

Effects of The Streaming Deal between Netflix and Sony

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Abstract. Due to the unprecedented pandemic that started in 2020, many companies suffered miserably, including the filming industries as well. Since the pandemic is likely to become a long-term event, filming companies need to come up with corresponding countermeasures to deal with the rapid change in the world. Therefore, this research paper discussed the streaming deal between Netflix and Sony, in which Netflix is one of the biggest streaming companies in the world and Sony is one of the biggest filming companies in the world. They made a 5-year deal that allows all the films that Sony produced will also be released on Netflix from 2022-2026. This research paper focused on the outcome of the streaming deal and concluded that the deal is a win-win situation for both sides. Sony can stream their films on streaming services and Netflix gets Sony-produced content. This study implied that as technologies increasingly grow and play an unprecedented role in modern society, it is important that filming companies can also display their content somewhere else than just in theatres alone. Developing services both online and offline will become an important business model and strategy in the post-pandemic.

Keywords: SWOT; Synergy effect; Netflix; Sony.

1. Introduction

1.1 Background

Under the current circumstances of the COVID-19 pandemic, the film industries were one of the industries that suffered and were impacted the most. People now are more willing to stay at home streaming movies online on their TV or laptops instead of risking their health conditions to go into the cinema, thus making film cooperation lose tons of revenues that they could have made from box offices. Since the pandemic was rarely seen in human history, and potentially being a long-term event, these big corporations need to come up with new ways to sell and present their films to recover the loss of revenues from box offices. Sony is one of the film companies that suffered from this unfortunate event. They have only made a gross profit of \$427,888,176 from their box office revenues in 2020, which is almost a 70% decrease from the year before COVID struck in 2019 [1]. To address this issue, they, therefore, on 2021 April 21, made a 5-year deal starting from 2022-2026 with one of the biggest streaming companies across the world—Netflix. The deal made Netflix the right to play Sony's film so that they can attract more subscribers and memberships. On the other hand, Sony will receive huge revenues from Netflix and will pay for their movie's exclusive rights to stream films on their platforms. This research paper introduces this deal and predicts that the deal is likely to become a win-win situation and have a synergy effect for both of them.

1.2 The Main Gap

The research topic over the field of media and streaming platforms is not a fresh new topic, a couple of years ago people already started to analyze the effects of how Netflix and other streaming companies will impact our daily lives. For example, in 2016, Azlin along with 3 other researchers conducted research on what benefits and drawbacks the practice of streaming technology could have on children in Malaysian schools [2]. Researchers also analyzed the economic structure of the streaming companies are, and how they use their technology with an algorithmic audience to develop their business model. Like Researcher Terme Colborne who studies conceptualizing distribution economy, technology, and power in streaming media services in 2020 [3]. Besides that, the synergy effect, which is an economic term defined as $1+1$ is bigger than 2, was also examined by researchers

long ago. Researchers like Xin Li 2009, used a case study from the field of business, the field of commercial banks, and along with other technological fields to illustrate the idea of synergy effects [4]. Even though these components are no longer fresh topics, the combination of them, which is the deal between Netflix and Sony, is relatively new. Since the last major pandemic that the world ever had could be dated back a 100 years ago when the outbreak of Spanish flu occurred, cooperation between streaming and media companies has been a topic that has rarely or perhaps even never been researched. Therefore, the research field on the deal between media and streaming companies is new and is worth researching since it could potentially contribute to the development of later new business models.

1.3 Fill the Research Gap

2022 is the first year of the deal and this research paper does not know how this deal will turn out in the future, whether it's a win-win situation, a win-loss situation, or the deal is a complete failure for both Sony and Netflix, all of which are uncertain. To solve this question and contribute to the later development of future new business models where streaming companies cooperate with media companies, this research paper raises this paper's research question, which the research paper would like to ask what effects this deal could potentially have on Netflix. Using data and reports from this year and made analytic studies, this research paper believes that Netflix will benefit from this deal, as will Sony. The deal will have a synergy effect and is likely that future media and streaming companies will follow suit and have more corporations.

2. Literature Review

2.1 Definition and Development

Since the deal between Netflix and Sony's purpose is to maximize profit and make up for the deficiencies of both parties, therefore the theory that this paper will be used to analyze the deal between Netflix and Sony is the idea of the synergy effect. The synergy effect is defined as the result of two or more processes interacting together to produce an effect that is greater than the cumulative effect that those processes produce when used individually [5]. In short, the synergy effect means that $1+1$ is greater than 2, or $2+2$ is greater than 5. The history of the synergy effect can be dated back to the 1600s [5]. The word synergy is derived from the Greek word "synergy" which means to work together or to cooperate, and the idea of the synergy effect was first properly proposed in the latter half of the 20th century [5]. In 1965, Igor Ansoff, an expert and a leading figure in the field of Strategic Management, for the first time proposed the idea of the Synergy effect to his managers [5]. He believed that if enterprises seek reasonable strategic arrangements for sales, operations, investment, and management, then an enterprise may achieve a synergy effect [5]. In his book "Corporate Strategy", he wrote that synergy is one of the most important components of enterprise strategy [5]. Besides the field of business, synergy effects have also been applied to other fields of study. A German physicist called Hermann Haken proposed the idea of the synergy effect in physics in 1971 and published "*The Science of Structure: Synergistic*" in 1976 [5]. Researchers and Professors also discovered that the synergy effect also applied to the field of biology in 1992 [5].

2.2 Important Results

The idea of the Synergy effect has been developed over decades and has been analyzed for its broad implication and its downside of it. For example, researchers Albert et al. 2013 studied the flip side of the financial synergies, which is one of the synergies effects in the field of business [6]. They use evidence-based on conglomerate mergers, spiffs, project finance, and secularization to conclude that Separate financing becomes more attractive than joint financing when the fraction of returns lost under default increases and when projects have lower mean returns, higher variability, more positive correlation, and more negative skewness [6]. Besides financial synergies, people also analyzed management synergies, which is also another important synergy concept in the business field. In 2013,

a group of researchers led by James studied the idea of management synergies using forest models [7]. He and his team believe that if using management synergies, it will be possible to identify management actions that produce regeneration abundance and composition appropriate for the long-term sustainability of multiple forest values [7]. Beyond the field of business, the idea of synergy effects also applies to the field of psychology. A research study in 2011 led by Choi wanted to examine whether there is a synergistic interaction effect between job control and social support at work on general psychological distress and whether it differs by the level of job demands [8]. And by his method of measuring Job controls, social support at work, and job demands and a series of questionnaires, he concluded that there was a synergistic interaction effect between job control and social support at work on general psychological distress, but the synergistic effect or its effect size differed by the level of job demands and gender [8]. Last but not least, the idea of the synergy effect has been present and analyzed in the research of the business field for a very long time. Researcher Jung So Yen, 2016, investigated the possible existence of a synergistic effect of internationalization and corporate social responsibility on a firm's value performance in the US [9]. He observed over 40 US-based publicly traded restaurant companies and built a two-way fixed effects model and found out that when implemented simultaneously, internationalization and CSR have a negative synergistic impact on a restaurant firm's value performance [9]. And Researchers Holubik and Soviar analyzed the creation of synergy effect through suitable chosen strategy management of the company in 2016 [10]. They hypothesized that for a company succeed in a current globalized environment with an increasing need to maintain long-term competitiveness, it is necessary to define an appropriate way how can company to manage to achieve a synergy effect [10]. In conclusion, it is evident that the idea of the synergy effect has contributed to a variety of different fields and is a crucial element within each field. The synergy effect will continue to be applied to different fields and will be future studied by other researchers to maximize its function of it.

2.3 Summary

Overall, the idea of the synergy effect is a very broad theory that could apply to multidisciplinary fields and has been developed over decades. But for this research paper, the synergy effect will only apply to the business field. In the Business field, there are another 3 independent synergies, which are financial synergies, Management synergies, and Operational synergies. In the case of the deal between Netflix and Sony, it's classified as Operational synergy, which is defined as a cooperation between two companies that resulted in both companies achieving economies of scale, complementary advantages, cost reductions, market share expansion, and more comprehensive services, etc. Both Sony and Netflix have comparative advantages, for example, Sony has good content but does not have a platform to distribute them, whereas Netflix has good platforms, but lacks good content to display, therefore they both have comparative advantages and can complement each other if they work together, thus this paper's hypothesis predicts that both of them will earn an economy of scale after the deal.

3. Method

3.1 Research Design

For this research paper, this research paper will be using SWOT analysis, which stands for strengths, weaknesses, opportunities, and threats and is a key part of any business and strategic plan. By using this method, this research paper can clearly outline the pros and cons of the deal between Netflix and Sony, thus this research paper can determine the advantages and disadvantages of future deals between media and streaming companies. For example, a research study conducted by Ma in 2006 analyzed the development of business tourism and its countermeasures in Shanghai. She believed that Shanghai, as an international commercial city, should develop its tourism in line with its characteristics, and use SWOT analysis to analyze the advantages, disadvantages, opportunities, and challenges that Shanghai has if it becomes a tourist destination [11]. Gladly, 15 years after this

research paper was published, Shanghai became a popular tourist destination and one of the world's trading centers.

3.2 Sony

Sony is one of the film companies that does not have a streaming platform of its own, thus when the pandemic hits which resulted in a massive closure of cinemas in 2020, Sony's revenues were greatly reduced from what they could have made from box offices. Data shows that Sony lost over 70% of the box office revenue compared to the year before, the number of tickets sold was also an astonishing low, with some 46,661,734 compared to 2019 with a number of 146,444,013 which is the lowest in the past 25 years [1]. While losing a lot of revenue, the pandemic hasn't been kind to many film studios, as many 2020 releases got pushed back multiple times. Many films are already finished and just waiting to be released. The uncertainty has led to some companies embracing the streaming future and facing potential bankruptcy, Sony needs a plan as soon as possible. On the other hand, Netflix has been making revenue growth for the past 5 years, with a 20 billion revenue in 2019, they have even higher revenue in 2020 with almost 25 billion dollars, which is a 24% increase from the year before [12]. If Netflix wanted to keep on with its growth, which means they might need better content to attract more people to subscribe, and if Sony likes to stop postponing all the films they made and wants to make some profit out of it, they should get a streaming platform, thus in 2021, April 8, Sony went further, inking a first-look deal with Netflix and setting up a pipeline of streaming feature development, and they made a 5-year deal which allows all the film that Sony produced will also be released on Netflix from 2022-2026 [13]. Since the deal just began in 2022, it's hard to know how the outcome of this deal will be, but according to data, Sony's revenue from the first half of 2022 is already higher than 2020's total revenue, with a number of \$486,532,600 compared to the latter with a number of \$ 46,661,734 and people believe that the deal between Netflix and Sony is a deal that will worth a net of over 1 billion dollars [1].

3.3 SWOT Analysis

3.3.1 Strength

As the key component of this paper, this research paper so far has been going through the strength of this deal for both Sony and Netflix throughout this paper. Netflix's strength in this deal is that they can get good quality content onto their platforms for the next 5 years. This is important because Netflix doesn't have to risk themselves making content that might get unfinished as it is what their Netflix series has always been classified as. They also don't have the financial ability to make a film themselves, therefore, it will do a huge favor for the side of Netflix to have such a big content supplier like Sony, and in the meantime, For Netflix, Sony is also a content quality assurance since they are a large-scale filming company. For Sony, due to the closure of cinemas and people unwilling to go to cinemas, they need to find another way to release their films instead of just postponing their new films forever and ever until they rot. Though no one knows what COVID will end up like yet, it's evident that it has already changed the way that people live, one of them is that people started to rely on remotes and technologies more heavily than ever before. Thus, it would be smart for Sony to start releasing films on streaming platforms, and since Sony does not have a streaming service of its own, Netflix will be a perfect match for it. In short, Sony will sell the exclusive rights of playing their newly released film onto Netflix to gain profits, and Netflix will be the only streaming service to play Sony's film thus extracting more subscribers and making profits from it. The deal should be a win-win situation that benefits both of them.

3.3.2 Weakness

Theoretically, the deal does not seem to have obvious major weaknesses, but some aspects have to be aware that could potentially undermine the outcome of the deal. For Sony, unlike Disney, which has its streaming platforms, Sony has to rely on Netflix for its streaming services, which means they do not have full control over what will be going on, and if Netflix encounters severe hardships, Sony

is also likely to drag down the water. Same for Netflix, since it has lost Dreamwork and Disney over the past few years, which makes Sony the sole contract with the major movie distribution studios. If Sony had any severe problems with themselves, for example, the worsening quantity of the film they produced, will undoubtedly affect Netflix's profit in a bad way. In short, Netflix and Sony are kind of a bonding relationship and depend on each other. And if any of the sides goes wrong, it could negatively impact both of them.

3.3.3 Opportunities

For Netflix, the future opportunity is to have Sony as a model thus having close observations to learn how to operate a filming company in the future if they wanted to produce their film, Sony, on the other hand, is pretty much the same, which they can have the future opportunities to have Netflix as a model thus having close observations to learn how to open up and operate a streaming platform of their own. As this paper mentioned before, one of the potential threats is that it could be dangerous that Sony and Netflix to have this kind of bonding relationship, If Netflix has the ability like Disney, Sony, Warner Brothers, 20th-century fox, and other filming companies to make their films, and Sony like Disney and Warner's brothers that have their streaming services, they would have made a lot more profit than right now. But they have to at least work together first to make this transition work. Together, the opportunity is that both of them working together have successfully caught the technological tides of the current years. It is important to notice that people started to rely more remotely and it is crucial that companies now have such business models and, in the future, as well.

3.3.4 Threats

Even though theoretically this should be a win-win deal, there are still threats that could potentially undermine the effort that they made. For example, Netflix, due to outside factors, is losing its subscribers in the past few sessions. News estimated that Netflix lost over 200,000 global subscribers in the first quarter of 2022 [14]. One of the reasons that could result in this is password sharing. Multiple people could use one account remotely so that not everyone will become a subscriber of Netflix. This could be a challenging task for Netflix, but they need to come up with something that can fix it. Its stock market went from 688.36 dollars on 11/16/2021, to 387.71 dollars on 1/25/2022, which got almost halved within two months. What's even more devastating, is that Netflix is currently, on the date of 6/13/2022 worth only 179.09 dollars [15]. Again, many factors could play in the reason why Netflix loses so much value within only half a year, besides password sharing, the current state of inflation in the United States could be one of the contributing factors, also the war between Russia and Ukraine had as well impacted Netflix's market. On the side of Sony, there is some disturbing news as well. Although Netflix got the exclusive rights to stream some of the big franchises that Sony has, like Spider-man, Venom, and Jumanji along with other films, it is evident that some of the newly released films are losing their quality. For example, the newly released Morbius only had a rating of 5.1/10 on IMDb, Venom had a rating of 5.9/10, and Uncharted with a barely passing score of 6.4/10 on IMDb [16-18]. If Sony film's quality starts to drop, it will undoubtedly affect the number of subscribers for Netflix. Both Sony and Netflix's threats cast a shadow over this piece of the deal.

4. Result And Discussion

4.1 Result

As the result of this paper's analysis, this research paper reasonably concluded the deal between Netflix and Sony is theoretically successful. Netflix in the end will get Sony-produced content to attract more subscribers, on the other hand, Sony will be able to make profits from selling their film's exclusive rights to Netflix. However, some weaknesses are caused by outside factors which may undermine the outcome of this deal, therefore, both companies should come up with corresponding countermeasures to confront the potential issues.

4.2 Discussion

Despite its weakness and threats, it is a smart move that Netflix and Sony had a deal with each other, especially with the current fast technological involved society, and it is a business model that will be practiced more often than ever before. However, this research paper does not think nor suggest that this becomes a long-term deal. According to the SWOT analysis for this streaming deal, there are a lot of outside factors that might potentially undermine the outcome of this deal, which includes the growing tensions across the world like the war between Russia and Ukraine which made Netflix lose a significant number of subscribers from Asia. The worsening economy across the US, the technological issues that Netflix has, and the worsening quality of Sony's films. All of which can contribute to and undermine the outcome of the deal between Netflix and Sony. On the other hand, from the conclusion of strengths and opportunities using SWOT analysis from this deal, the two companies could use each other strengths to complement each other-Sony provided content to let Netflix attract more subscribers, and Netflix paying Sony for their exclusive rights-and using this opportunity to develop their services. Therefore, it is better for Sony and Netflix could use this time to transition into a company that both has its streaming services and the ability to make their films. They will only prevail in such a competitive environment if they can produce everything on their own. It's smart that both companies cooperate with each other to complement each other's deficiencies in the short run, but it's not smart and even dangerous that they have to rely on each other in the long run.

5. Conclusion

For a recap of the entire analysis, this research paper analyzes the streaming deal between Netflix and Sony using SWOT analysis to determine how much impact that will have on both sides, and how much of a value is the deal worth. Since the deal had just started and it was uncommon that streaming companies ever cooperated with filming companies, it is only likely to extract and discuss results based on theories using SWOT analysis. For this paper's implication, SWOT analysis is a very useful method when analyzing business deals. It clearly lays out the advantage and disadvantages of a deal that gave broader perspectives to people. Even though this method can only give a rough framework of a business strategy, it is defiantly a good head start for an analyst. Based on what this research paper has discussed and analyzed so far, it can reasonably conclude that the streaming deal between Netflix and Sony is successful and will do a favor for both sides, however, the deal also has its weakness, therefore, this paper suggests that two companies should use this deal as a transition to develop their corresponding services. Netflix should develop its film department, and Sony should develop its streaming services like Disney and Warner's brothers did. Due to the uncertainty of the future and many outside factors, it's dangerous that they have to rely on each other and turn it into a long-term deal. Despite all of that, cooperation regarding displaying information online and offline in short periods like a span of 5 years will become a popular business model and strategy in the future.

Therefore, in conclusion, and to answer this paper's research question, this paper concluded that the streaming deal between Netflix and Sony is successful and will not only have a positive impact on Netflix but also on Sony as well. If the deal turns successful for both two companies, it will pave the way for the new business model of streaming companies cooperating with media companies.

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