unlock that content until

[9] I borrow the example of *The Matrix* from Henry Jenkin's book *Convergence Culture,* where he provides a much more detailed account of the campaign. If not already evident by the various citations of the book in this paper, I highly encourage those interested in the topic to give the book a read.

after having finished the series. In theory, these proposals make sense. Nonetheless, they are still difficult to execute.

The solution here, instead, comes from the fact that being a DTC platform allows Netflix to experiment with content in different formats. Unlike films, which had to be over a certain length to make the trip to the theater worthwhile, or TV, which had to fit in 30- or 60-minute time slots, content on Netflix does not have to adhere to these rigidities. Instead, it has the ability to release cheap-to-make content in the forms of short films or podcasts should they so desire. This type of content can be used as a testing ground for developing characters and storylines. Rather than being looked at as an additional cost to an already expensive project, transmedia should be seen as a cheap incubator for new IP ideas worthy of the multi-million-dollar investments of film and TV.

When thinking about the Marvel Cinematic Universe, part of the reason for its success is that Marvel Studios used Marvel comics as a sort of breeding ground for its movies. Marvel Studios had decades of comic book history and were able to handpick the best storylines to be made into film based on what sold well or was well-reviewed, and it could always tweak these storylines to maximize their on-screen potential. As Matthew Ball (2020b) notes, "Marvel Comics' Civil War comic book run, for example, was popular, but not well received. And so when Marvel Studios adapted it for film, the central premise was retained, but it was plotted quite differently."

Lucasfilm could potentially do something similar. In August, 2020, it will launch the High-Republic initiative, a massive interconnected story told across various formats. Audiences can expect comic books, novels, magazines, encyclopedias, and art books. The series will be Disney's first foray outside the Skywalker saga and unlike The Mandalorian it will not cost hundreds of millions to develop. Though Disney has not confirmed any films or TV series will come from the initiative, it doesn't seem far-fetched to believe that if popular characters or storylines emerge from this series they could get spun out for TV shows, films, or video games.

In April, 2020, Netflix signed a first-look deal with Boom Studios for comic book TV show adaptations. While it is a step in the right direction, this is ultimately just another form of licensing content rather than truly focusing on building out transmedia universes. I would argue that an even better partnership would be one where Netflix provides Boom comics on the Netflix platform (many readers already access comics through online services like Comixology). Under this model, comic publishers would get access to a built-in subscriber base, potentially increasing their readership numbers, and this helps Netflix get a better sense of what IP is worth adapting. There are so many ways to build on this idea that it could have a chapter of its own.

Comics aren't the only form of entertainment that Netflix could use as incubators. Taking a page from LoL, Netflix could use short-form video content to expand a storytelling universe, similar to how Riot creates short-form animated videos called cinematics to promote new 'seasons' of its game. These videos, often less than 5 minutes in length, help create a sense of narrative in the LoL universe that cannot be fostered in the game. The season 2019 and 2020 cinematics have 62 and 38 million views on YouTube, respectively. Riot also releases 'Champion Spotlights', 5-minute videos showcasing the abilities of characters in the game, which consistently get over 2 million views. The popularity of these videos, among other LoL short-form content, supports the belief that cheap-to-make content (relative to film and TV) can be used to engage fans in between the development of primary content.

For Riot, an additional benefit of these videos is that they often reach the top of the LoL reddit page, through which Riot can get fan feedback on characters and other aspects of the game. Riot releases multiple videos each month which means feedback is continuous. Compare that to film and TV which only get feedback from trailer releases and which will often have to spend heavily if they want to adapt to

that feedback. For example, it reportedly cost Paramount $5 million to redesign *Sonic the Hedgehog* after the special effects in the film's first trailer received internet backlash (Sharf, 2019). The cost for a non-animated reshoots are even higher, with it reportedly costing $10 million to reshoot Kevin Spacey's scenes in *All The Money In the World* (Wilkinson, 2018).

As a whole, transmedia can be seen as a giant focus group that gives you a sense of what stories audiences are craving. It is also worth mentioning that when a studio makes transmedia content that is interactive, as Netflix has the potential to do, it enables consumers to have a more active role in deciding what parts of the storytelling universe they want to explore. This provides additional data when making decisions on what the expansions of a story should focus on.

4.5 – Netflix Takeaways

The purpose of this chapter was to showcase recent successes that have emerged in the transmedia space and discuss how Netflix has certain affordances that allow it to overcome many of the storytelling limitations that traditional TV struggled with.

Specifically we discussed how: (1) on-demand viewing allows users to keep up with more elaborate storytelling universes and trial content they may have otherwise been hesitant to invest time and money into; (2) the effectiveness of transmedia content can be more easily measured when it is delivered through a streaming platform; (3) a central planning structure that oversees creative across mediums has shown it can create a unified vision for a transmedia narrative; and (4) transmedia allows for content to be created in relatively cheaper mediums and can be used as an incubator to further develop characters and storylines for IP. By mitigating these limitations, Netflix has the opportunity to begin experimenting with transmedia storytelling. It is up to creatives to come up with the exact vision for how to best tell a transmedia story, but it is on Netflix to support these experimentations and to ensure its platform has the technological capabilities to do so

Similar to how Disney recently unveiled 'FX on Hulu' - a subset within Hulu containing only content from FX - I believe that if Netflix were to develop strong enough IP it could create subsets on the Netflix platform dedicated purely to individual storytelling universes. Users would be able to click on "*The Witcher* on Netflix" or "*Stranger Things* on Netflix" and be transported into those worlds in an unprecedented fashion. The films and TV series accompanying these universes would be the main draw for many fans, but users who want to delve in further could explore these worlds through other mediums on the Netflix platform. This use of multiple mediums means the storytelling universe is constantly accessible: When users are on their commute to work they could listen to a *Witcher*-related podcast (it could be its own narrative, a companion podcast similar to The Ringer's 'Binge Mode', or a behind-the-scenes show); during their lunch break they could play a mobile game set in *The Witcher* universe; and finally, they'd get home and watch the new season of the series, noticing that details from the podcast and mobile game provide clues that could help uncover this season's storyline. And, again, this would all be on the Netflix app.

Achieving this sort of content synergy between mediums, all on one platform, may seem overly ambitious. However, the flywheel effect a storytelling universe can have in attracting and retaining fans is so powerful that Netflix should at least be experimenting with this strategy further. Just think about the nature of fandom in franchises like *The Witcher* and *Game of Thrones*. *The Witcher* TV series had a built-in fanbase from the books and video games in the series that had come before it; after the release of the TV series, video game sales jumped 554% year-over-year and book series sales jumped 562% year-over-year (Bernbeck, 2020). *Game of Thrones* also had a built-in fan base from George R. R. Martin's *A Song of Ice and Fire*' book series. The book series had sold more than 15 million books from its inception in

1996 up to the release of the TV series in 2011 (Miller L. , 2011); book sales as of April 2019 now total 90 million, largely thanks to the TV series (Barnett, 2019). Now imagine how much a company would benefit if it controlled and distributed these releases all on one platform. Netflix seems to be grasping the significance of this effect, recently announcing that an anime film of *The Witcher* – a cheaper way to produce more content in The Witcher universe – is currently in the works (NXOnNetflix, 2020). My belief, however, is that Netflix should be expanding these universes into content beyond just traditional film and TV, such as comics, podcasts and shorts.

The aim is to provide users with the fundamental gratification of immersion. When users are transported into a storytelling world they enjoy the content more, are more likely to recommend the content to others, and are more likely to seek out sequels (or other content in that universe). As we discussed earlier, the level of detail within a story is a factor in helping transport users. Encyclopedic narratives, rich in detail, have a long history of transporting audiences into their worlds as they have seemingly endless hours of content fans can engage with. Transmedia storytelling is a way to churn out more content in cheaper mediums, without confining oneself to the storytelling limits of one medium.

The key for this strategy to work is to develop the illusion for viewers that a storytelling narrative continues to progress, even when they're not peering in to that world. So, how exactly are creators supposed to churn out a seemingly endless amount of content for fans? The answer lies in video games and the desire for achievement, the next fundamental gratification we will be exploring.

Chapter 5 – Achievement

In this chapter we will focus on the fundamental gratification of achievement and why Netflix should be looking to diversify into gaming. First, we will examine the size of the gaming industry and why it is poised to continue to grow. After that, we will look at how powerful the desire for achievement can be and why that makes games so addicting. Finally, with those ideas in mind, we will discuss how Netflix can enter the gaming market by offering consumers a mobile gaming subscription.

5.1 – The Growth of the Gaming Industry

Some may see gaming as a niche activity enjoyed by a small base of dedicated fans. In reality, the reach of the gaming industry is not far behind that of traditional entertainment. In many metrics gaming even outperforms traditional entertainment, albeit the fact that gaming is often more expensive to partake in and requires a bigger time investment.

In 2019, there were 268 million moviegoers[10] in the US and Canada (MPAA, 2020); the number of gamers[11] in the US and Canada, at 214 million, is not far behind (The NPD Group, 2020). Three quarters of American homes have at least one gamer in their household (Entertainment Software Association, 2019) and more Americans own a video game console than have a subscription to Netflix (Nielsen, 2018). The gaming industry generated $120.1 billion worldwide in 2019 (SuperData, 2020), while the entertainment industry - which includes box office and physical and digital home entertainment - generated $101.0 billion worldwide last year (MPAA, 2020). Gaming is bigger than people often believe!

There is also bigger upside in the games, as the individual successes of the gaming industry outweigh those of the entertainment industry. In 2018, *Grand Theft Auto V*, the popular action-adventure game from Rockstar Games, was estimated to have surpassed $6 billion in revenues (Cherney, 2018), far outpacing the $2.8 billion worldwide box office gross of *Avengers: Endgame*[12]. Cowen & Co. analyst Doug Creutz (as cited by Cherney, 2018) estimated that even when factoring in DVD and streaming sales, the top blockbusters are still unable to reach the profitability of *Grand Theft Auto*. In 2019, six years after the game was released, *Grand Theft Auto V* still generated nearly $600 million in revenues, mostly from in-game purchases in the game's online mode (SuperData, 2020). Another recent video game success has been the battle royale game *Fortnite*. The free-to-play game generated $2.4 billion in revenues in 2018 (SuperData, 2019) and $1.8 billion in revenues in 2019 (SuperData, 2020). *Infinity War* and *Endgame* were the only movies able to gross over $2.0 billion at the box office in those years, yet *Fortnite* was made at a fraction of the $300+ million that it cost to make each of the *Avengers* films.

These successes aren't anomalies; the gaming industry is set to continue to grow for various reasons.

5.1.1 – The Changing Perception of Gaming Culture

"*Fornite.* That's my biggest competitor right now."

That quote is not from a Netflix executive, or any other media executive for that matter. It is from David Fizdale, former coach of the New York Knicks. "*Fornite* is undefeated," he added in reference to how many of his players' performances were suffering because they spent their time prioritizing *Fortnite* over sleep (Vorkunov, 2018). The fact that Devin Booker, Karl-Anthony Towns, and De'Aaron Fox, some of

[10] A moviegoer is defined as someone who goes to the movies at least once during the year.
[11] A gamer is defined as someone who plays games on at least one type of device, including mobile, during the year.
[12] All box office figures retrieved from Box Office Mojo.

the NBA's rising stars, are all avid gamers and stream themselves playing on the video platform Twitch, gives a sense of how much the narrative around gaming culture is changing. Being labeled a gamer is no longer something to be embarrassed about - all the cool kids are doing it.

In 2018, rapper Drake joined Ninja, one of Twitch's biggest stars, on his *Fortnite* stream and they reached what were at the time record viewership numbers (Gill et al., 2018). In 2020, rapper Travis Scott held a 'concert' on *Fortnite*. The concert involved a giant avatar of Scott performing his songs while players wandered around a virtual venue that became increasingly psychedelic through the course of the performance. It may not make sense to nongamers, but Scott knew the performance would attract such a large audience that he used it to release a new single. Over 12.3 million concurrent players participated in the performance, setting a new record for the game (Fortnite, 2020).

Video games have become part of popular culture. As entertainment studios become even more reliant on blockbusters – many of which are franchises beloved by the gaming community - 'nerd' culture will only become more mainstream.

5.1.2 – The Advent of Video Game Streaming and E-Sports

Another reason the gaming industry will continue to grow is because it has found additional touchpoints to consumers through video game streamers and e-sports.

It may surprise nongamers, but some people really enjoy watching others play video games. The Swedish YouTuber PewDiePie was one of the first to show how large the demand for this could be. He began his YouTube career in 2010 posting 'Let's Play' videos where he recorded himself playing video games and giving commentary on them. By 2013, he was the most subscribed to YouTuber; aside from a brief stint at the end of 2013, he maintained that top spot until 2019. He currently has over 100 million subscribers.

Twitch, a platform for those who want to live stream their games, began to gain popularity in 2014. YouTube Gaming, a sub-site of YouTube dedicated to gaming videos, was launched in 2015 to compete. By 2017, more people were watching gaming videos and live streamers than were watching HBO, Netflix, ESPN and Hulu combined (SuperData, 2017). In 2019 people spent a collective 12 billion hours watching others play games on Twitch and YouTube; the gaming video content (GVC) market generated $6.5 billion in revenue, a 5% growth year-over-year, and reached an estimated audience of 944 million people worldwide (SuperData, 2020).

E-sports are also gaining traction. E-sports generated $950 million worldwide in 2019, a 22.4% year-over-year increase (Newzoo, 2020); that number is expected to hit $1.5 billion by 2023 (Newzoo, 2020). It is not just e-sports enthusiasts that are watching – more than half of e-sports viewers described themselves as casual fans (Newzoo, 2020). In total, there were 443 million e-sports viewers in 2019, an increase of 12.3% year-over-year (Newzoo, 2020). The Fortnite World Cup was a particularly successful recent e-sports event, drawing a lot of buzz in 2019 after a sixteen-year-old won the $3 million grand prize. There were 16,000 fans in attendance for the final game, with millions watching online (Castello, 2019). Dozens of colleges have gotten into the mix and formed their own e-sports teams, leading Forbes' Neal Robinson (2018) to write a piece titled "Esports is the New College Football"

Streamers and e-sports allow for more avenues for people – whether it be current gamers or new users - to engage with gaming; video games can now engage users without requiring them to be actively participating in the game. The growth of these subsectors will lead to continued growth for the gaming industry.

5.1.3 – Improved Monetization Models

Video game developers have recently found new ways to monetize their content. Subscription models are one example of this. Microsoft launched Game Pass in 2017. The service is the gaming equivalent of Netflix, allowing Xbox One users to play a catalog of games for $9.99 per month. Microsoft revealed that Game Pass users increased the time they spend playing games by 20% and the number of games they play by 40% (Biggs, 2019). Apple followed suit launching a similar subscription service, Apple Arcade, in 2019. Arcade allows users to play over 100 games for $4.99 per month. Users having the ability to play more games at lower costs should lead to more time spent on games. We will discuss these subscription services in a little more detail later in this chapter.

Another innovation in gaming monetization has been the free-to-play model, popularized by games such as *Candy Crush*. Free-to-play games generated a total of $87.1 billion in 2019, accounting for about 80% of all digital gaming revenue (SuperData, 2020). These monetization models are still relatively new; developers will continue to tweak them in the coming years and improve how effectively they are able to monetize their content.

5.1.4 – The Rise of Mobile Gaming

Perhaps the most important factor in the continued growth of the gaming industry is the rise of mobile gaming. Mobile games generate more revenue than all other forms of gaming. Generating $64.4 billion in revenues in 2019, they accounted for nearly 60% of all revenue on digital games (SuperData, 2020).

The massive size of the mobile gaming population is what makes revenues so large. There were 2.4 billion worldwide mobile game players in 2019. Of the entire US population, 50% play games on their phones (Statista, 2019). In China, the country with the highest percentage of mobile gamers, 69% of the population play mobile games (Statista, 2019). In 2019, mobile games accounted for 72% of all consumer spending on mobile apps and 55% of time spent on mobile apps (App Annie, 2020). The casual nature of these games makes it easy to attract new users.

We've established the size of the gaming industry and various reasons for why it is set to continue to grow. It is also worthwhile, however, to understand why it is that people play video games; comprehending the psychology of video games at the individual level helps explain why gamers are willing to spend so much time with the medium.

We will segue into the next section with the following stats: In a 2007 survey by PopCap Games - a subsidiary of EA and the creators of the game *Plants vs. Zombies* - 35% of C-level executives surveyed said they played casual games at work[13]. Of those executives, 70% said they play when they need a short break and 61% said they play at least once a day during each work day. The reason for citing these stats is not to shame them for gaming during work hours! What's notable is their reason for playing these games: Majority of them reported that after playing they felt "more confident, more energetic, more productive and/or more mentally focused." These numbers speak to how strong the desire for achievement can be and the power video games have to help fulfill that need.

[13] While the survey may be old, Limelight's "2020 State of Online Gaming" report found similar results, with 34% of gamers saying they play during work hours.

5.2 – The Power (and Addictiveness) of Video Games

Estimates list the average time players spend gaming at around seven hours per week (Limelight, 2020; Nielsen Games, 2019). These figures may pale in comparison to the three-hour and thirty-minute average consumers spend with TV *per day*, but one must keep in mind that the TV average includes time spent watching TV while multitasking. If someone has the TV on while cooking or surfing the web, that time is included in the TV viewing average even if that person is not paying attention to the TV. When a person plays video games, on the other hand, there is no multitasking.

Nonetheless, the average time spent with video games is not representative of video game junkies – of which there are many. Ferris Jabr (2019) of The New York Times reported 34 million Americans play an average of 22 hours per week If consumers had more free time, they would likely play more video games. Verizon reported that gaming traffic increased 75% amid the coronavirus outbreak; video streaming, on the other hand, only increased 12% (Shanley, 2020).

What causes such a strong desire to want to game? To understand we will first look at some research on TV viewing. In 2002, Robert Kubey and famed psychologist Mihaly Csikszentmihalyi set out to better understand the effects that TV viewing had on audiences. Unsurprisingly, they found subjects reported feeling relaxed and passive while watching TV. Kubey and Csikszentmihalyi also monitored the subjects' brain waves during their TV viewing and, as expected, found low levels of mental stimulation. The results once the subjects were finished watching TV were a little more surprising:

> …the sense of relaxation ends when the set is turned off, but the feelings of passivity and lowered alertness continue. Survey participants commonly reflect that television has somehow absorbed or sucked out their energy, leaving them depleted. They say they have more difficulty concentrating after viewing than before. (p. 75)

Kubey and Csikzentmihalyi add:

> Thus, the irony of TV: people watch a great deal longer than they plan to, even though prolonged viewing is less rewarding. In our ESM studies the longer people sat in front of the set, the less satisfaction they said they derived from it. (p. 75)

While TV viewers reported worsening moods, subjects reported improvements in moods after activities such as reading, playing sports, or engaging in hobbies. In his book *Happier*, Harvard professor and psychologist Tal Ben-Shahar (2007) writes, "We're much happier enlivening time rather than killing time" (p. 77). TV seems to be a perfect example of this. While TV may be a good way to achieve quick relaxation, the results are only temporary; it is a way to kill time, whereas activities that require active engagement are a way to enliven time. To understand why this is the case we need to grasp the ins and outs of motivation.

5.2.1 - Motivation

Self-determination theory (SDT) is the leading theory for explaining human motivation. Popularized in the early 1970s by Edward L. Dcci and Richard Ryan, the theory suggests that people are motivated by three innate psychological needs:

1) Competence: The need to experience improvement, be good at something, or be appropriately challenged.

2) Autonomy: The need to feel in control; to know that the decisions one makes have an impact on an outcome.
3) Relatedness: The need to be connected and experience care for others.[14]

Daniel Pink's 2009 book *Drive* built on previous SDT research and updated the three psychological needs as follows:

1) Mastery: The urge to get better skills.
2) Autonomy: The desire to be self-directed.
3) Purpose: The desire to be part of a cause greater and more enduring than oneself.

For the sake of this paper, we will consider relatedness and purpose one and the same as they fall under the umbrella of wanting to be part of something with other people.

What's interesting is how effective gaming can be at fulfilling these needs. Players feel competent when they get better at a game. Nowadays, the most successful games have mastered gamification techniques to provide constant feedback loops that keep users hooked. There are easy on-boarding tutorials and the progression in difficulty is structured so that a player is never set up to fail. When playing online, users are matched up with players of a similar skill level so that nobody is constantly losing.

Games provide autonomy by allowing users to decide on their strategy. The best games are ones that don't have just one path to victory; this is why chess, with its endless number of moves, has remained so relevant over time. Video games augment levels of autonomy by allowing players to choose different characters, weapons, and powerups, enabling countless different strategies to victory. *League of Legends*, for example, has over 100 characters to choose from, each with unique abilities and tradeoffs, that make players feel like their choices have a clear impact on the final outcome of the game.

Finally, playing video games with other people provides purpose and relatedness. When playing with friends, users are now tasked with helping a team win – the objective is bigger than oneself.

Film and TV can provide social connection and thus relatedness, but it doesn't help satisfy the need for mastery and autonomy. As a result, TV and film don't motivate people to come back for more; often times people keep watching simply because they are procrastinating, feeling lazy, or need a break. Video games, on the other hand, provide people with incredible amounts of intrinsic motivation that makes them want to continue playing. This desire is why some gamers end up experiencing addict-like symptoms (Kuss & Griffiths, 2012). The drawbacks of video games can be debated, but it is clear that video games have an incredible power to engage users.

5.2.2 - Flow State

Flow is an additional element related to motivation that we must keep in mind when thinking about the power of video games. Csikszentmihalyi coined the term 'flow state' in 1975. It describes a mental state in which an individual is fully engaged and completely absorbed in an activity, becomes unaware of the passage of time, does not feel self-conscious, and appears to forget the surrounding environment. Flow state occurs when one partakes in an activity that he or she find enjoyable and provides just the right level of challenge. If something is too challenging, one will feel anxious and want to give up. If something is too easy, one will get bored and not want to continue (Csikszentmihalyi, 1988).

[14] There may appear to be some overlap between self-determination theory and uses and gratification theory. The distinction is that U&G focuses on why people seek media, whereas SDT focuses on why people seek to grow.

Reaching flow makes people feel good (Csikszentmihalyi, 1988). It has been linked with higher levels of self-esteem (Nakamura & Csikszentmihalyi, 2001), productivity (Csikszentmihalyi, 1998), retention (Murphy, 2012), and efficacy (Csikszentmihalyi et al., 2005), among other qualities. After reaching flow, people seek to keep experiencing it (Csikszentmihalyi, 1988). It is not the only thing that people need in order to be happy – it is only a temporary state, after all - but it helps.

Studies have shown that the longer people experience flow while playing a game, the more likely they are to return to the game (Chang, 2013; Choi & Kim, 2004; Ryan et al., 2006; Voiskounsky et al., 2004). Csikszentmihalyi (1998) also found that games are three times more likely than TV to get people into flow. The reason for this is that games employ constant feedback loops to help people feel as if they're constantly accomplishing something. These accomplishments help people feel a sense of mastery, which motivates them to continue going. All the while, as Csikszentmihalyi (1997) points out, the lack of continuous feedback loops in day-to-day life can leave people feeling unmotivated. In addition, the stakes in gaming are lower than in real life. While many live in fear of failure, video games always provide people with the option to restart.

Looking back at the survey of executives playing games at work, one can see why those executives felt more productive and mentally focused after a game. The constant feedback loops of video games provide a sense of achievement, which motivates users and helps them reach flow. Unlike TV, which can deplete energy levels, video games increase them.

5.2.3 - Variable Rewards

While the last two sections have focused on why people feel intrinsically motivated to keep playing games, this section will focus on variable rewards, a concept that developers are exploiting to keep their players hooked and spending money. I don't advocate for techniques that manipulate audiences, but these tactics nonetheless warrant a discussion in order to understand just how powerful video games can be.

The concept of variable rewards was discovered by B.F. Skinner in 1948 when he conducted the now infamous experiment known as the Skinner Box. The experiment had two phases to it. In the first phase, Skinner placed rodents or pigeons in a box with a lever. When the animals pressed the lever, food would be released into the box. In this phase of the experiment, the results showed that animals would press the lever until they became full.

In the second phase of the experiment, the animals were placed in the box, but this time rather than dispensing food whenever the lever was pressed, food would be dispensed on random lever presses: There would be times when the animals would press the lever and get food, other times when they wouldn't, and even times when they would get two pieces of food. The results of this phase showed that animals continued pressing the lever, even when they were no longer hungry, driven purely by the anticipation of reward. This is the power of variable rewards. In his book *Hooked*, Nir Eyal (2014) writes:

> Research shows that levels of the neurotransmitter dopamine surge when the brain is expecting a reward. Introducing variability multiplies the effect, creating a focused state, which suppresses the areas of the brain associated with judgment and reason while activating the parts associated with wanting and desire. (p. 8-9)

Variable rewards in video games come in the form of loot boxes, a technique that developers have been progressively perfecting. Featured in many recent games, loot boxes are rewards that players get, usually for accomplishing something, but other times completely at random. Players open loot boxes to receive mystery items that can be used in game. Developers have made the unpacking of loot boxes a visual

spectacle, eerily similar to playing slots at a casino; it features flashing lights and loud sounds, and players will often just rarely miss landing rare items.

The loot box dynamic is part of the reason why free-to-play games are able to make so much money. Players can play the game for free, but certain items can only be unlocked through special loot boxes available through in-app purchases (i.e., microtransactions). Spending more to for the potential thrill of unlocking rare items – and not for the actual items themselves - is the equivalent of the animals in the Skinner Box pulling down the lever in anticipation of a reward.

Variable rewards are so effective that developers have experienced backlash for using them. EA, for instance, experienced a large controversy in 2018 after players felt EA's *Battlefront 2* game made overly aggressive use of microtransactions and loot boxes. Regardless of their ethicality, variable rewards have the power to keep players hooked and spending money on games.

5.3 – Replayability of Video Games

We've discussed why the video game industry is poised to continue to grow and how powerful video games can be at engaging users. There's one more factor to consider for why video games present a compelling business opportunity: Because video games are replayable, it means it would be cheaper for Netflix to create an hour of video gaming content than it would be for an hour of film or TV material.

For example, imagine Netflix decides to greenlight a blockbuster movie that costs $265 million to make. If the movie has a run time of 2 hours, that means it cost Netflix $132.5 million for each hour of content produced. If audiences liked the movie they would unfortunately have to wait at least a year until the next installment of the franchise; audiences usually don't watch a movie twice, so the film is essentially useless after first viewing. And unfortunately for Netflix, if it decided to make a sequel, production costs would be higher, as is often the case with sequels.

Top video games may have similar budgets to blockbusters, but they provide significantly more hours of entertainment for their audiences. *Grand Theft Auto V*, the most expensive game ever made, cost an estimated $265 million to produce (McLaughlin, 2013). The average time players spend on the game (not including online mode) is about 45 hours (How Long to Beat, 2020). That means it only cost the developer about $5.9 million for each hour of content produced; that cost would be significantly lower if we included the time people spent in the online mode. The online mode also means the game can be replayed without feeling stale as playing with other users adds an element of unpredictability.

Netflix is under extraordinary pressure to constantly have more content for its subscribers. The reason for Netflix's ballooning production budgets is that the cost per hour of film and TV content is ridiculously high. Entering gaming would reduce Netflix's cost per hour of content, which is important for a streaming service. This would mean more content for subscribers to explore, more time on the platform, and hopefully a greater attachment to the service.

There are a couple of different features of games that can increase the hours of content a game provides, often at little to no cost to the developers.

5.3.1 – Game Updates

Games have the ability to be continually updated to keep the game feeling fresh. For example, every three months or so, the developers of *Apex Legends* (the closest competitor to *Fortnite)* unveil a new 'season'.

New seasons bring the release of new game modes, characters, maps, items, and weapons. For $9.50, players can purchase a 'battle pass' that gives them access to unlock premium items.

In between seasons, the developers are constantly releasing new patches. These are updates made to keep the game balanced. If a weapon in the game is too powerful, the developers will release a new patch to ensure it cannot overpower other weapons. If players are taking advantage of a glitch in the game, the patch will fix it. Additionally, the developers create weekly challenges to consistently give players the sense of achievement they crave. The upkeep costs for these updates is usually way less than what it would cost an entertainment studio to create a sequel to a film or a new season of a TV series.

The vast amount of data video game developers have is what enables them to release effective updates. Developers have information on how much time players are spending on the game, what parts of the game players are gravitating towards, stats within the games, what players are spending their money on, etc. By making use of such data, *Fortnite* developers, for example, can tweak the game to provide an optimal user experience; it is one of the reasons Fortnite users were collectively spending around 1.4 billion hours on the game per month (Iqbal, 2020).

Though stats on user play time are rarely made public, proxies such as the average number of Twitch channels dedicated to a game have been found to provide an effective measure of a game's engagement. As seen in **Figure 5.1**, *Apex Legends* has managed to keep user engagement constant from seasons two to four. Though they will likely not reach season one levels again (they set the record for most successful launch month of any game), this continued engagement is proof of the game's potential to become a long-lasting franchise. Not only are the upkeep costs to update a game like *Apex* lower than the costs to create most new films or TV seasons, the marketing of *Apex* – which consisted primarily of paying top twitch streamers to promote the game– is cheaper than most marketing costs in film and TV (Wijman, 2019).

Figure 5.1 - Apex Legends Average Twitch Channels

Source: TwitchTracker via Cohen, 2020

5.3.2 – User-Generated Content

User-generated content in video games adds another element of replayability.

Mods (short for modifications) are one form of user-generated content in games. A mod is an alteration users can make to a game. Common mods include changing the visuals of a game, creating new missions, or changing the mechanics of the game. *Skyrim*, released in 2011, is well-known for its extensive mod community. By itself, the game contains an expansive world; users averaged about 75 hours of play time in the first year of the game's release (Sinclair, 2012). Mods, however, allow users to play even longer. NexusMods, a database of downloadable mods, has nearly 57,000 *Skyrim* mods, which have collectively been downloaded over 1.7 billion times by users. In 2020, nearly a decade after the game was first released, articles are still being posted about the top mods to download for the game (e.g., Eltimar, 2020; PC GamesN, 2020). Some individual mods are so extensive that they can create an additional 100 hours of gameplay for users. Best of all, they're made by users so they come at no cost to the game developers.

Multiplayer 'sandbox' games are another instance where user-generated content adds to the replayability of games. A sandbox game is one in which a player is free to roam a virtual world without having to complete missions. Sometimes these games will provide players with virtual tools and the 'purpose' of the game is to build things within the world, as if users were playing in a virtual sandbox. *Minecraft* is one of the most famous examples of a sandbox game that benefits from user-generated content. Released in 2011, the game is quite simple: players take blocks representing materials such as dirt, stone, trees, water, etc. and use those blocks to build whatever they please. It is a confusing concept to some – 'how do you win?' they'll ask. But it is just like playing with Legos, there is no winning. Some players go through painstaking detail to build elaborate arrangements within the game: **Figure 5.2** shows a replica of the Titanic a player built, block by block. Players can download and visit other players' creations, which is one of the biggest appeals of the game.

Figure 5.2 – Titanic Minecraft replica

Microsoft purchased *Minecraft* in 2014 for $2.5 billion dollars. In 2017, Mojang, the game's developer, unveiled Minecraft Marketplace, which offers a curated range of user-generated content that users can purchase using Minecraft Coins (bought with real money). In the release announcement, Mojang wrote:

> The idea is to give Minecraft creators another way to make a living from the game, allowing them to support themselves in the creation of ever-greater projects, while giving Pocket and Windows 10 players access to a growing catalogue of fun stuff.

Free content is still available to download, but this incentivizes heavy users to continue playing as they can now monetize their creations. The promo on the Minecraft Marketplace homepage emphasizes "endless adventures" and uses phrases like "discover" and "explore new ways to enjoy Minecraft" to showcase the almost infinite amount of content available to enjoy – content that is all user-generated. In 2019, *Minecraft* passed *Tetris* to become the best-selling video game of all time. Though *Minecraft* was originally released in 2011, it was still the 13th best-selling video game in 2019 (NPD Group, 2020 as cited by Grubb, 2020), showcasing how the popularity of these games doesn't diminish with time due to the vast amount of content users are constantly creating for each other.

As a whole, the replayability of games allows users to spend more time in a fictional world without it feeling stale; it is the key to creating the illusion of a constantly progressing universe that we discussed at the end of Chapter 4.

5.3.3 – Switching Costs, Network Effects, and Recyclability of Gaming IP

There are a couple more factors that don't add to the replayability of games, per se, but are still worthwhile mentioning as they keep players in a game or keep IP fresh.

Switching costs: *Fortnite* is a great example of a game that implements switching costs. In 2018, average revenue per user and spender were $58.25 and $84.67 respectively (Brown, 2018). Nearly 40% of players played over 11 hours per week (Brown, 2018). When players invest so much time and money on a game, the idea of starting from scratch in a new game may be daunting. Instead, players will prefer to stay in the original game.

Network effects: If one enjoys playing games with friends, he or she cannot switch to a new game until the entire friend circle agrees to switch as well. Additionally, more users in a game means it is easier to find new matches and that games are more competitive. This draws in more users, which only makes the game better, and the cycle continues.

Recyclability of gaming IP: Movie reboots can become tiresome. Some of these remakes work, sure, but not a lot can be done with them. The only ways these franchises can stay fresh is through new casts and bigger special effects. What separates gaming franchises is the ability to use characters and IP to diversify into other gaming genres. The character of Mario, for example, was introduced by Nintendo in 1981 and has been used in platform and side-scrolling games (e.g., *Super Mario Bros*, the version of Mario most are familiar with), racing games (e.g., *Mario Kart*), puzzle games (e.g., *Dr. Mario*), fighting games (e.g., *Super Smash Bros.*), and sports games (e.g., *Mario Tennis*) – the list goes on. This sort of recyclability is why *Pokemon*, through its releases in many different forms, has become the highest-grossing media franchise of all time.

5.4 – Netflix Takeaways

In this chapter, we've thus far discussed why the gaming industry is poised to continue to grow, how powerful a tool games are for engaging users, and how games, because of their replayability, would allow Netflix to create more hours of content at cheaper price.

So, what would Netflix's foray into gaming look like? I don't envision Netflix competing directly with PlayStation, Xbox, or Nintendo – at least not in the foreseeable future – and I'll use Amazon Game Studios to explain why.

Amazon Game Studios was founded in 2012. It has released a couple of mobile games and one console game, but none have found success. The company's efforts thus far have seemed unfocused, most likely due to the various changes in leadership since the company's founding. In 2019, it laid off dozens of developers and canceled various games that were yet to be announced (Schreier, 2019).

In 2016, Amazon Game Studios announced it was developing three AAA PC and console games[15] – *Breakaway*, *Crucible*, and *New World* – signaling a shift away from relatively cheap-to-make mobile games and a move towards competing against PlayStation, Xbox, and Nintendo titles. Four years later, after likely having incurred hundreds of millions in development, the studio has nothing to show for it. *Breakaway*, a game in the same genre as *League of Legends*, was scheduled to be released in 2019, but it was canceled in 2018 as it didn't meet the quality the studio was hoping for (Amazon Game Studios, 2018). *Crucible*, a science-fiction shooter, has been in development since 2014 and has gone through countless redesigns (Schiesel, 2020). The game was scheduled to be released on March 31, 2020, but the release was pushed to sometime in May (Schiesel, 2020). At the start of May, no additional update on an exact release date has been provided. *New World* is an MMORPG set in the mid-1600s, where players colonize a fictional land modeled after British America. This is an ambitious project considering how expensive MMOs are to make – *Star Wars: The Old Republic*, one of the few recent MMOs with a confirmed budget, cost $200 million to make in 2012 (Fritz & Pham, 2012) and probably tens of millions more in upkeep. *New World* was set to be released in May 2020, but the release was pushed to August. The delay was supposedly due to the coronavirus (New World, 2020b), though considering the game was still undergoing massive changes to its game style only a couple of months back (New World, 2020a), it wouldn't be surprising if the game simply wasn't ready.

Amazon Game Studios may ultimately end up succeeding. Amazon owns Twitch, which could be used as a powerful promotional tool for its games. It also has a *Lord of the Rings* MMO in the works, which, given the magnitude of the IP and the fact that it will be free to play, will likely attract a large fan base, at least in its initial stages.[16] Whether Amazon's games end up being successful or not, it is certainly a risky strategy to diversify into a new medium by investing so heavily in just a handful of titles. Considering that Netflix is about a sixth of the size of Amazon, this wouldn't be a feasible approach for Netflix.

A more sensible strategy for Netflix would be to enter gaming by offering an add-on mobile gaming subscription package for Netflix customers. Netflix should be competing with Apple Arcade and not the PlayStation and Xbox's of the world since, as we discussed, consumers spend more on mobile gaming than all other gaming subsectors and mobile gaming has the largest audience base.

This add-on package, which I'll refer to as Netflix Gaming, would in many ways work just like Apple Arcade. It would provide subscribers with a library of over a hundred ad-free, exclusive games for just $4.99 per month. Subscribers would be able to access the games on their phones, tablets, computers, and other streaming devices (e.g., Apple TV or Chromecast).

Ideally, games on the Netflix Gaming service would be tied to Netflix IP. In the interest of having a large game library, however, many of these games would also be standalone (if the IP of these standalone

[15] AAA is an informal classification for premium games, usually released by major developers, that typically have higher development and marketing budgets.

[16] It is worth noting that the MMO will be unrelated to the *Lord of the Rings* TV series Amazon is developing. This lack of connection between products feels like a squandered opportunity at creating IP synergies.

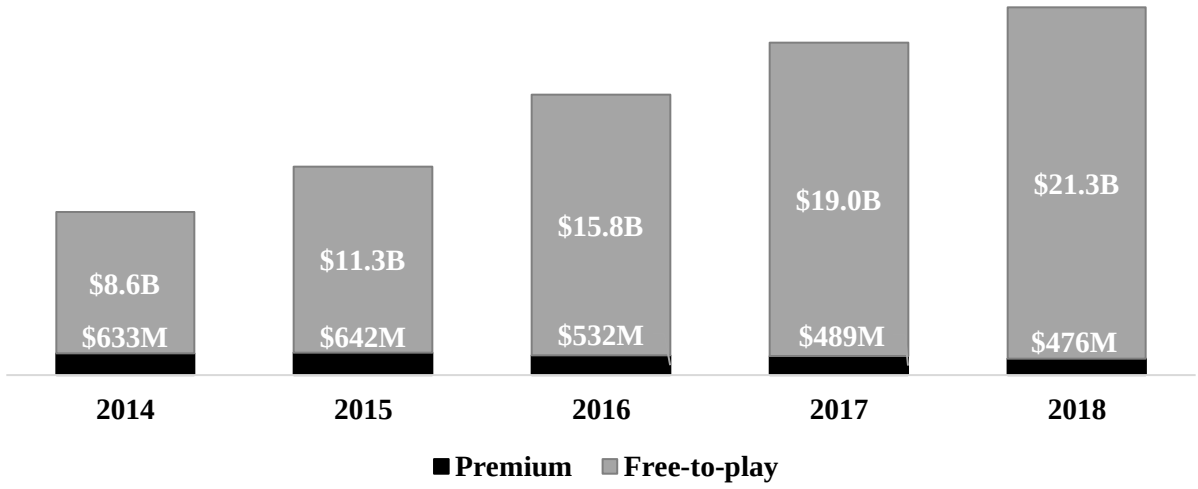
games became successful, it could always be developed into films and TV series). Just like Netflix subscribers see a tab for TV shows and a tab for movies on their home page, Netflix Gaming subscribers would see an additional tab for games. Alternatively, searches on Netflix would include gaming titles in the results for Netflix Gaming subscribers. If a user searches for, say, *The Witcher*, and Netflix Gaming had created *Witcher* games for the service, subscribers could click on '*The Witcher* on Netflix' and see all the series, films, and games for *The Witcher* in one spot.

We will discuss more specifics of this add-on package shortly. First, however, since Netflix Gaming would be looking to emulate Apple Arcade, it is important to understand how Apple Arcade operates.

5.4.1 – Apple Arcade

The mobile gaming industry is split up into two types of games: free-to-play and premium. Free-to-play games are free to download, though they often use cheap gamification techniques to try to get users to spend money on the game once they've begun playing. Free-to-play games also often crammed with in-game ads, as that's their other source of revenue. Premium games cost money to buy, usually around $1.99-$6.99, but are of higher quality and contain no ads. While the mobile gaming industry has seen massive growth in recent years, that growth has come pretty much solely from free-to-play games, as seen in **Figure 5.3**.

Figure 5.3 - Premium and free-to-play game revenues on the App Store (excluding China)



Source: Sensor Tower; 2019 data not yet released

Because the free-to-play genre has been generating more revenue, developers have shifted away from making premium games. There were about 40,000 premium games released on the App Store in 2014 (26.1% of total App Store games that year), but only about 7,000 premium games were released on the App Store in 2018 (9.3 % of total App Store games that year). Free-to-play games are not better than premium games; the problem is that the economics of premium games simply didn't make sense. Why would users pay around $4.99 to buy a single game when there are thousands of free games available? Users don't even have a chance to play the game before buying it, which makes it a risky proposition for them. Developers then have no reason to spend money developing premium games since so few people will actually buy them.

It is the initial purchase price that's the biggest hurdle for consumers. If consumers had premium games at their disposal, it is likely they would spend more game time playing premium games. Premium games are, after all, of higher quality and play sessions for those who actually play premium games are longer than the sessions for those who play free-to-play games (Newzoo, 2019). The bet that Apple is making with Apple Arcade is this: Though spend on premium games is miniscule in relation to the overall mobile game market, consumers would be willing to spend a reasonable amount ($4.99 per month) to access a large library of premium games. This would allow gamers to test out various games at no marginal cost.

Apple Arcade was launched in September, 2019. In its press release, Apple called it "the world's first game subscription service for mobile, desktop and the living room" as consumers could play across mobile, tablet, desktop, and Apple TV (Apple, 2019). The service has over 100 exclusive games that Apple curates for quality; subscribers don't pay anything else beyond the monthly fee and the games don't have ads. The games come from high-end developers such as Konami, Sega, and Annapurna Interactive. "Apple has joined forces with some of the world's most innovative game developers to realize the games of their dreams" says the description of an Apple Arcade video titled 'Meet the Creators' (2019). Apple is, in a way, pushing a narrative of aiding auteurs. The message it is is that games from these visionaries would not be possible without the backing of Apple Arcade.

The specifics of the deals Apple has struck with developers are being kept confidential. At a basic level, it appears Apple pays an upfront fee to have games developed exclusively for Arcade. "The Netflix model of providing and paying for content is a lot more in line with what this is, versus, say, Google Play Pass which they're clearly stating is based on engagement metrics," says Noodlecake Studios developer Ryan Holowaty (Webster, 2019a).

Apple doesn't just pay an upfront fee, it sometimes works closely with developers in the development process (Apple, 2019). It is uncertain whether the games will stay on Arcade in perpetuity or will eventually revert back to developers.

Apple is spending over $500 million in the launch of Arcade, paying each developer a couple million to develop their games (Bradshaw, 2019). If we assume every developer is paid equally, that would average about $5 million for each game, a sizable amount for mobile game development. This process is a chance for developers to create their passion projects without having to use cheap gamification techniques to increase their revenues or worry about their financial backing. "I know that the deal I took with Apple was very good for the game and very good for me, and it is one that I was happy with when I signed it and I'm still happy with it now" says developer Zach Gage, who had struggled to get his game made before Arcade came along (Webster, 2019a)

For developers, beyond just the financials, there's also the promise of having their games be noticed; there are thousands of games on the app store so it can at times be difficult for a game to stand out. Games on Apple Arcade are only one out of 100 and they all have the quality stamp of approval from Apple. Similar to how Microsoft has noticed Game Pass users are more willing to try new titles because they're included in their subscriptions, Apple Arcade gives users the chance to try out games they otherwise would not. "When you compare to the number of apps on the premium market, Arcade really gives us more of a chance. If you're one of 100... it is an attractive spot to be." Says developer Denis Mikan (Batchelor, 2019).

Similar to how Netflix doesn't reveal data to filmmakers, Apple doesn't reveal game performance data to developers. It will tell them if the game is succeeded or not, but that's about it (Batchelor, 2019). It is a tradeoff some developers are willing to make, as their games would otherwise have no shot at getting made. To some developers, this lack of data can even be seen as a positive. "[It is] very refreshing as game designers to work on an Apple Arcade game because it allows us to focus on gameplay and not

worry about monetization aspects" notes developer Charles Capelle about not having access to his game's performance metrics (Batchelor, 2019).

Evercore (2020) estimates that by 2024, 10% of Apple's install base will be Arcade subscribers, equating to $4.6 billion in revenues generated from the service. Apple doesn't separate out Arcade revenues in its filings, but we will hopefully learn about the service's successes and failures through press releases in the coming months.

5.4.2 – Economics of Netflix Gaming

Netflix has the opportunity to compete with Apple Arcade for two reasons. The first is that Apple Arcade hasn't really really figured out discoverability on its platform. Though it sold developers on the notion of new games standing out on Arcade by being just one of 100, the execution of this idea has been lackluster thus far. "Not all new games are being marketed as strongly as they could be and instead, most of the focus seems to be on the service as a whole and not on the upcoming products" noted one Apple Arcade developer who asked to remain anonymous (Klepek, 2020). As we discussed when talking about shows like *You* and *Waco*, Netflix's discovery algorithms are extremely powerful in bringing content to users, even when the content is not particularly noteworthy, which could appeal to game developers who want their games to be noticed.

Second, Netflix, being strictly a content company, stands to gain more from owning gaming IP than Apple does. Netflix can make games out of existing Netflix IP and it can make series or films out of their gaming IP. While Apple now makes content as well, Apple's content is not driving its business and so it is less of a priority for Apple to try to create such synergies from its IP.

As we move forward, it is crucial to understand that most Netflix users would likely not subscribe to Netflix Gaming. Many Netflix subscribers would simply have no interest in gaming or feel they are fine sticking with free-to-play games. As we will see, however, the subscribers Netflix Gaming would need in order to succeed are fewer than one may imagine. What follows is a basic model to determine the financial viability of a Netflix Gaming service. Because there are so many variables at play, the goal of the model is not to estimate the exact returns of such a service. Instead, it is to show that there is a straightforward path to profitability, even with conservative assumptions.

For the sake of the model, I assumed Netflix started developing its gaming service (i.e., building out the technology and securing games) in 2020 and launched the service at the beginning of 2022. In other words, it takes Netflix two years of preparation before launch. Most models would forecast only, say, five years and use terminal value, but that often leads to inflated net present values driven primarily by impossible to achieve terminal growth. I, instead, forecasted out until 2030 and avoided using a terminal value. Though there are uncertainties when forecasting that far out, I think this approach leads to more conservative results. Again, the purpose of the model is not to derive exact returns, but to show that there is a path to profitability. Analysts from Cowen & Co (2020) model Netflix forecasts out to 2030, so I'll use their estimates as a reference for my Netflix Gaming forecasts (e.g., if Netflix gaming has 25 million subscribers in 2030, what percentage of total Netflix subscribers would that be?).

Figure 5.4 models the income statement, up to operating income, for Netflix Gaming. **Figure 5.5** models the free cash flow and net present value of the service. In the pages that follow we will walk through the assumptions and workings of the models.

Figure 5.4 – Netflix Gaming operating income

	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total WW Paid Streaming Subs	201.7	228.4	253.7	277.2	299.7	321.5	342.2	362.2	381.4	399.8	417.3
Total WW Paid Gaming Subs	0.0	0.0	4.0	8.0	12.0	16.0	20.0	21.7	22.9	24.0	25.0
% of Streaming Subs	*0.0%*	*0.0%*	*1.6%*	*2.9%*	*4.0%*	*5.0%*	*5.8%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*
Paid Gaming Subs (BOP)	0.0	0.0	0.0	4.0	8.0	12.0	16.0	20.0	21.7	22.9	24.0
Paid Gaming Subs (EOP)	0.0	0.0	4.0	8.0	12.0	16.0	20.0	21.7	22.9	24.0	25.0
Paid Gaming Subs (AVG)	**0.0**	**0.0**	**2.0**	**6.0**	**10.0**	**14.0**	**18.0**	**20.9**	**22.3**	**23.4**	**24.5**
x ARPU	$4.99	$4.99	$4.99	$4.99	$4.99	$4.99	$4.99	$5.99	$5.99	$5.99	$5.99
x Months	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Revenue	**$0.0**	**$0.0**	**$119.8**	**$359.3**	**$598.8**	**$838.3**	**$1,077.8**	**$1,499.9**	**$1,603.6**	**$1,684.5**	**$1,762.0**
Game Costs to be Amortized	260.0	260.0	260.0	260.0	390.0	390.0	520.0	520.0	650.0	650.0	650.0
Amortization Expense	88.4	161.2	213.2	239.2	304.2	340.6	410.8	460.2	540.8	590.2	626.6
Gross Profit	**($88.4)**	**($161.2)**	**($93.4)**	**$120.1**	**$294.6**	**$497.7**	**$576.69**	**$1,039.7**	**$1,062.8**	**$1,094.3**	**$1,135.4**
Operating Expenses	300.0	150.0	162.7	175.4	188.1	200.8	213.5	226.2	238.9	251.6	264.3
Operating Income	**($388.4)**	**($311.2)**	**($256.1)**	**($55.3)**	**$106.5**	**$296.9**	**$363.2**	**$813.5**	**$823.9**	**$842.7**	**$871.1**

Figure 5.5 – Netflix Gaming free cash flow

	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT (1-t)	($330.1)	($264.5)	($217.7)	($47.0)	$90.5	$252.4	$308.7	$691.5	$700.3	$716.3	$740.4
+ Amortization	88.4	161.2	213.2	239.2	304.2	340.6	410.8	460.2	540.8	590.2	626.6
- Acquisition of Games	(260.0)	(260.0)	(260.0)	(260.0)	(390.0)	(390.0)	(520.0)	(520.0)	(650.0)	(650.0)	(650.0)
FCF	**($501.7)**	**($363.3)**	**($264.5)**	**($67.8)**	**$4.7**	**$203.0**	**$199.5**	**$631.7**	**$591.1**	**$656.5**	**$717.0**
Discounted CF	($501.7)	($330.3)	($218.6)	($51.0)	$3.2	$126.0	$112.6	$324.2	$275.7	$278.4	$276.4
Net Present Value	**$295.1**										

I use Microsoft Game Pass as a benchmark to predict initial subscriber numbers. Microsoft usually doesn't publish exact Game Pass subscriber numbers, but in 2020, near the end of the third year of the service, Microsoft announced Game Pass had surpassed 10 million subscribers. For the model, I assumed Netflix Gaming reaches 12 million subscribers at the end of its third year (i.e., 2024). There are two reasons Netflix Gaming's subscriptions would be a bit higher than Game Pass'. First, at $4.99 per month, Netflix Gaming would be half the price of Game Pass. Second, Netflix has more existing subscribers than Microsoft has Xbox One users. The last time Microsoft revealed Xbox Live user count was July, 2019, when Microsoft revealed there were had 65 million users Xbox Live users, a 14% year-over-year growth. If we assume that trajectory continued in 2020, that would mean about 13.5% of Xbox Live users subscribed to Game Pass. On the other hand, if Netflix Gaming reached 12 million subscribers in 2024, that would only be 4.0% of total Netflix subscribers at that time, as forecasted by Cowen & Co (2020).

The other bit of information Microsoft has revealed about Game Pass subscriber count is that subscribers doubled from around the end of the first year to around the end of the second year of the service (as cited by McAloon, 2019). I assumed Netflix Gaming follows a similar pattern. For the sake of simplicity, I modeled linear growth in the first three years, of the service from 4 million subscribers in 2022, to 8 million subscribers in 2023, to 12 million subscribers in 2024. There's an argument to be made that growth could happen much more quickly considering that consumers will be more familiar with gaming subscription services by that time and thus more willing to pay for them.

For the sake of simplicity, I assumed Netflix continues to grow by 4 million subscribers per year until the end of 2026. In reality, there would likely be some network effects that would accelerate growth, but I chose to remain conservative. I assumed that the price of the service increases to $5.99 per month in 2027 and that subscription growth plateaus after that. From then on, Netflix Gaming subscriber count stays at 6% of total Netflix subscribers. This is a very conservative assumption given that Evercore (2020) forecasted 10% of Apple users would subscribe to Apple Arcade by 2024. In 2019, there were 885 million paying mobile gamers in the world and that number will only keep growing (Newzoo, 2019). To assume that Netflix could, in a couple of years, capture 20-25 million from that demographic (i.e., about 2% of the total paying mobile gamers) seems like a fair assumption.

I assumed Netflix, like Apple Arcade, pays an average of $5 million for every game on its service. In reality, some games would be cheaper and likely drive that average down. The goal is to match Apple Arcade's offering of 100 games at launch and then be able to release one game every week in the first two years of the service. This would require a $260 million investment in gaming content every year from 2020 through 2023; that would lead to 104 games available at launch in 2022 and one game launching per week after that. I then assumed increases in this annual budget over time, most notably leading to a $520 million gaming content budget in 2026. At that point, Netflix Gaming would be capable of releasing two games per week, which makes it worthwhile for consumers to stay on the service even after the proposed price hike I am assuming that year.

The gaming acquisition costs are amortized using the accelerated amortization schedule Netflix follows for video content, as cited by Evercore (2020) and as shown in **Figure 5.6**.

Figure 5.6 – Netflix Gaming amortization schedule

Spend	**$260**

	Amort %	**Expense**
Year 1	34%	$88.4
Year 2	28%	$72.8
Year 3	20%	$52.0
Year 4	10%	$26.0
Year 5	8%	$20.8

Figure 5.6 – Proposed Netflix Gaming amortization schedule

In the model, Netflix Gaming's gross margin ends up stabilizing at about 64%. It is a reasonable result considering Zynga, the mobile game developer, has had gross margins over 60% the past couple of years and street estimates have it reaching nearly 70% in 2020.

Operating expenses were a little bit harder to estimate. Cowen & Co. (2019) forecasted Apple Arcade's operating expenses would be $150 million in its first year (this is the only estimate I could find for this expense). To be conservative, I assumed Netflix Gaming would incur double those costs in 2020 as it would take more resources to get the service up and going. Operating expenses would then normalize to $150 million in 2021. The goal would be for the operating expenses to be around 15% of revenue in 2030, in line with what Cowen & Co. forecast Netflix's operating ratio to be at that time. With that in mind, I assumed operating expenses grew linearly starting in 2021 so that they become 15% of revenues in 2030. One must keep in mind that Netflix Gaming's research and development costs don't need to be that high once the platform has been created since it is third-party developers that are developing the games. Additionally, because Netflix can promote the gaming service to its existing subscribers, marketing costs do not need to be extravagant.

For the cash flow model (**Figure 5.5)** I assumed Netflix pays a constant tax rate of 15%, which is in line with Cowen & Co.'s Netflix forecasts; Netflix has paid a much lower tax rate the past few years so this is a conservative assumption. I decided not to include changes in net working capital in this model as they would be nearly impossible to predict without additional information. This may seem like a big omission, but doing so makes the model more conservative. Netflix Gaming is a subscription service; like Netflix, it would have increasingly higher levels of deferred revenue as subscriptions grew, which would mean a decreasing net working capital, leading to increases in cash flow. For simplicity, I discounted the cash flows using a standard weighted average cost of capital of 10%, which is also the same discount rate Cowen & Co. use in their Netflix forecasts.

Ultimately, the model shows Netflix Gaming having a net present value of nearly $300 million. The model is not perfect, there are various details that are up for debate. But the fact that it shows profitability under such conservative assumptions demonstrates the financial viability of a Netflix Gaming service. The net present value would only increase in the subsequent years. It is also possible that subscriber count could be significantly higher – to only penetrate about 2% of worldwide paying mobile gamers is extremely conservative. In its current state, the model shows Netflix Gaming would be cash flow positive after its third year of launch (remember it launches in 2022); Netflix moved into streaming thirteen years ago and has still not achieved that feat.

Additionally, the model doesn't consider the positive externalities that would come from a Netflix Gaming service. For example:

1) Netflix Gaming creates switching costs for subscribers. If Netflix Gaming subscribers are thinking of switching to a different streaming service, they would no longer have accees to their Netflix Gaming library.

2) Netflix Gaming has the potential to incite network effects. Subscribers will work to convince their friends to join the service, the games improve with more users, which attracts more subscribers. If the network becomes big enough, it becomes hard for competitors to catch up.

3) The replayability of these games means Netflix has a cheaper way to keep users on the platform; it no longer has to burn through relatively expensive film and TV content to keep users engaged for only a few hours. By spending more time on the platform, users would likely become more attached to Netflix.

4) Gaming IP can be used as source material for developing films and TV.

5) Stories could now be told through an interlacing of traditional media and games. Perhaps this could attract top filmmakers and creators to make content for Netflix since no other entertainment studio has such capabilities.

It would be one thing if Netflix were sacrificing resources that could be used for its streaming service in order to support the gaming platform. But because Netflix Gaming is an add-on package, it ends up being self-sufficient. It is only in the two years before the launch of the service that one could argue Netflix Gaming is taking away resources from the streaming service. However, the $260 million game acquisition cost and the $300 million operating expenses proposed in the first year of this model are only a fraction of Netflix's soon-to-be $20+ billion annual content budget. There is a lot of upside a Netflix Gaming service and there are ways it can be attempted without negatively impact Netflix's core business.

5.4.3 – Content for Netflix Gaming

The games that would differentiate Netflix Gaming from its competitors would be those that make use of synergies across mediums. These games should immerse users not only by providing them a new avenue to further explore a storytelling universe, but also by providing them with the ability to potentially influence aspects of that world.

To paint a clear picture of how this could work, I'll use the *Harry Potter* IP. It is not a Netflix property, but for the sake of this example we will pretend that it is since it makes for a good example. We will say Netflix owns all the rights to make a *Harry Potter* TV show and that Netflix Gaming created a *Quidditch World Cup Harry Potter* mobile game. In the mobile game players would create their own wizards and are assigned to a Hogwarts House. Players would be teamed up with other players in their houses and they would compete against players from other houses. Users would collect points to customize their brooms, capes, special abilities, etc. Ultimately, the cumulative results of the quidditch games would be incorporated into the new season of the series: 50 points for Gryffindor for having won the most games in between the season's of the show.

Minecraft presents another great example of how users could impact IP through gaming. Again, it is not a Netflix property, but let's pretend Netflix owned the game, which could be played on Netflix Gaming, and that Netflix was about to release a TV series based off of the IP (not out of the question as Warner Bros has a *Minecraft* movie in development). The show's creators could create a contest in which the top *Minecraft* buildings players made in the game would be used as part of the show's setting.

These are just some basic examples – there are many more ways to take advantage of these transmedia opportunities. In section 4.4.3, we discussed Riot Games' publishing label, Riot Forge, that works with third -party developers to create games using *League of Legends* IP. The job of Riot Forge is to ensure consistency between the work of the developers and Riot's other projects. Netflix should follow a similar model with the handful of developers who are making games based off of Netflix's bigger IP; these transmedia projects require careful planning across mediums, so Netflix should be looking to ensure an effective collaboration between game developers and series creators. It is the job of creators to come up with the ideas for these transmedia narratives, but it should be Netflix's job to ensure the necessary processes are in place so the creators can execute their vision.

Ultimately, if the model proves successful, creators will come to Netflix pitching not just an individual series, but entire storytelling worlds that interlace TV and gaming from the get-go. These 'world-runners' will oversee a showrunner (in charge of the TV series) and the lead game developer (in charge of the game). Unlike showrunners of the past who couldn't afford to dedicate their time to ancillary materials, world-runners will realize that the affordances of a transmedia platform allow for greater storytelling capabilities that can only be maximized through cooperation from the different disciplines. The goal, as previously mentioned, is to give the users the illusion that the storytelling universe is constantly evolving. A TV series may only be able to progress a universe's storylines by releasing new seasons of the series, but interlacing the medium with gaming allows content creators to keep users engaged in a storytelling world at a very reasonable cost.

All that being said, these ideas are ambitious and will be hard to execute. If the goal of Netflix Gaming is to release hundreds of games, majority of them cannot be given this type of attention. Many games will end up just being standalones, which is totally fine as long as developers are experimenting with innovative ideas. The only restriction should be that games should encourage multiplayer modes as research has shown that users experience higher levels of presence, flow, and enjoyment when playing with or against human-controlled opponents (Weibel et al., 2008). Playing with others gratifies the need for social connection and has the potential for network effects. Otherwise, developers are free to do as they please as long as Netflix is looking for a variety of games in their pitches.

I acknowledge that the current technological capabilities of Netflix are a big question mark when thinking about the viability of a Netflix Gaming service: Could attempts at launching Netflix Gaming cause issues for Netflix's core service? Additionally, could Netflix Gaming alienate original Netflix subscribers? These are fair concerns, but not justifications to disregard the idea of a Netflix Gaming service without a proper analysis. After all, I am sure that in the early days of Netflix, many critics raised the same concerns when Netflix pondered its move into streaming.

Part III

Chapter 6 – More Than Just a Streaming Service

There is a final gaming-related topic that I intentionally omitted from the previous section: the impact of nostalgia on video game culture. Though it may initially seem like a digressing point, we will soon see that it connects many of the ideas in this paper.

6.1 - Nostalgia

Nostalgia is the blend of positive and negative emotions people sometimes experience when remembering meaningful events from the past. The positive emotions come in the form of happiness from remembering these events, while the negative emotions come about from the understanding that these events will never happen again (Hepper et al., 2011). Overall, the memories are predominantly positive (Sedikides et al., 2015), especially considering the fact that people often juxtapose nostalgic experiences into redemption sequences, effectively minimizing the negative elements of these memories (McAdams et al., 2001).

There are two types of triggers for nostalgia. The first type of trigger is sensory stimuli that reminds people of the past. For example, music (Janata et al., 2007), scents (Reid et al., 2015), tastes (Holtzman, 2006), and objects common in one's childhood (Holbrook & Schindler, 1991) have all been shown to evoke nostalgia. The second type of trigger is psychologial discomfort. Nostalgia is often used as an antidote to counter feelings like boredom (van Tilburg et al., 2013), loneliness (Wildschut et al., 2006), and social exclusion (Wildschut et al., 2010).

Since nostalgia can be triggered when people are in need of social support, nostalgic narratives are social in nature. They often involve people reminiscing about happier times they experienced with friends and family (Abeyta et al., 2015; Hepper et al., 2011; Wildschut et al., 2006). As a result, nostalgic experiences help people feel socially supported and closer to others (Zhou et al., 2008), along with increasing self-esteem (Wildschut et al., 2006), providing optimism for the future (Cheung, et al., 2013), and bolstering meaning in life (Routledge et al., 2012).

6.1.1 – Retrogaming

Video game developers have a long history of exploiting retrogaming culture (i.e., the consumer desire to revisit old games) (Suominen, 2012). These exploitations come in the form of retro-inspired games that mimic the style and graphics of older games, recycled characters in new games, and re-releases of old games on new platforms. Nintendo's NES Classic is a great example of the popularity of retrogaming. The video game console, released in 2016, emulates Nintendo's 8-bit console NES, which was originally released in the 1980s; it sold out within hours of its release. *Pokemon Go* is another example. Within three months of its release the game reached over 500 million downloads.

These examples – just two of many - attest to the power nostalgia has for drawing users to games. Nostalgia, after all, has shown to have a positive impact on buying intentions (Natterer, 2014), attitudes toward brands (Muehling & Pascal, 2011; Muehling & Sprott, 2004), and word-of-mouth (Natterer, 2014). When analyzing the success of *Pokemon Go*, Wulf and Baldwin (2019) found levels of nostalgia positively correlated with entertainment of the game. They go on to argue that the positive effects of nostalgia contribute to a gamer's well-being, which, they argue, is part of the reason for the game's success.

6.1.2 – Social Connection in Games

We have established that nostalgia is evoked in times of psychological discomfort. As Wulf et al., (2018) put it, "when people are nostalgic, they are remembering and reflecting events that have addressed their psychological needs." We also saw that these memories are often social since they are commonly addressing discomforts such as loneliness and social exclusion.

Because video games have become a more social medium, I would argue that they are more likely to be featured in nostalgic experiences than would other forms of entertainment – hence the persistence of retrogmaing culture. As Madigan (2016) writes, "you may reminisce about playing the original *Starcraft*, but chances are you're most nostalgic thinking about throwing down with friends in multiplayer games" (p. 82). Along those lines, those who downloaded *Pokemon Go* may have done so thinking they missed playing *Pokemon*, when in reality they were seeking to revisit memories involving childhood friends.

The increasingly social nature of video games has been well-documented. In 1985, Edna Mitchell wrote a piece in which she observed how video games were bringing families together for shared play. In 1995, Philips et al. found that teen gamers met up with friends during after school hours more than the non-gaming teens. And in their 2009 book *Hanging Out, Messing Around, and Geeking Out*, Ito et al. highlighted the different ways in which teens are using video game as a way of 'hanging out' (p. 206-209). This is all to say that video games are no longer simply about setting record scores or beating a game; instead, they have become a way to spend time with friends. As the CDC (2018) found, while youth behavior such as drinking and smoking has declined in the past two decades, time spent gaming has sharply risen. For the younger generations, gaming has become the new equivalent of hanging out at the mall.

This trend of socializing through video games will only continue as it becomes even easier to partake in online gaming. Higher internet speeds and improvements to online gaming platforms have made the process of online play frictionless – it is why Xbox and PlayStation's online gaming platforms have steadily grown their monthly active user count over the past years, as cited in their quarterly reports. Aiding this trend has been the advent of cross-platform gaming. Previously, Xbox users could not play online with PlayStation or Nintendo users, and vice versa, even if they were playing the same game. It was partly due to technological limitations, but also due to the fact that console makers did not think it would be beneficial to allow players to do so. Without cross-platform gaming, if a user had friends playing on Xbox, he or she would be more inclined to get an Xbox to join them. With cross-platform gaming, console makers would lose such network effects. *Fortnite* was one of the first games that enabled cross-platform play, even allowing mobile gamers to play with console owners. Though there was hesitancy by PlayStation to allow cross-platform play, it eventually gave in after receiving negative press for trying to block it (Gilbert, 2018). "Throughout 2019, we will be launching a large set of cross-platform game services originally built for Fortnite," wrote Epic Games, the developers of *Fortnite*, at the end of 2018, stating its desire to make cross-platform play the norm. As these platform restrictions are lifted, people will be able to come together with friends for online play regardless of their console of choice.

This phenomenon of games being used as a way of socializing underscores an advantage that video games have over film and TV. While film and TV have historically fostered a sense of social connection by creating water cooler conversation, the process was one in which audiences often watched something on their own to be able to participate in the camaraderie of conversation later on. Video games, on the other hand, have the advantage of being a form of camaraderie in and of themselves. As Matthew Ball (2020a) puts it, "If you're the only one not watching *Game of Thrones*, you miss out on school conversation. But if you're not gaming at home, you're missing out on your friends actively socializing together – and they're doing it without you."

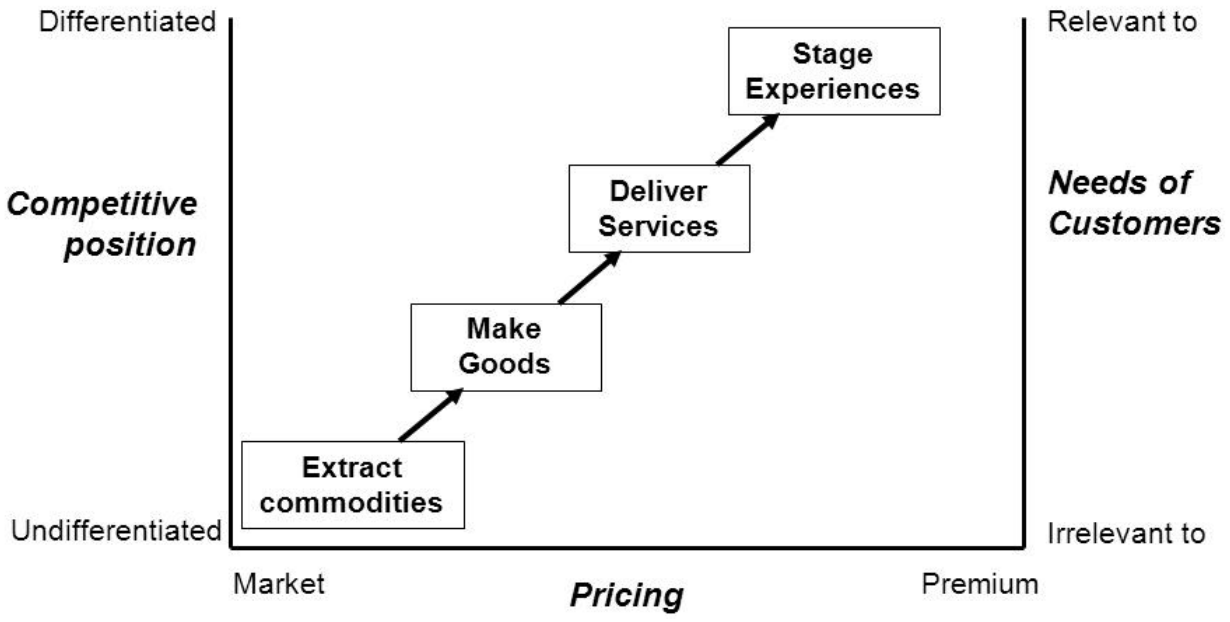
Video games are effectively selling audiences an experience. For the retro gamers, video games are the promise of reliving the simpler times of gaming with childhood friends. For the newer gamers, video games serve as a way to make memories with current friends. Best of all, the multiplayer element of these games makes these experiences endlessly repeatable. The source of entertainment for users comes not from following a storyline – which loses its tension after first-viewing – but from reacting to the actions of other players. As a result, every game feels fresh and keeps users coming back for more. The countless hours users can spend on games, coupled with the fact that this time is also time spent with friends, means these games are able to hold a special place in consumers' hearts.

On the other hand, as studios veer away from showing films primarily in theaters, these studios lose the ability to sell audiences an experience. This trend will only continue as films get pushed onto streaming services without theatrical releases, release windows shorten, and some theaters close down after the coronavirus pandemic. Watching content at home is a fine form of entertainment, but it is not an experience per se; and, as we wil see in the next section, companies in this day and age should be striving to create experiences for their consumers.

6.2 - The Experience Economy

The experience economy, a term introduced by Pine and Gilmore (1998), is used to describe a progression in the economy as companies shift from selling services to selling experiences. As seen in Pine and Gilmore's 'Progression of Economic Value' chart (**Figure 6.1)**, companies can better differentiate their products and price at a premium by selling experiences. As Pine and Gilmore write, "an experience occurs when a company intentionally uses services as the stage, and goods as props, to engage individual customers in a way that creates a memorable event. Commodities are fungible, goods tangible, services intangible, and experiences memorable." An experience does not simply take place when a customer visits a store or makes a purchase. Instead, it begins when a customer starts their search for a product and continues after the sales phase, with successful companies sometimes becoming a part of a consumer's lifestyle.

Figure 6.1 – Progression of economic value



Source: Pine and Gilmore (1998)

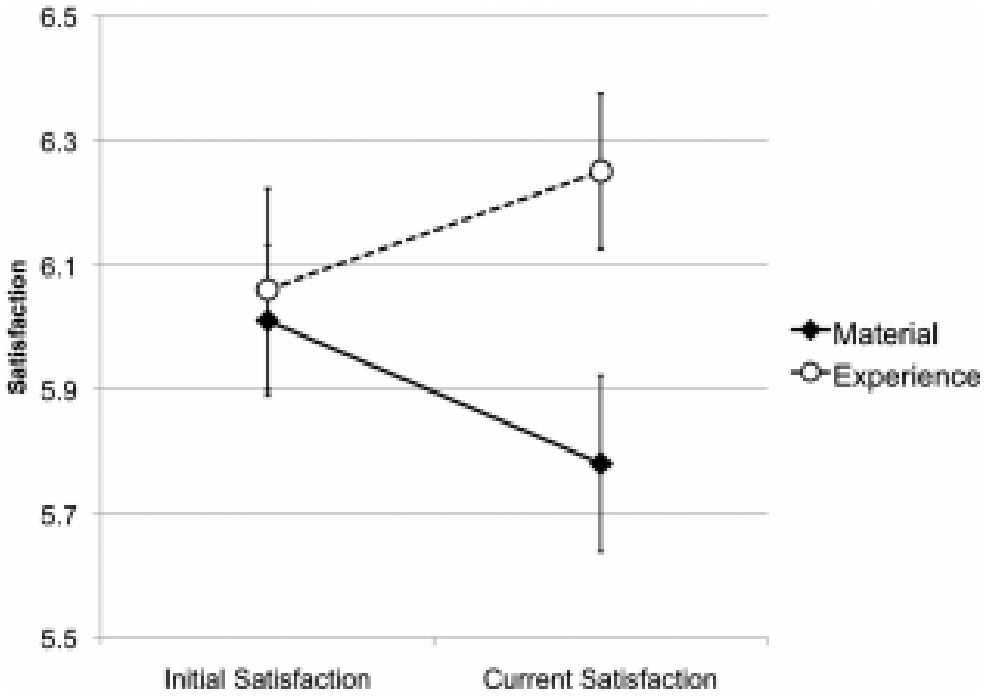
The progression of coffee sales is a great illustration of the experience economy. The commodities are the coffee beans, which can be purchased in bulk at low prices. The goods are bags of ground coffee, which are sold at a markup but are still relatively cheap. The service is delivered by stores like Dunkin, which serve brewed coffee though in a very basic manner. Finally, an experience is provided by a company like Starbucks, which is able to price at a premium because of (supposedly) higher-quality beans, well-trained baristas, and chic storefronts - especially its Reserve locations - where customers feel comfortable working.

Disney is another example of an experience provider. As mentioned in Chapter 1, very little of its overall revenues come from its content. In reality, it is in the business of selling family experiences, be it through theme parks or cruises. Disney theme parks go as far as having nearly 400,000 square feet of underground tunnels so that cast members can move around the park undetected and not ruin the Disney magic. These tunnels were supposedly built after Walt Disney saw a cast member in a cowboy costume wandering around in the sci-fi-themed section of Tomorrowland – these inconsistencies, he believed, could ruin the customer experience he had worked so hard to create (Dening, 2014).

The concept of the experience economy has become all the more prevalent in the age of social media, where millennials crave experiences that are 'Instagrammable'. The Museum of Ice Cream, the Color Factory, and the Rain Room are just a few of the many 'selfie factory' installations that have been created in recent years to take advantage of this phenomenon (Pardes, 2017).

There is data to back up the validity of the experience economy: Consumers have shown they are happier purchasing experiences over material goods. As **Figure 6.2** shows, consumers' satisfaction decreases over time with material purchases, while it increases over time with experiential purchases (Carter & Gilovich, 2010).

Figure 6.2 – Initial and current satisfaction with material and experiential purchases



Source: Carter & Gilovich, 2010

Not only do experiential purchases make people happier, people also think about experiences more often than they do about material goods (Nicolao et al., 2009; Van Boven & Gilovich, 2003). Additionally, positive experiences improve a firm's brand and enhance customer loyalty (Gentile et al., 2007).

Van Boven and Gilovich (2003) argued that consumers gain greater satisfaction from experiential purchases because experiences have greater social value. Experiences are meant to be done with others, strengthening relationships in the process, and, as research has shown, positive social interactions and strong relationships are a major source of happiness (Argyle, 1999; Diener & Seligman, 2002). Additionally, experiences are purchases that can be a source of conversation without making people seem materialistic. And, while material purchases deteriorate in quality over time, experiential purchases are remembered in more a favorable light since nostalgia makes people neglect the negative details of the memory and focus on the positive aspects of it (Nicolao et al., 2009; Van Boven, 2005).

6.3 - A Netflix Experience

The ideas proposed in this paper aim to make Netflix more of an experience.

TV viewing, in its traditional form, has the potential to deplete energy levels and worsen moods. What many TV programs are effectively selling to consumers is a way to kill time or a momentary escape from the problems of the day. Netflix has the potential to provide its subscribers with so much more. By disrupting the way we view content through the use of the affordances of a DTC platform, Netflix can sell its subscribers an experience - one that can be shared with others, and in the process will be looked upon fondly by its users.

The push to a Netflix experience comes from listening to customer needs. As we discussed in Chapter 2, though the exact gratifications that people seek from different forms of media vary, there are fundamental gratifications that are consistent across time and mediums. Understanding these gratifications is crucial for satisfying customers and determining the direction in which Netflix should take its platform.

In Chapter 3, we discussed how in-video messaging and synchronous viewing can gratify the need for social connection. Users often turn to TV to be part of a social phenomenon and having the option to see messages from other viewers when watching a show heightens that feeling. Not everybody will want to actively participate in the conversation, but, as research shows, the social presence is enough to make users feel socially connected. As we discussed, these features are perfect for unscripted TV, as that type of content is driven by conversation and requires less cognitive resources from its audience. The goal is for audiences to be able to obtain social connection *while* watching TV, not just from the water cooler conversations that come after the viewing experience. It is time to rid consumers of the need for a second screen and for Netflix to embrace social TV on its platform.

In Chapter 4, we discussed how transmedia storytelling can gratify the need for immersion. There is a long history of audiences flocking to encyclopedic, transmedia epics. Netflix does not face many of the limitations traditional media bumped up against when establishing these stories - in fact, Netflix has certain advantages that allow it to succeed in this regard. For example, on-demand viewing allows for more intricate storytelling; a DTC platform ensures creators have an easier time measuring the success of transmedia efforts; the emergence of centralized organizational structures in storytelling provide a blueprint for the successful execution of transmedia narratives; and the lack of restrictions on the format of content means transmedia storytelling can be used as a cheap incubator for story ideas. Users will be able to enjoy stories by migrating between TV series, short-form content, podcasts, and games, all on the Netflix platform. Netflix, then, becomes not just a place to watch content, but an entry into different

storytelling universes that provide the illusion of constantly progressing. If executed successfully, these worlds will have the power to more convincingly transport audiences into a narrative, which will increase their enjoyment of it.

Finally, in Chapter 5, we discussed how video games can gratify the need for achievement. The gaming industry is poised to continue to grow. By offering users achievement, autonomy, and relatedness, video games are a powerful form of entertainment that motivate users to keep coming back for more – it is part of the reason video game IP has been so resilient over the years. Considering the amount of time top users spend gaming, video games present an opportunity for Netflix to reduce its cost per hour of content consumed. Netflix can diversify into gaming by creating an add-on mobile gaming subscription service on its platform aimed at competing with Apple Arcade. Not only would this service pay for itself, but it also creates positive externalities such as switching costs, network effects, and additional sources of IP. By having certain games that are tied to existing Netflix IP, creators get an opportunity to expand their storytelling universes. Fans would have a chance to partake in, and potentially influence, these worlds, ultimately enhancing Netflix's ability to provide immersion.

There are many more possibilities for how to make Netflix into an experience, including some that Netflix has already begun to experiment with. In November 2019, Netflix secured a lease to the Paris Theatre, a historic one-screen cinema in New York City that had closed down just a few months prior. Netflix used the theater for a screening run of *Marriage Story* and will be using the theater in the future more screenings and special events. "After 71 years, the Paris Theatre has an enduring legacy, and remains the destination for a one-of-a kind movie-going experience," said Ted Sarandos on the company's press release (Netflix, 2019). The news arrived just months after it was first reported that Netflix was interested in purchasing the famed Egyptian Theatre in Los Angeles; at the time of writing, the deal is awaiting final approval (Hammond, 2020). These deals were done partly to be able to guarantee theatrical releases to filmmakers: By controlling theaters, Netflix would no longer have to worry about agreements with exhibitors who in the past have refused to screen day and date releases from Netflix (D'Alessandro, 2020). However, one can envision a future in which Netflix does so much more with these theaters. Netflix could make their theaters akin to iPic Theaters – premium theaters that offer luxury seating, in-theater dining, and cocktails – and have Netflix subscribers get access to these screenings at discounted rates. As one Netflix insider mentioned, Netflix is looking to "get creative" with programming ideas for their theaters (Hoffman, 2019). Distributors have been prohibited from owning theaters since 1948, but in November 2019, the Justice Department filed a motion to terminate the Paramount Decree. With the anti-trust ruling lifted, it would not come as a surprise if more studios began to establish their own movie theaters.

There's a world in which, by controlling its own theaters, Netflix establishes a film festival where its subscribers get access to discounted festival passes. The festival would pair top upcoming Netflix releases with screenings from up-and-coming filmmakers, and Netflix could use those relationships to bring the rising filmmakers into the Netflix ecosystem. Netflix already did something similar at the end of 2019, when it partnered with the Toronto International Film Festival to develop local talent. As part of the agreement, Netflix is financially supporting the festival's Accelerator program and Filmmaker Lab (Vlessing, 2019). On a related note, Netflix was scheduled to host a week-long live-comedy festival at the end of April 2020, but was forced to postpone amid coronavirus shutdowns. Planned in partnership with Live Nation, Netflix Is A Joke Fest was set to have over 100 live shows throughout Los Angeles and included a multitude of top performers such as Jerry Seinfeld, Dave Chappelle, and Bill Burr. It is clear Netflix wants to be more in the minds of consumers than just an in-home entertainment service.

At the end of the day, none of the suggestions discussed in this paper will take off without good stories at their core. The creative ideas necessary to execute on this vision will come from talent and it will likely

take multiple efforts before they perfect their approach for how to implement these features into their stories. Talent, however, will only experiment with these forms of storytelling if they know Netflix has built the technological infrastructure necessary to be able to execute these ideas and that Netflix will back their attempts. Netflix helped shepherd innovation in content production and delivery, now it is time to open door for creators to disrupt content itself.

I wish there were more data available to be able to prove (or disprove) these ideas – that is admittedly one of the limitations of this paper. In some cases, it is a matter of companies not wanting to divulge such information. For example, Netflix will likely never publicize detailed viewership stats and Apple will probably only disclose performance metrics of Arcade at times when it is beneficial to do so. In these cases, executives are probably already analyzing the potential performance of these ideas. Apple, for instance, with a foot in the door in both TV and mobile gaming, can already perform a much more detailed analysis of how the cost per viewing hour of a TV series compares to the cost per gaming hour of a mobile game on Arcade. In other cases, it is a matter of trends still being nascent. For example, it is too early to know with certainty if an innovation like Netflix Party is a here to stay or is just a fad. In these cases, every day provides new insights on consumer habits and desires; these developments should fuel further research to determine the viability of the ideas discussed in this paper.

This paper does not claim that these proposed ideas would experience instantaneous success. It would be worthwhile, however, for Netflix to trial these concepts and refine them in the years to come in order for Netflix to be able to reap their potential long-term benefits later down the line. As Netflix faces an increasingly competitive landscape and nears saturation in the domestic market, it is at least worthwhile to be experimenting with these ideas - even if at just a micro-level - as they could lead to invaluable revelations that are the start to long-term sustainable advantages. Netflix benefitted from a first-mover advantage with their early pivot into streaming; all the while, the studios who kicked the streaming-can down the road in favor of short-term profits will likely be playing catch up for years to come. Disregarding potential avenues for innovation in favor of current strategic models may eventually leave Netflix in the same position of the incumbents it fought so hard to disrupt.

As we look ten years down the line, perhaps the winners of the streaming wars will not be the companies with best streaming service, but rather those who provide an experience for their users. In a time when consumers have demonstrated they are happy and capable of switching from service to service depending on who has the best content for the month, the way to differentiate oneself from the competitors is creating a different type of content altogether. While competitors fight to make the best content, Netflix has the potential to build a platform that takes content to the next level. If executed correctly, Netflix becomes not just a streaming service, but a home for exploring storytelling universes and interacting with friends – in other words, an experience consumers will gravitate towards.

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*All company reports can be found in investor relation pages

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