



How Covid 19 Changed the Entertainment Industry and Forced a Rapid Adoption of Subscription Video on Demand Platforms

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Abstract

This pedagogical case study investigates how the Covid 19 pandemic led to challenges in the entertainment industry and how studios were forced to make quick changes to how they normally do business. As a solution to their problem many in the industry decide to adopt Subscription Video on Demand. As Netflix was the first to launch SVODs platform this case study uses the theory of disruptive innovation to look how this new technology revolutionized the industry in such a short amount of time. After dominating the American market Netflix expanded globally where it had to adapt to government protectionism regulations from different countries. This proved to be beneficial as Netflix helped increase the global popularity of foreign programs in other markets such as the United States. Foreign programs led to some of the biggest hits on Netflix which has now committed to making more local content in its studios around the world. With governments implementing stay at home orders to stop the spread of Covid 19 cinemas around the world were forced to close. This led traditional studios to adopt their own SVODs platforms as new distribution channel to still be able to reach their consumers.

Keywords: Covid 19, Entertainment Industry, Subscription Video on Demand, Netflix, International Expansion, Vertical Integration, Movie Studios

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Resumo

Este estudo de caso pedagógico investiga como a pandemia do Covid 19 conduziu a desafios na indústria do entretenimento e como os estúdios foram forçados a fazer mudanças rápidas à forma como normalmente organizavam a sua atividade. Como solução para os seus problemas muitos decidiram adotar plataformas de subscrição de vídeo on demand (SVOD). Como a Netflix foi a primeira a lançar SVOD, este caso de estudo usa a teoria da inovação disruptiva para analisar como esta tecnologia revolucionou a indústria num espaço de tempo muito curto. Após dominar o mercado norte-americano, a Netflix expandiu-se globalmente, e teve de se adaptar a regulações protecionistas de diferentes países. Isto revelou-se benéfico, porque a Netflix ajudou a aumentar a popularidade global de muitos programas estrangeiros em outros mercados, incluindo nos próprios Estados Unidos. Programas estrangeiros conduziram a alguns dos maiores sucessos na Netflix, que se compromete agora a desenvolver mais conteúdos locais nos seus estúdios por todo o Mundo. Com os governos a imporem restrições para ficar em casa para parar o alastrar do Covid 19, as salas de cinema por todo o Mundo foram forçadas a fechar. Isto conduziu os estúdios tradicionais a adotarem as suas próprias plataformas SVOD como novos canais de distribuição para conseguirem chegar aos seus clientes.

Palavras-chave: Covid 19, Indústria do Entretenimento, Subscrição de Vídeo on Demand, Netflix, Expansão International, Integração Vertical, Estúdios de cinema

Título: Como o Covid19 alterou a indústria do entretenimento e forçou a adoção rápida de plataformas de subscrição de vídeo on demand

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List of Abbreviations

SVOD: Subscription Video On Demand

MNC: Multi National Corporation

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1. Introduction

The last few years have been filled with uncertainty as a new virus stunned government officials, medical experts, and the general population. The world hadn't experienced a pandemic on that level since the Spanish flu a hundred years ago. Covid 19 was a reminder in just how interconnected our world has become. Everyone was affected by this horrible pandemic either directly by being infected themselves, losing loved ones or indirectly by changing their life to avoid catching the disease. Hospitals were overrun with sick people and medical professionals were forced to make hard decisions with how to allocate a severe shortage of resources to both protect themselves and take care of patients. This new reality forced big changes at all levels from governments, people, and entire industries. This pedagogical case study looks at how the entertainment industry responded to changes by vertically integrating a business model that had only began 13 years ago by the time the pandemic started but had already become mainstream domestically and internationally.

This makes for an interesting case study as we first investigate the history of Subscription Video on Demand and how it quickly disrupted an old established industry. Netflix first started in the late 1990s by sending DVD rentals through the mail to its customers. In the next decade they continued to grow past industry leaders such as Blockbuster, that eventually went bankrupt in 2010. In 2007 the cofounders Marc Rudolph and Reed Hastings were finally able to launch their new platform of Subscription Video on Demand which was quickly adopted by mainstream America. Traditional Hollywood Studios didn't think of Netflix as a direct competitor instead they used it as a new distribution channel since DVDs were in a decline. Netflix eventually decided to grow and become direct competitors with traditional studios by creating their own content. It took too long for traditional studios to see Netflix as a competitor, so they had already signed lease agreements which granted Netflix exclusive rights to some of their biggest movies and shows.

In the 20th and 21st century came the rapid growth of internationalization as countries around the world worked together to lower the barriers of entry to their respective markets. This made it easier for Hollywood to grow and dominate the entertainment industry worldwide. Governments used protectionism policies to try to protect and grow their own domestic entertainment industry. Countries continued to impose new regulations when SVODs began to grow rapidly in their own countries. With these new regulations Netflix was forced to reinvest a portion of their revenue into

the local entertainment industry and a certain percentage of the Netflix program offered in that country had to be local content. These regulations ended up benefiting both parties as Netflix helped grow the popularity of foreign programs all over the world resulting in international sensations such as Spain's Money Heist and Korea's Squid Game. These offering of international content became a competitive advantage for Netflix which led the company to invest even more money in opening new offices and studios around the world and commit to making even more local content.

To stop the rapid spread of Covid 19 government officials were forced to lock down their countries by introducing new regulations forcing people to stay at home. This hit the entertainment industry particularly hard as gatherings were no longer allowed. This led to the announcement of cinemas around the world forced to close. With the loss of their main distribution channel for movies, studios were forced to look at alternative options to still get its product to the market. With everyone forced to stay at home there was a dramatic increase in people signing on to Subscription Video on Demand platforms. Studios began to pivot resources and started focusing integrating their own SVODs platforms to reach consumers and a new source of revenue. With this strategic vertical integration of SVODs it gave Studios a new power when it came to renegotiating long held contracts with movie theatres that resulted in more favorable terms such as a reduced theatrical window from 75-90 days to 45 days. Studios have also now promised to make movies that will exclusively premiere on their SVODs platform in the upcoming year to continue growing their subscribers on the platform.

This dissertation is organized as follows: the next section, Section 2, includes a short research note on the main topics in strategy the case study addresses. Section 3 contains the case study, with the context and the full description of the evolution first the origin of Subscription Video on Demand (SVOD) as an industry disruptor, then its expansion into international markets, and finally the Covid 19 leading to the integration of other traditional studios launching their own SVOD platforms. Section 4 has a few indications on how this case could be taught in a session in strategy or general business management and Section 5 summarizes some conclusions and takeaways from this case.

2. Research Note

There are many topics within the business area of study that would be interesting to further investigate. However, in this case study we focus on three specific topics within business strategy: The Theory of Disruptive Innovation, International Expansion, and Vertical Integration.

2.1. Theory of Disruptive Innovation

The theory of disruptive innovation was created by Harvard Business School Professor Clayton Christenson which he shares in several popular business books *The Innovator's Dilemma* and *The Innovator's Solution*. Professor Christen explains his theory:

“Disruption describes a process whereby a company with fewer resources is able to successfully challenge established incumbent businesses. Specifically, as incumbents focus on improving their products and services for their most demanding (and usually most profitable) customers, they exceed the needs of some segments and ignore the needs of others. Entrants that prove disruptive begin by successfully targeting those overlooked segments, gaining a foothold by delivering more-suitable functionality—frequently at a lower price. Incumbents, chasing higher profitability in more-demanding segments, tend not to respond vigorously. Entrants then move upmarket, delivering the performance that incumbents' mainstream customers require, while preserving the advantages that drove their early success. When mainstream customers start adopting the entrants' offerings in volume, disruption has occurred.” (Christenson, Raynor, McDonald)

The way Netflix launched its Subscription Video on Demand and was able to get it accepted by the market so quickly and to sustain that success qualifies it as arguable one of the best examples of Disruptive Innovation to the Entertainment Industry.

2.2. International Expansion

It's a natural progression for companies to look outside of their own domestic markets to grow abroad and with the rise in internationalization its easier than ever. Even so managers of companies still need to gather as much information as possible to analyze and decide which is the best globalization strategy to use for their specific business goals. One way to analyze what strategy to use is to look at the relationship between the 3 Ps (People, Places, and Product) looking at the local economic and competitive conditions; demographics and cultural factors; and status of similar products available in that market the chart in Figure 1 shows how the 3 Ps are connected (Ramarapu, Timmerman, Ramarapu). Looking whether to standardize or localize is one of the

main decisions needs to be made before moving forward. In some cases, looking at countries such as the U.S., U.K, Canada and Western Europe are politically, culturally and economically similar it's a smart approach to offering standardized products (Szymanski et al). Though this may not always be the case based on other external factors such as governments protectionism policies to regulate how a company can sell to it citizens. Another view is that in order for a MNC to be successful it will need to localize to some extent even if only in response to factors like government regulations, product standards, electrical requirements and measurements (Onkvisit and Shaw). Forming an international joint venture is a low cost, fast way to access new markets and use a partner's local knowledge and already established infrastructure (Doz, Prahalad, and Hammel). Netflix approach in how it expanded internationally to other markets and led to a beneficial relationship between the company and local industry should be an example to other companies.

2.3. Vertical Integration

There is a variety of ways for companies to look at growing their business interests strategically. Vertical integration is based on “a variety of decisions concerning whether corporations through their business units should provide certain goods or services in house or purchase them from outsiders instead” (Harrigan 1985). Several main reasons for a company to integrate downstream is to capture higher proportions of value added, increase the cost of barriers for customers to switch, and controlling the quality and image of the company's products (Porter). In addition, by integrating downstream it can help a company secure the distribution channels for their products especially when there is a rise in uncertainty in the market (Rangan, Corey, and Cespedes). Further advantages in downstream integration are cost efficiencies and cost reductions (Frohlich and Westbrook). On the other hand, advantages for integrating upstream include controlling product quality (including intellectual property knowledge), added supply chain value and overcoming competitor advantages if the best suppliers are already under contract (Harrigan 1984). Depending on each industry and company's unique needs they have different reason to either integrate forward or backward, or even how much to integrate. In some cases, companies may decide to take over the full vertical integration channel, but this can come with some risks such as higher capital costs and higher exit barriers (Harrigan 1983). When Covid 19 created a crisis for movie studios in the entertainment industry the utilization of vertical integration helped secure a new distribution channel to continue to sell its products to consumers.

3. Case Study

3.1. How SVODs (Subscription Video-On-Demand) disrupted the entertainment industry

Examples of Companies that succeeded to be Disruptive Innovations

Though many startups may start off with ambitions of disrupting an entire industry most ultimately don't succeed. Yet in the 21st century we have several companies that have revolutionized entire industries on a global scale. First looking at how Airbnb went from targeting young price sensitive travelers to growing into a rival of the hotel industry and now caters to travelers all over the world through its wide selections of homes. Another example is how Uber completely revolutionized the taxi industry by offering cheaper rides and has grown into another new industry with its uber eats delivery service. After already changing the game for the way people listened to music in Europe Spotify launched in the United States in 2011 and completely disrupted the music industry "Spotify torpedoed the iTunes Store and forced Apple to shift its business model to Apple Music and changed how music is discovered, promoted, and gets popular" (Wolff-Mann). Always looking to stay ahead of the curve Spotify is still growing to not just offer songs but all a multitude of podcast stations.

History of Netflix

When Netflix started in 1997 it would send customers DVD rentals through the mail. At that time the biggest rental service business was the national chain of brick-and-mortar stores decorated with the iconic yellow and blue Blockbuster colors. One of the biggest differences between the two rental companies was Netflix customers can order rentals online and could keep the DVD as long as they wanted with no late fees vs Blockbuster customers had to go into the store to get rentals and had to bring it back by a certain date or incur late fees. In 2000 Netflix began to struggle, its co-founders Marc Randolph and Reed Hastings worked hard to get a meeting with Blockbuster's CEO John Antioco. At the meeting Marc Randolph recalled Mr. Antioco trying not to laugh when they offered to sell Netflix for \$50 million since he was advised that "online businesses – still a new phenomenon in 2000 – were not sustainable" (Place). Only ten years after this meeting Blockbuster went from being the biggest movie rental business in the United States to filing bankruptcy in 2010 since it couldn't compete with Netflix or Redbox (Olito).

Netflix switches its business model to SVOD (Subscription Video on Demand)

Meanwhile Netflix had switched its business model to a subscription service instead of charging per DVD rental. This was just another step in the direction of the Netflix we have today. Even early on in the business the founders were already looking past DVD mail rentals of utilizing the internet in their business model. Ted Sarandos Netflix's Head of Content since the early 2000s recalls "Back then, [Hastings] said that postage rates were going to keep going up and the internet was going to get twice as fast at half the price every 18 months. At some point those lines would cross, and it would become more cost-efficient to stream a movie rather than to mail a video. And that's when we get in" (Littleton Roettgers). Finally in 2007 that moment arrived and Netflix officially started offering streaming on laptops but the number of monthly viewing hours were limited depending on your subscription. An important move Netflix started to make in 2008 was to start partnerships with consumer electronic companies so consumers now had more options of streaming on gaming consoles, Internet connected devices, Smart TVs and Apple's products (McFadden). This was allowed viewers the flexibility to watch their favorite programs anywhere they wanted. For the first time in 2010 Netflix reported that 66 % of its users are watching streaming, an uptick of 42% from the same time last year, CEO Reed Hastings said "By every measure, we are now primarily a streaming company that also offers DVD-by-Mail" (Bond). Since then, Netflix has continued to increase its streaming services and has launched its services abroad. As of 2021 Netflix has expanded rapidly to over 220 million subscribers worldwide.

Netflix decides to become a Studio to produce its own content and compete with traditional Hollywood Studios

In 2013 Netflix decided to expand their business and vertically integrate upstream to become a studio. The company no longer wanted to just rely on licensing agreements from other studios. The new production company's first big hit was "House of Cards" a political drama that was based on a book, originally turned into a hit British television series. It was a huge success for Netflix being its top viewed show on the platform at that time but the positive reception was no surprise to Netflix "Back in 2011, before the company made its bid, it looked at the show, examined its subscriber data, and determined that it would, in fact, be a hit" (VanHemert). Netflix also uses the data gathered on its platform as way to personalize the experience with its recommendation algorithm. Even offline Netflix was establishing itself amongst the traditional movie studios, "Netflix made history tonight, winning three Emmy awards for *House of Cards*, becoming the first

company to win the awards for online-only shows” (Sottek). This was just the beginning for Netflix. Fast-forward to 2021 at the movie industry’s most prestigious award show Netflix had come into the Oscars with 36 nominations and ended the night with the most awards of any studio with 7 wins (Spangler).

Netflix became known for spending a large amounts of money on its original shows and movies. With one of its original series “The Crown” reportedly costing more than \$125 million dollars to make Netflix CEO Reed Hastings said “...the entrance of Apple, Disney and NBC to the global streaming market will push content costs to levels that make its epic drama about the British Royal family “look like a bargain” (Sandle). Understanding that competition is picking up in the SVOD industry Netflix is not only looking to increase budgets, but they have also started stealing top talent from traditional studios to bolster its roster. Netflix productions tend to have more freedom than shows made for traditional TV, they aren’t constrained by the certain formats needed for traditional television or censorship restrictions. In a big win for Netflix and a shock to the industry, Shonda Rhimes left ABC Studios after 15 years and several major hits such as Grey’s Anatomy, Getting Away with Murder, and Scandal. She seems to be quite happy with her new partnership stating “Today, Shondaland at Netflix is creatively thriving, profitable as an asset and engaging audiences around the world with stories that fearlessly challenge viewers and keep them highly entertained all at once” (Porter). With plans to continue to attract more top talent from other studios, Netflix wants to be seen as a top creator of original content that can rival any studio.

Impact on traditional Hollywood Studios

Traditional Hollywood Studios had not originally seen Netflix as a direct competitor. Instead they viewed it as another way to diversify its distribution after the fall of companies like Blockbuster and a decrease in DVD sales “At its peak, DVD sales reached \$16.3 billion and were 64% of the U.S. home video market. That was 2005. These days, DVD sales account for less than 10% of the total market, with total sales hitting \$2.2 billion in 2018” (Whitten). In the beginning when Netflix was first buying up leasing agreements Studios were giving them away for cheap but that started to change. In the early 2010s when leasing contracts were going to be renegotiated Netflix started to have competition from Google, Amazon, and Hulu Analyst Michael Pachter said “The content owners realize they can't give Netflix all the leverage. Netflix had the power when they were the only bidder. But you don't have as much leverage when you suddenly have competition”

(Pepitone). Studios are now paying the price for not taking Netflix seriously. Even though they are now years later opening up their own streaming platforms studios are still tied to leasing agreements signed long ago. Although Disney had declared it would stop leasing to Netflix in order to keep its catalogue for its own platform Disney+ “Under their current deal, every movie released between January 2016 and December 2018 — including epics such as “Black Panther” — will be back on Netflix starting around 2026” (Shaw). It’s going to be a long time before Netflix no longer has a hold on other studios content.

3.2. Challenges of International Expansion for SVODs

Government regulations protectionism vs internationalization

For most of history countries around the world had implemented a more isolationist approach in dealing with foreign trade. It has taken hundreds of years to get to such a globalized world that we enjoy today. Although countries still utilize certain economic policies to protect its domestic interests whether it be for ensuring against national security threats, preserving the integrity of its national culture and identity, or protecting the jobs and financial security of its citizens. There is a fine line in the way government officials assess how and from where foreign goods and services are allowed to enter their country. Some of the most popular forms of protectionism used in varying degrees around the world are to set quotas, grant subsidies, and/or charge tariffs. There are arguments for and against implementing such policies and whether in the short or long term these achieve in helping or hurting the industries they were intending to protect.

Especially during the 20th and 21st centuries many countries have made it a priority to open their economies to foreign goods and services leading to a rapid expansion of globalization. Despite this forward progress, most governments continue to use protectionism policies for a number of different reasons. Some countries feel the need to shield their newly developing industries in order for them to grow and be able to compete against more developed foreign firms. Although Brazil is one of the highest exporters in the world its also know to have some of the toughest trade barriers f “since the 1950s, trade barriers and government subsidies were used to force major carmakers including Volkswagen, Ford, Fiat and Mercedes to set up factories in the country” (Gallas). In some cases politicians have used the promises of trade tariffs to gain favor with constituents who have lost jobs due to foreign competition forcing their employers to shut down or companies outsourcing to decrease costs. An example by Professor Douglas Irwin since the steel industry has been prominent in politically important states such as Pennsylvania, Ohio and West Virginia, led to the promise by George W Bush in the 2000 elections to help steelworkers by re-instituting special tariffs to protect the industry (Ydstie). Politicians are also influenced by companies and lobbyists who dedicate vast amounts of resources towards campaigns to make sure their industries continue to enjoy policies that protect their business interests domestically and abroad. In potentially the biggest setbacks to internationalization is the trade wars between two of the world’s biggest economies the United States and China. One of the major moves during this trade wars was when “President Donald Trump broke with this economic orthodoxy and imposed tariffs

on hundreds of billions of dollars worth of imported goods from China and other countries in an effort to combat alleged unfair trade practices, reduce the U.S. trade deficit, and boost domestic manufacturing in the name of national security and U.S. economic competitiveness” (Chatzky and Siripurapu).

Those who support the continued growth of globalization agree there are many opportunities at all levels for countries, businesses and people. Most people in the world today have experienced in some form the positive impacts of internationalization. Whether it be new job opportunities with a company opening up a new office to offer ground support in that foreign market, a greater array of products to choose from at your local grocery store and /or being able to get goods and services for a lower price. This has also led to the growth of economies around the world now being able to focus on industries it has a comparative advantage and importing items its not naturally have access to. Before only big companies with large amounts of resources at their disposal were able to expand globally, but now it is common to see startups and SMEs able to grow at a quicker pace by entering new markets with more potential consumers and/or being able to access financial investments from foreign investors and/or banks. Looking at the numbers according to the U.S. Department of Commerce “98% of the roughly 300,000 U.S. companies that export are small and medium sized businesses, and they account for one third of U.S. merchandise exports” (Staff U.S Chamber). One of the biggest factors in making it easier and more cost efficient to grow into new foreign markets faster is the rapid adaption of technology. A great example of a company taking advantage of this is Uber, it “was able to enter 77 countries in six years, also with little investment in value adding assets, by reaching digitally connected consumers through its global platform” (Bhattacharya). Also, the internet has made it possible to more easily share knowledge and ideas that ultimately can help push through barriers resulting in quicker adaption of new ideas and inventions.

History of the Governments trying to Protect their Domestic Entertainment Industries

A particular industry that has experienced both the advantages and disadvantages of international trade is the entertainment industry. Looking back in the early 20th century Europe had been home to some of the most prosperous movie producing countries in the world even having success in foreign markets outside the continent. Unfortunately, the devastation and tragedy of World War I and then World War II just a few decades later destroyed many industries in Europe. Across the Atlantic the United States, not physically damaged by the wars, was able to step in and export its goods and services around the world while Europe tried to rebuild its own economies. Hollywood became one of the most popular exports “By 1949, American films made up around half of the European and Asian markets, 62 percent of the African market, 64 percent of the South American market, and three-quarters of the Central American and Pacific markets. The rest of the world was increasingly hooked on American culture.” (Fergie). This can explain why even in today’s global markets American made movie and television programs are still so dominant. As a result, to try to compete while also saving its national and cultural identity, governments around the world have implemented protectionism policies to help booster their domestic entertainment industries. This concept of regulations is nothing new as a lot of countries have already had them in affect since the early 20th century but sometimes these did not always go according to plan. For example, European countries had introduced a subsidiary system to help their local industries but instead ended up “in competition to increase incentives that will attract foreign studios, mostly those from the US, in order to gain economic benefits from film shooting. Naturally, US studios are the main beneficiaries of this situation” (Parc and Messerlin).

Governments decide how to regulate SVODs

The problem with these older regulations was that they targeted traditional distribution channels such as movie theatres and cable television. With the rise of the internet this helped pave the way for a new format in how people watch movies and television series with Subscription Video on Demand (SVOD) platforms such as Netflix and Amazon Prime Video. This change only started becoming mainstream in the last decade. Government officials were now faced with the challenges of how to either tweak their current policies or implement new ones to address the new competition

SVOD platforms brought into their domestic markets. Below is a list of some countries who have either already set regulations or are working to pass new regulations:

Europe

The European Union decided to introduce the Audiovisual Media Service

“At its core, the AVMS Directive simply states that streamers must offer a 30% quota of European content to European subscribers. On top of that, it allows EU countries to introduce nationally tailored legislation to make streamers directly reinvest a percentage of their revenues in each European country where they operate and also regulate their business models in individual territories” (Frater)

United Kingdom

The United Kingdom has not officially implemented any regulations, but the country’s Digital, Culture, Media and Sport Committee are in discussions in how to move forward

“To ensure a balanced ecosystem, the DCMS Committee recently recommended making streamers share their viewing data and ensuring that television manufacturers — some of whom feature a “Netflix” button on remote controls — are “aware of the importance of prominence of [public service broadcaster] content” so that SVOD providers aren’t given an unfair advantage. There is also chatter about making PSBs more prominent in the SVOD sections of electronic program guides” (Frater)

Canada

The Canadian government proposed amendments to its Federal Broadcasting Act in an effort to make it more fair with local broadcasters that already contribute part of their revenue to subsidize local productions

“The resulting obligations will include foreign players having to subsidize the development, production and distribution of local entertainment and cultural content. ... The Canadian government estimates Bill C-10, if it becomes law, could result in online broadcasters being required to invest more than \$800 million in local content creators by 2023.” (Vlessing).

Australia

Even though Australia does not have an official the Federal

“The green paper proposes creating a law that requires streaming services to invest a percentage of their Australian revenue on local content, either in the form of commissions, co-productions or acquisitions of content. However, it stops short of stipulating what the percentage should be” (Visentin)

In response to the potential of a regulation Netflix, Stan, Prime Video, and Disney Plus released a joint statement saying “we strongly believe that there is no market failure to address” and claimed each company “already makes a significant contribution to Australia's screen production industry” (Visentin).

These government regulations and quotas in combination with international licensing agreement are why the Netflix catalogue options change when consumers travel from one country to another. Although people at I times use a VPN to hide their location so they can bypass restrictions and access titles that are not available in that particular country.

Netflix helped internationalize the Entertainment Industry

With over 200 millions subscribers in 190 countries Netflix has worked hard to become the biggest SVOD platform in the world. With its rapid expansion and popularity international governments are worried that Netflix is just another distribution channel with the goal of pushing more American movies and televisions shows into the global market. However this fairly new company was able to do in just a few years what governments around the world haven't been able to achieve for a long time, they have finally made foreign productions relevant to international markets. In an even more impressive coup they have finally made Americans care, releasing platform viewership data that “since 2019, it says non-English language viewing in the U.S. is up 71%, and claims 97% of U.S. members watched at least one non-English show in the last year” (Avila). By extensively adding either dubbing and/or subtitles in multiple languages it has made it easier for its subscribers to enjoy more diverse programs. Netflix has cemented itself as a major player in the global studio stage by opening offices and studios all over the world to continue its commitment to making more international original content. There is already a strong established record of international sensations with shows such as Spain's *La Casa del Papel* (*Money Heist*), France's *Lupin*, and South Korea's *Squid Game*. Not only did Netflix help *Squid Game* become a phenomenon it also helped it make history “At the SAG Awards 2022, *Squid Game* became the first non-English-language series and first Korean title to win an award. Series stars Lee Jung-jae and Jung Ho-yeon both received statuettes, winning male actor and female actor in a drama series...” (Walsh). Overall one of Netflix's biggest achievements is breaking down the barrier of entry for foreign movies and television to be easily accessed by global consumers. As Netflix's global head of TV explained it well by saying

“You may not be the person that's going to drive 40 miles to go to an arthouse cinema to see the latest foreign language film, but from your couch, you may click play on 'Money Heist,' once you've finished watching 'Ozark,' or 'The Crown,' and right there you have access to this other great show, which happens to be in Spanish. So I think we've just made it much easier to give people access to stories from all over the world” (Avila).

3.3. How the COVID 19 Pandemic accelerated the push towards SVOD platforms

Covid 19 Pandemic

Over the last two years the world has had to deal with a pandemic on a scale that has not been experienced since the Spanish Flu outbreak in the early 20th century. This new disease was a surprise to everyone from medical experts, government officials and the general public. On December 31, 2019 “Health authorities in China confirm that dozens of people in Wuhan, China, are being treated for pneumonia from an unknown source. Many of those sickened had visited a live animal market in Wuhan, but authorities say there is no evidence of the virus spreading from person to person” (Schumaker). As a precautionary measure in January 2020 the Chinese government decided to completely shut down the city of Wuhan by canceling all transportation within the city and going out of the city. Despite this lockdown the virus had already started spreading to other countries since people had been traveling from that region. By January 2020 cases were reported in the United States that led to President Trump announcing a travel ban of foreigners that had traveled to China in the last 14 days, although China said the decision was inappropriate. (CNNTimeline). To deter the spread of the virus other countries eventually adopted similia travel ban policies for foreigners. The virus continued to spread quickly over the next month at an alarming rate. In February 2020 cases were growing in new countries across the Middle East (Iran, Bahrain, Iraq, Kuwait and Oman) and in Europe (Algeria, Austria, Croatia, Germany, Spain, and Switzerland) marking the first-time cases outside of China surpassed cases within China and the WHO urging countries affected to share data with them (United Nations). At this point most people could not have predicted how this was going to affect their lives for the next few years.

“The World Health Organization (WHO) on March 11 declared COVID-19 a pandemic, pointing to the over 118,000 cases of the coronavirus illness in over 100 countries and territories around the world and the sustained risk of further global spread” (Ducharme). The severity of the cases and rapid rise in people infected unfortunately highlighted how unprepared the medical world was to face this new pandemic. Hospitals lack of essential resources such as N95 masks, gowns, and goggles for medical professionals and ventilators for severely affected patients led to a bidding war between governments for the scarce supply available while urging companies to ramp up production (Feiner). The worse cases were in the epicenters that popped up around the world. Italy was the first epicenter in Europe during the Spring of 2020 and they offered a warning to other

countries on what to expect. Unfortunately the demand for the limited number of ventilators became too high and “the Italian Critical Care Society approved the idea of placing age limits on access to intensive treatments and said doctors should ‘privilege great life expectancy’” (Cha).

Governments try to stop the spread of Covid 19 by issuing Stay at Home orders

With an established understanding that the virus spreads from person to person and with hospitals already overwhelmed with the number of patients, governments stepped in to try to reduce the transmission rates. Responses differed amongst countries as some chose to set restriction at the national level versus others that gave the power to the local level of government. One of the first challenges was to work with labs and companies to increase the amount of COVID tests and make it easily available to the public. When a country or a specific region was determined to be a hotspot officials implemented rules for a lockdown which main purposes was to limit large gatherings to avoid transmission. New terms were introduced into normal conversation such as ‘Social Distancing’, ‘Stay at Home’, ‘Quarantine’ and ‘Flatten the Curve’. These changes had a big impact on different industries and consumer behaviors.

Adjusting to the new stay at home orders affected people in different ways. With businesses now divided into two categories of either being essential vs non-essential. In the United States a few examples of businesses determined to be essential were grocery stores, gas stations, office supply stores, banks, and pharmacies. Although each state had some different definitions of essential businesses in the beginning grey areas created confusion such as Elon Musk arguing with California officials that his factories should remain open but ultimately he lost that fight (Lin). Employees in “white collar” jobs were more easily able to transition working remotely at home when offices closed. People working in the service industry were hit the hardest with mass layoffs in companies such as restaurants, hotels, airlines, and factories. Worried that high unemployment rates would lead to another recession governments instituted programs to help relieve the financial pressure the pandemic has put on its citizens. For example the United Congress passed the C.A.R.E.S. Act in March 2020 for 2 trillion dollars which included program such as: a one time stimulus check for \$1,200 for people with income under \$75,000 and families would get \$500 per child; it broadened who was eligible for unemployment and increased weekly payments with an additional \$600; and provided forgivable loans to small business in an effort to help them keep employees (Snell).

With peoples' everyday routines changing during the pandemic so did their consumer behaviors. With adults now working from home along with kids doing remote learning since schools shut down priorities of families started to change. Along with the pandemic came a housing boom as people realized they needed more space and no longer had to be located near their office. A combination of households saving money from staying at home and low interest rates increased demand but unfortunately a decline in construction in the second half of 2020 affected the number of available houses leading to rising prices (Garriga and Odina). Instead of moving houses another popular trend of the pandemic were people doing home improvements themselves around the house and/or garden. With physical retail stores closed people turned to online shopping to fill that gap, the Director of Retail at Shopify offered insight "In the world of commerce, the things we thought we would see in 2030 are now things that we're seeing today. At the beginning of this thing, we as a company decided to kind of blow up our roadmaps. We deleted all of our plans. The focus was really, how do we get entrepreneurs and small and medium-sized businesses through this generational crisis" (Wertz).

COVID 19 restrictions affect the entertainment industry

Living within the confines of the stay at home orders peoples choices in how to entertain themselves also changed. With the restrictions limiting the number of people that can be together, popular forms of entertainment were no longer possible. Live performances such as sports games, concerts, music festivals, plays, and comedy shows were being cancelled. All facets of the entertainment industry were being hit hard with the closures of theme parks, museums, theaters, stadiums and other live entertainment venues. Unfortunately due to these extensive closures people all over the world that were employed in different capacities in this sector lost their jobs.

Closure of Movie Theatres and Production sets around the world

In particular the film and television studios were forced to make some difficult decision in light of the constant changes. With the International markets cinema closures started in China in January 2020 and then in March 2020 more countries around the world announced theatre closures as well (Loria). America's three biggest movie theatre companies AMC, Regal Cinemas, and Cinemark tried to stay open as long as possible while still adhering to restrictions but eventually in March 2020 they were all forced to close with AMC CEO and President Adam Arin already looking to the future stating "When we re-open after this unprecedented and indefinite hiatus, it will be in a dramatically altered world, and in an industry that's been shaken to its core" (Alexander). Also

due to safety concerns and new regulations on gatherings and social distancing studios were forced to send home cast and crew members on production sets who were in the middle of shooting for upcoming movies and television series. Facing these setbacks and not knowing for sure when normal business would resume studio executives had to make tough decision on how to move forward with many choosing to shuffle around release dates for their most anticipated movies.

Consumers behavior change and people look to new forms of entertainment

People turned to their homes as the new movie theatre and looked online for sources of entertainment. At this point SVOD (Streaming Video On Demand) was already a mainstream option used by many people around the world even before the pandemic. Unlike other traditional movie studios that were reeling from the closure of movie theatres in almost every country worldwide, Netflix was not phased by the news. What had set them apart since Netflix was first created was that it never depended on movie theaters, instead choosing to focus completely capturing the home entertainment audience. By the end of 2020 Netflix had reached over two hundred million subscribers worldwide, adding 36.6 million subscriber in just that one year beating its forecasts numbers and previous record of 28.6 million in 2018 Spangler). The company was still drawing in viewers with its popular movies and TV shows that premiered during the last two years. According to numbers reported by Nielson Netflix took the Top Ten spots for U.S. Most Watched Acquired Series with Criminal Minds, Cocomelon, and Grey's Anatomy in the top 3 (Theme Report 2021 refer to Figure 2). It also dominated in the category of U.S. Top 10 Streaming Original Series taking the top 9 spots with fan favorites Bridgerton, Squid Game, The Crown, and Cobra Kai (Theme Report 2021 refer to Figure 3).

With Netflix already positioned as the leader in SVOD with the most subscribers, traditional studios were now looking how to increase subscribers on their own platforms. With cinemas still at the mercy of lockdown regulations throughout 2020 and 2021 causing sporadic schedules of openings and closures around the world studios box office numbers were still far from pre pandemic levels. Just looking at box office numbers over the past three years tell the story with United States/ Canada Box Office 2019 \$11.3 billion, 2020 \$2.1 billion, 2021 \$4.5 billion and International Box Office 2019 \$30.9 billion, 2020 \$9.6 billion, 2021 \$16.8 billion (Theme Report Refer to Figure 4). With the symbiotic relationship between movie studios and movie theatres going back over a hundred there has never been such a huge sway in power on one side. According to pre-pandemic agreements exclusive theatrical window was between 75 – 90 days but President

of CinemaScore Harold Mintz weighed in “I think the old window concept was so outdated. The pandemic forced it [to evolve], but it was to happen eventually... most movies are played out [in theaters] after three weeks so it just makes sense” (Clark).

Studios work to put resources towards vertical integration and utilizing SVOD as new distribution channel

With this new opportunity studios decided to try a new approach and expand their business. In looking to expand their operations companies have utilized the strategy of vertical integration which is “the combination, under a single ownership, of two or more stages of production or distribution (or both) that are usually separate” (Buzzel). In this case studios are developing their own SVOD platform to have more control over distribution and to be closer to the end consumer. Although some studios were already doing this, the pandemic quickly led more studios dedicating resources to take advantage of the unique time people were forced to stay at home. This led to an acceleration of the “Streaming Wars” with the studios utilizing different strategies to attract more subscribers to its platform. Most platforms are still fairly new compared to Netflix, Amazon Prime Video, and Hulu with Apple TV+ and Disney+ launching in 2019; HBO Max and Peacock launching in 2020 and Discovery+ and Paramount Plus launching in 2021. Older studios have utilized their large back catalogues of movies and TV shows to attract nostalgic fans that want to watch their favorites again. While other are making exclusive TV shows and movies that can only be watched on their platform such as Disney+ tapping into the Marvel fan base with Wanda Vision, Loki, The Falcon and Winter Soldier, and Hawkeye. Warner Bros had some of the most anticipated movie releases of 2021 with Matrix 4, Dune, Godzilla vs Kong, and Mortal Kombat and announced that all its new movies would premiere in theatres and HBO Max the same day hoping to capture new subscribers that were still hesitant to go out to the theatres (Szalai). In addition other platforms use the freemium pricing strategy to get people interested with the free content with ads and then eventually paying to access more content without the ads. The pandemic overall helped the entire SVOD industry grow quicker than anticipated and one of best ways to compare how each platform is doing is to look at the number of subscribers. Here are the numbers at the end of 2021 Peacock 9 million, Discovery+ 22 million, Hulu 45.3 million, Paramount+ 56 million, HBO Max 73.8 million, Disney+ 129.8 million, Amazon Prime Video 200 million, and still the champion of SVODs Netflix 221.8 million (Maglio).

Studios receive backlash from others in the Entertainment Industry

This transition to integrating their SVODs platforms in movies meant originally for theatrical only releases was not made without studios facing some controversies. It made headlines around the world when Scarlett Johansen a long standing actor in Disney's Marvel Cinematic Universe sued Disney for breach of contract when the highly anticipated Black Widow movie was released in theatres and the Disney + streaming service on the same day. In the complaint Johansson's lawyers claimed that Disney's decision "not only increased the value of Disney+, but it also intentionally saved Marvel (and thereby itself) what Marvel itself referred to as 'very large box office bonuses' that Marvel otherwise would have been obligated to pay Ms. Johansson" (MastersSiegal). Although both parties were able to settle the lawsuit and continue their professional relationship, it still highlights a problem that studios will face going forward with this hybrid release formats as talents look to renegotiate contracts and how they receive compensation. Another studio also ran into problems when changing its release formats during the pandemic. In December 2020 when Warner Bros announced they would be releasing their entire 2021 slate in theatre and HBO Max the same day they received backlash from shocked industry leaders such as Director Christopher Nolan saying "Yeah, it's sort of not how you treat filmmakers and stars and people who, these guys have given a lot for these projects. They deserved to be consulted and spoken to about what was going to happen to their work" (D'Allessandro). After a twenty-year working relationship with Warner Bros on successful projects such as *The Dark Knight*, *The Dark Knight Rises*, *Inception*, and most recently *Tenet* Christopher Nolan decided to take his upcoming movie to a new studio.

4. Teaching Note

This case study would be interesting for undergraduate students in a strategy class. It allows students to further investigate how the Covid 19 pandemic changed an industry and forced companies to vertically integrate as a new way to reach customers in times of uncertainty. It was achieved by using a popular form of entertainment that has completely changed the landscape of an established entertainment industry in just the last 15 years. It also shows an example of a company's successful expansion into international markets with added unexpected benefits for the local industries.

Questions for Discussion

Question 1: How did Subscription Video on Demand disrupt the Entertainment Industry?

Answer: When Netflix first launched in 1997 its main business was sending DVD rentals through the mail to its customers. While building up its business during the next ten years, Co-founders Reed Hastings and Marc Randolph were biding time waiting to launch their new business model they had in mind for a long time. With the cost of shipping going up and the internet becoming more reliable, in 2007 was finally the right time to launch Subscription Video on Demand which now allowed people to watch movies and television series on their laptop. At first traditional Hollywood studios didn't see this new business model as threat instead signing licensing agreements to have their own catalogues shown on Netflix. With success of breaking into the mainstream and increase in subscribers Netflix made the bold move to start its own studio and produce its own original content. The were now competing directly with traditional Hollywood studios and even beating them top industry awards shows such as the Academy Awards and Golden Globes. When traditional studios finally viewed Netflix as a true competitor it was too late, licensing agreements that were signed years ago already tied these studios programs to be continue being shown on Netflix for years to come. This was especially upsetting to studios since they couldn't have their full catalogue on their new formed SVOD platforms.

Question 2: Did protectionism policies and regulations set forth by governments around the world achieves its intended outcome?

Answer: Over the years Hollywood studios have taken advantage of internationalization to sell their movies and television series abroad which eventually resulted in the domination of the entertainment industry worldwide. Foreign governments decided to utilize protectionism policies such as quotas, subsidiaries, and tariffs to try to protect their own domestic entertainment

industries. When Subscription Video on Demand platforms such as Netflix began expanding internationally governments again implemented new regulations to protect their local industry. Common regulations forced Netflix to have to reinvest a percentage of its revenues to the local industry and a minimum percentage of the Netflix programs offered in that country had to be local content. This set up in the long run worked well for both Netflix and helped foreign entertainment industries. Netflix broke down the barriers and made it easier for consumers in markets such as the United States to finally care about watching foreign films and television series. By offering the foreign programs on their platform became a competitive advantage with international sensations series such as Korea's Squid Game and Spain's Money Heist. Netflix has now committed to continue investing in local content and has opened offices and studios around the world.

Question 3: How did the Covid-19 pandemic lead to the rapid acceleration of Studios utilizing vertical integration to adopt their own Subscription Video on Demand platforms?

Answer: With the increase in Covid 19 cases around the world government officials implemented new stay at home regulations to slow down the spread of this new virus. Large gatherings were no longer allowed which forced movie theaters around the world to shut down their operations. Faced with unprecedented challenges of now having their main movie distribution channel shut down and not knowing when they will reopen Studios needed to look at ways to still be able to release their movies. With people now forced to stay at home consumer behaviors changed now they were looking for other forms of entertainment since a lot of other options were now shut down. People increasingly looked to Subscription Video on Demand platforms to fill this need. Netflix was already the leader in this business model and since they did not rely on movie theaters to release their content the closures didn't affect them as much as others. Meanwhile traditional Hollywood studios were looking to quickly put resources into their own SVOD platforms to vertically integrate and secure this new inhouse distributions channel. Studios are now a step closer to the end consumer and this also offered a new source of revenue in the form of monthly subscriptions. This also gave studios a new sense of power that they were able to renegotiate contracts with studios for more favorable terms.

5. Conclusion

This pedagogical case study looked to investigate how Covid 19 affected the entertainment industry and how the adoption of an internationally popular industry disruptor business model Subscription Video on Demand helped traditional studios overcome the challenges an uncertain

market. While traditional studios at first didn't consider the original SVOD platform Netflix as a competitor it was able to rapidly grow and become mainstream in such a short amount of time. Eventually Netflix grew to become a studio and produce its own original content that led it to become a direct competitor to traditional Hollywood studios. Through the theory of disruptive innovation, we were able to see how Netflix revolutionized an industry over a hundred years old. Once Netflix dominated the American market it focused efforts on international expansion. It overcame protectionism regulations set by governments looking to help its own respective entertainment industry. These led to unexpected benefits since Netflix a way for foreign programs to gain popularity in new markets through the SVOD platform. On the other hand, having international programs as part of its catalogue became a competitive advantage for Netflix which has promised to spend more money creating foreign content at their many offices and studios around the world. In 2020 when pandemic started cinemas around the world were forced to close which poised a challenge to studios planning to release to films that year. With the loss of their main distribution channel studios were forced to look at vertically integrating a new distribution system to be able to reach consumers. Thanks to Netflix SVODs platforms were already a widely accepted way to view movies and TV. When the pandemic hit and consumer behaviors changed, studios took advantage of the popularity of SVODs around the world to launch their own SVOD platforms. This rapid pivot to SVODs allowed them to secure a new distribution channel to make and sure they could still get their movies to paying customers. An added benefit was this gave the studio power to renegotiate more favorable contracts with movie theatres moving forward. The rapid increase in the number of SVODs platform in the last few years has led to a more competitive market. Looking into the future it could be an interesting case study to see if any of these new platforms are going to be able to beat out the current leader, Netflix. in terms of the number of subscribers.

FIGURE I
AN EXTERNAL ENVIRONMENT ANALYSIS

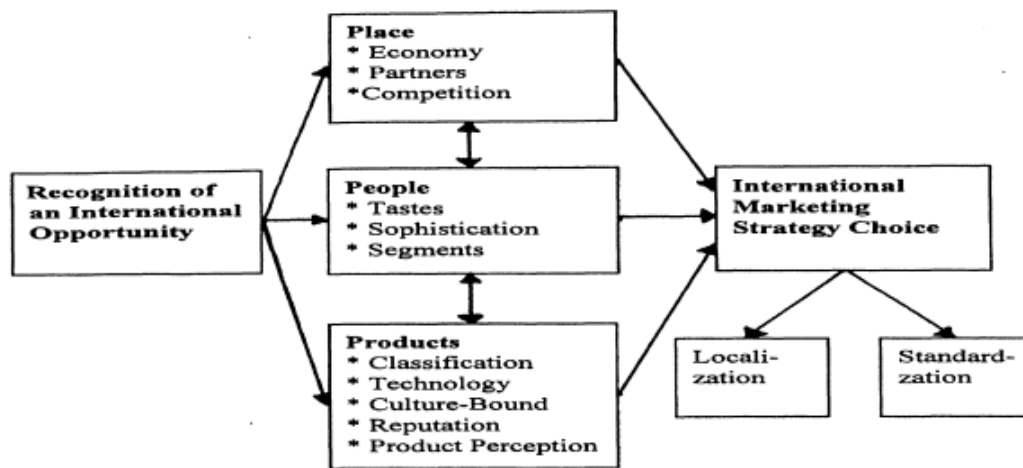


Figure 1 (Ramarapu, Timmerman & Ramarapu)

U.S. Top 10 Streaming Acquired Series²⁷
Source: Nielsen

Rank	Title	SVOD Provider(s)	# of Episodes	Minutes Streamed (Nearest Millions)
1	Criminal Minds	Netflix	322	33,865
2	Cocomelon	Netflix	15	33,278
3	Grey's Anatomy	Netflix	382	32,625
4	NCIS	Netflix	354	29,529
5	Heartland	Netflix	215	20,410
6	Manifest	Netflix	42	19,923
7	Supernatural	Netflix	329	18,912
8	Schitt's Creek	Netflix	80	18,062
9	Gilmore Girls	Netflix	153	14,704
10	New Girl	Netflix	146	14,680

²⁷ Nielsen SVOD Content Ratings (Netflix, Amazon Prime, Disney+ and Hulu), Nielsen TV Panel, U.S. Viewing through Television. U.S. persons aged 2+, total minutes viewed during 2021 (12/28/2020-12/26/21).

Figure 2 (qtd Theme Report 2021)

U.S. Top 10 Streaming Original Series²⁷

Source: Nielsen

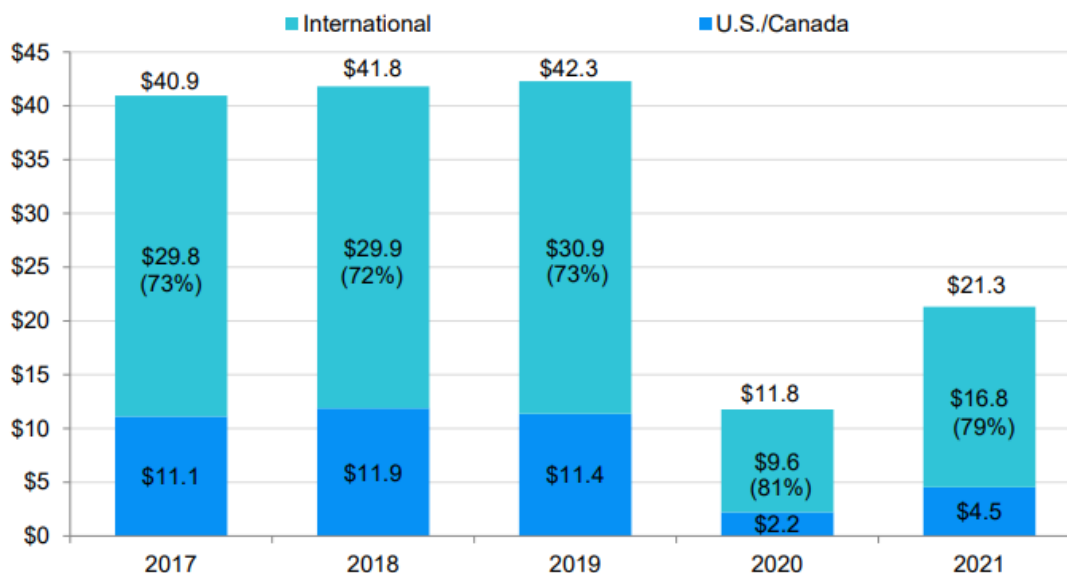
Rank	Title	SVOD Provider(s)	# of Episodes	Minutes Streamed (Nearest Millions)
1	Lucifer	Netflix	93	18,342
2	Squid Game	Netflix	9	16,432
3	Great British Baking Show	Netflix	75	13,636
4	Virgin River	Netflix	30	12,908
5	Bridgerton	Netflix	8	12,356
6	You	Netflix	30	11,124
7	Cobra Kai	Netflix	30	10,915
8	The Crown	Netflix	40	9,651
9	Longmire	Netflix	63	8,892
10	The Handmaid's Tale	Hulu	46	8,564

Figure 3 (qtd Theme Report 2021)

The global box office market for all films released in each country around the world³⁸ was \$21.3 billion in 2021, up 81 percent compared to 2020, due to theater re-openings following the COVID-19 pandemic lockdowns, but remained below pre-pandemic levels. The international box office market (\$16.8 billion) increased 76 percent, while the U.S./Canada box office market (\$4.5 billion) increased 105 percent compared to 2020. The international box office market accounted for 79 percent of the total box office market in 2021.

Global Box Office Market – All Films (US\$ Billions)

Source: Comscore, Omdia (International), MPA sources



	2017	2018	2019	2020	2021	% Change ³⁹ 21 vs. 20	% Change ³⁹ 21 vs. 17
U.S./Canada ⁴⁰	\$11.1	\$11.9	\$11.4	\$2.2	\$4.5	105%	-59%
International ⁴¹	\$29.8	\$29.9	\$30.9	\$9.6	\$16.8	76%	-44%
Total	\$40.9	\$41.8	\$42.3	\$11.8	\$21.3	81%	-48%

³⁸ Values in the report reflect all films released, regardless of distributor or country of origin, except where specified as a subset.

³⁹ Percentage change and international share (above) are calculated using values before rounding.

⁴⁰ Source: Comscore – Box Office Essentials, calendar year from January 1-December 31.

⁴¹ International box office excludes U.S./Canada throughout this report. MPA calculates international box office country-by-country based on a variety of data sources. Previous years' estimates may be updated based on changes made by sources.

Figure 4 (qtd Theme Report 2021)

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