Media Piracy and Netflix

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The digital age has installed a new collaborative model for creation and a newfound sense of agency for consumers/viewers. This way of interacting with "digital copies" has empowered the audience and encouraged online piracy. Media piracy is an uncontrolled means of distribution that greatly challenges the industry's business model. As a result, the most powerful corporate players are adjusting their business models in two aspects: how content moves through time (windowing) and space (flow). Nevertheless, neither geo-blocking nor authentication have managed to reduce online piracy. In contrast, Netflix's original content is windowless and attractively priced, which allows it to effectively "compete" with online piracy.

The first reaction of the media industry towards media piracy was to start a "war" to eradicate it, pursuing legal actions against copyright violators, and pressuring national governments to make new and stronger legislations against it. Following a conservative attitude, the media industry tried to prevent changes on the film and television distribution circuit that had been imposed and protected by them for decades, since it was carefully designed to maximize their revenues. Instead of realizing that there was an opportunity in this extended consumer habit, instead of acknowledging the emergent market for streaming online content, the media conglomerates tried to punish consumers and totally eradicate media piracy.

Netflix was the first company that understood that media piracy was an indicator of an unsatisfied demand. Audiences grew accustomed to streaming online content thanks to media piracy, which was the only way of performing that activity. Understanding that scenario caused Netflix's success, which led it to offer a legal alternative for an already existent and extended practice. This proved to be a better strategy than fighting a legal battle to eliminate media piracy. Netflix proposed itself as media piracy's competitor, pursuing the same segment of people, acknowledging that they could constitute a new market, which the portal wanted to dispute. This implied a radically new of way of framing piracy, which deeply contrasted with how the media industry had framed it.

Before launching in a new region, Netflix uses piracy penetration in that area as an indicator of its likeliness to operate in that market successfully. This clearly indicates that the portal is aware of the correlation between its offer and media piracy: Netflix builds upon that same audience. To compete, Netflix provides a better user experience than media piracy, by simplifying and accelerating the process of searching and accessing movies and television shows.

Besides the advantage of finding content in an easier way, Netflix also guarantees quality features for the streaming experience. This applies not only to the quality of

the movie or TV show, but also to the user interface. Thus, Netflix better responds to the "economy of effort and risks" that determines user behavior when streaming, being piracy a much more demanding and risky activity. Compared to the requirements of downloading a torrent or streaming through a cyberlocker site, Netflix's interface facilitates the viewing experience and guarantees a high quality and malware-free service.

By understanding that piracy is a "business problem" instead of a "legal problem", Netflix also successfully used a subscription based strategy to compete with it. When a movie that is meant to be distributed in the traditional circuit is released online first (or at the same time than in theatres), a significant amount of people are more likely to stream it instead of going to the theatre and paying for the ticket. In contrast, Netflix's subscription-based strategy reduces the damage media piracy may inflict on its revenues, as shown by the case of Orange is the New Black's hacking.

Besides usability and the subscription model, Netflix is also attempting to compete with media piracy by installing a moral dilemma in the audiences. This means it is exploiting the "legal angle" in a new and different way than the traditional media industry actors, which have been dedicating all of their efforts to a legal battle towards its elimination. Instead of pursuing legal actions, the portal seeks to "denormalize" media piracy and install a new social awareness regarding that activity.

Netflix not only competes with media piracy, it also takes advantage of it. First, in the form of free market research, as guidelines that indicate how to successfully operate in a market. Second, mimicking and feeding the tendency to value old content that characterizes the digital era, which media piracy has boosted. In this sense, Netflix relates to media piracy in two domains: production and distribution.

Netflix's innovative way of competing with media piracy was perceived as a successful strategy, thus the media industry is now shifting in that same direction. When Netflix became an important actor in the industry, the media conglomerates began mimicking its strategy. Instead of focusing on fighting a legal war, they are now following the more effective path Netflix has initiated. Hulu and CBS All Access are examples of this.