Netflix

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Eric Sheridan: All right. Thanks, everyone, for finding your seats. Those who don't know me, my name's Eric Sheridan. I'm UBS's US Internet and interactive entertainment analyst. It's my pleasure to introduce Ted Sarandos, who is here, the chief content officer of Netflix, for a keynote fireside chat. Just one housekeeping measure. Like with all the other presentations, use that UBS Conferences app, send any questions to me up on stage and I'll get them up here on the iPad and I'll work them through in the conversation Ted and I are going to have.

Ted Sarandos: You will be the gatekeeper of the --

Eric Sheridan: I will be the gatekeeper. There will be no hot mic situation out in the audience. So, Ted, I wanted to lead with you finally made it. "SNL" on Saturday night parodied the content strategy of Netflix.

Ted Sarandos: Was that guy supposed to be me?

Eric Sheridan: I didn't know if that was supposed to be you or not (inaudible). I would say we kicked off this conference last year by saying that my wife and I loved "Dark" and we were consuming it. I will say we would watch "Leslie Jones In A Van Getting Batteries."

Ted Sarandos: Getting batteries. Me too. I would definitely buy that show.

Eric Sheridan: So we'll start with that. But --

Ted Sarandos: But I would say, I think that's what's funny about that "Saturday Night Live" sketch is they -- you know, "South Park" did the same sketch a couple years ago. It was very funny. And so the challenge of "SNL" is they've got to be funnier and faster than those guys.

Eric Sheridan: Well, look. I think what that really speaks to is the fact that now, when it comes to content, when it comes to Hollywood, you guys are really at the center of what's going on in terms of content creation, content acquisition. It's been a pretty busy year on the content side. I think maybe just to start and maybe level-set for the conversation today, where have we come from over the last 12 months in terms of what you're focused on in the company on the content side and how do you think that's setting up the company as you look out to 2019?

Ted Sarandos: Well, I would say that this year has been a year of growth. We've been able to move into new content spaces that we have not been on the original side before, like unscripted, where last year we had zero unscripted shows on Netflix that were original to Netflix and this year we have 20. And the viewing of unscripted programming has grown on the quality and breadth of the new unscripted shows on Netflix. Our movie initiative I think has found a new gear and is going gangbusters right now. Our original series, we continue to create new brands that are meaningful to consumers year-on-year, and other shows are continuing to be successful in later seasons of their existence. And our local language original shows now, we're going to be ramping up to 70 original local language shows next year, and those shows have been remarkably relevant in the home country and have been able to get both pan-regional and in many cases global success that has changed the dynamic in a way for international television, which is we're not trying to make more Hollywood content for the world, we're trying to make content from anywhere in the world to the rest of the world. And then I think what you find out is you have a incredible amount of great storytellers who are making shows like "Dark" and "Rain" and "Sacred Games," "Casa de Papel," that are huge hits around the world in local language with local cast and local directors and local producers. So we're really excited about where that can go and how much that can scale over the next couple of years.

Eric Sheridan: So, well, let's take a step back. "House of Cards" started, I think it was over six years ago, just came to an end with the sixth season. Over that period of time, I think what we've examined is sort of the mode around the business continues to sort of widen as original content becomes a bigger portion of the offering. Maybe talk about what you've learned over that period first, about creating original content, building the library the way you're going about constructing it, and more importantly, what it does for the business in terms of setting it up for the medium to long term.

Ted Sarandos: Well, that's been kind of a microcosm of the whole media landscape, is "House of Cards." If you look at seven years ago sitting in that first table read with the cast and hearing the first words of that series spoken for David Fincher versus how different the world is in that lot being onset in Baltimore watching that last scene being shot, both in the creative process, having Robin emerge as a really incredible director, and her character emerges to kind of carry the show. The fact that television all at once didn't exist before that show, to the idea of binge watching at the level that it's happening in the world, these were all very, very new concepts when we sat down. And then to where it is today, which is some of the most popular and successful television shows in the world are being made for Netflix, and that was from zero what we did when we were sitting down to do that first show. And the careers that have come off of that. Rachel Brosnahan did such a great job on "Mrs. Maisel," who's a product of "House of Cards." Michael Kelly. All these careers that were born from this one show. But the root changes in the media landscape that are all centered around that kind of seven-year block of time is pretty remarkable.

Eric Sheridan: So before we look forward, because I know there's always sort of the what's the next thing with Netflix on the content side, you do now have a fairly extensive library of content you've built up over that past five or six years. How should we be thinking about what that does when you go into a new market or engage with a new consumer sort of the strength of the existing legacy library versus just all about the new-new thing?

Ted Sarandos: Well, first and foremost, when we launched in Asia just about two years ago, that was the first time we launched a big group of countries with the same subset of content, which was our owned originals and our globally licensed programming. Everywhere else we kind of launch with kind of a small, high touch, white glove approach versus launching all these territories with just saying, let's see how this goes and then let's get really good locally. And we had enough high profile original shows with enough desire to see them that we could actually launch the service in these multiple territories on the strength of just the original programming and a handful of globally licensed shows. And then from there, get better in India, in Korea, in Japan, of programming, both original programming and local licensing, to where we see this very nice steady increase in hours of watching in those countries that make it a much better product fit for the market even -- and they're all radically different from one another. And at the core, there's these shows that people love. So we produce "Sacred Games" in India. People join Netflix to watch "Sacred Games" in India and they discover "Stranger Things." And then they discover a world of other programming. And what's cool is at the same time, the rest of the world is discovering "Sacred Games," which, you know, outside of the diaspora, there's probably not that much watching of non-Bollywood Indian programming around the world prior to "Sacred Games." So it's a very exciting time and kind of dynamic nature of where content comes from and who's watching it.

Eric Sheridan: So I guess probably the number one question we get from investors is how the competitive landscape is going to play out over the next 12 to 24 months. There's obviously a dynamic --

Ted Sarandos: What's the answer?

Eric Sheridan: I don't have the answer. That's why you're here. Yeah. No, I think with Disney, with some of the existing SVOD players, with some of the aspirations of some of the bigger digital media companies and digital Internet companies that I cover, obviously there's a couple of different things. There's what happens to licensed content. There's what happens to the go-to-market strategy, maybe even some things on the content inflation side. Just as you guys plan out your own business knowing that's the landscape, what are some of the things that are top of mind for Reed and you and the whole team?

Ted Sarandos: Well, the change -- so you have to think, our move into original programming was a bet that some of this stuff was going to happen. Right? (Inaudible) one of those things where if we believed that the world was going to evolve in this way, then the people who create content would try to evolve with them. And then if they were competitors, they'd be less likely to sell us their programming. And then if they're -- including less likely to produce content for us through their studios over time. But, so that was our bet to get into original programming was if we need to, we should get good at this pretty soon. So that's what we started betting on early, on things like, you know, we did "House of Cards," "Orange Is the New Black," the new season of "Arrested Development," "Lilyhammer," "Hemlock Grove," in our first year of original programming. And this was like, okay, these were -- they represented comedy, drama, international. Like everything we're doing right now, we took a first stab of it almost seven years ago, but on the bet that we were going to need it. Like, and if we did, we needed to wean ourselves from dependency on third-party suppliers of programming, develop our own content relationships, our own creative relationships.

And so today, when you talk about like access to programming, there is our own product which is ramping up dramatically. We have run-of-series deals with many of the programming that's on Netflix, so it's not like tomorrow anyone yanks a show because they decide they don't want to do business with us anymore. They're run-of-serious contracts, so as long as they're making the show, plus a long tail, they come to us. And then we do co-productions all over the world on shows that are huge. I don't know if we have fans of "The Bodyguard" here. It's not "The Bodyguard," just "Bodyguard." "The Bodyguard's" a movie; this is a different show. But we co-produced it for BBC and it was the biggest scripted show in the history of the BBC this year, and it was, for us, an enormous hit everywhere else in the world. And then we'll have a second window of it in the UK.

So we're doing all the different ways to make sure that we have a steady pipeline of great programming on Netflix regardless of what happens in the rest of the world, because I find that we are way better off the programming -- we're better off deciding our own destiny and making our own choices with the consumer in mind than with a bunch of competitors in mind, because other people are going to try things, they're going to get out there and they're going to do things, and some of them are going to be successful. I don't think they'll be to the detriment of Netflix. But I think there is plenty of room in this business for other players to be successful.

Eric Sheridan: Fair enough. As you do turn an eye towards 2019 and you start to think about what we might see as analysts and Netflix consumers, can you sort of frame how you're thinking through the year, whether it be qualitatively, quantitatively, about what might come to market and where your sweet spots are that you're leaning in on the content slate as you look out?

Ted Sarandos: Well, I'm as excited about 2019 as I was about '18 and '17. I think it's one of these things where we've got the -- this time next year we'll have movies from Martin Scorsese, from Michael Bay, from Noah Baumbach is -- I mean, very high-profile original film. We have new series coming up in '19, new brands that we're really excited about like "Umbrella Academy," "Dark Crystal," that are going to we think be very big, ambitious shows for the world. Our local language shows that I think have the opportunity -- our international regionals group, which is producing "The Witcher" this year in English, but we think it's going to be a very big show. It's based on an enormous IP and novel gaming platform, but it's an incredible world that we're shooting right now in Eastern Europe that we think is going to be enormous. And so we're just very excited about what's upcoming.

Eric Sheridan: So you've talked about what you would spend on content in 2018. We haven't yet heard from you on 2019. But as you think about what you might spend in 2019 versus 2018, how are you thinking about sort of the ROI you're getting out of a dollar spent on content? When we were here last year, I was asking you about sort of the incremental dollar and when there'd be a friction point of the incremental dollar not necessarily driving the same ROI in terms of lifetime value around subscribers. How are you thinking about that as you look towards '19?

Ted Sarandos: Pretty much the same, which is, you know, we look at the incremental investment in content, and we look at it and say, look, at some point, you're going to hit a point of diminishing returns on the investment, meaning that we're putting new money in and not getting any new watching out. And I think what -- and until we see that, I think that we're enthused to push forward, meaning that we keep investing more in programming, but we're also getting more users and more hours of usage from our existing users, so meaning there's a lot more growth, we think, in continuing to invest in more programming today. When we see those kind of inflection points in the business where that's no longer the case, then we can start looking at that. And the marginal cost of being wrong about it, by the way, meaning overinvesting in it, is not that high. So you really, what you don't want to do is pull back too fast and figure out that you were wrong, where the other one is you overinvest by one marginal show or one incremental show that you may or may not have needed. I think that's probably the right trade-off in the business.

Eric Sheridan: So how are you thinking -- now there's obviously a lot of different areas, as you highlighted earlier, Ted, about scripted, non-scripted, film, TV series, comedy specials. How are you thinking about those --

Ted Sarandos: "Bruce Springsteen Live on Broadway."

Eric Sheridan: "Bruce Springsteen Live on Broadway."

Ted Sarandos: Coming December 16.

Eric Sheridan: How are you thinking about those buckets? Is there one that's getting incremental more money than it maybe had historically or where you view it as an area where pushing in from a content spend will produce more value versus not, or maybe you already have the scale you need on a TV side? How are you thinking about those various investments?

Ted Sarandos: Well, as I mentioned, our unscripted spend is all new from last year. Our international originals growth I think reflects our international growth, you know, meaning like about 80% of our new subscriber growth is coming internationally. And what's great is is that those territories can then generate global viewing. That's a great trade-off in the business. Most of our movie spending is quite global. The viewing on movies is more predictably global than television series. So those are the areas I think of the business that are more likely to be leaning into the international growth space.

Eric Sheridan: If you think about the areas where putting a dollar to work in the content budget could have the maximum impact in terms of subscriber growth for the business model, what are the areas? Is it film, is it local language content? You know, where you necessarily see more of an output of a dollar spent earning an excess return.

Ted Sarandos: Well, it depends. They're all very different experiences. And the reason the "SNL" sketch, by the way, why they make these jokes is because we do make a lot of programming and we are programming to every taste. So unlike a network that has picked a demographic that they're going to program to, there is an absolute number of shows that you can possibly make for that group of people. But we're making programming for all people, so -- and the nice thing is that because of our ability to personalize, you rarely see everything that we're making. So we're not promoting everything we make to you. If you've never seen a kid's show, you're very unlikely to get promoted a kid's show on Netflix even though we make a lot of them. So in our ability to do all those things, we want to do the best version of whatever that is. So when we put in that money, and you'd say, well, how does that benefit Netflix. In general, it's watching.

The other one is is I will join -- that's so exciting to me, I will join Netflix to watch that show. Now, with the user base we have today, for something to rise to that level -- in other words, they've decided not to join Netflix up till now, and this one thing is going to put them over the top, it's pretty unlikely. It's kind of the drumbeat of good things every week, every month, sometimes every day, that people are seeing as why I have a Netflix subscription, so I can see that thing that everyone's talking about. And when we have the -- so that is when we look at those -- and you want to do is to invest in a way that people are passionate for the programming.

So, in general, things happen on either end of that spectrum, either very big and dispassionate or very small and passionate. And what we're finding is is we can produce very big movies and television shows that people are very passionate about by not following all the conventional business models. So when we make a movie, if I'm trying to make my movie also work in China, I have to make a bunch of changes to the creative, both because of regulatory environment in China and just general taste, where I'm trying to make movies that people love who subscribe to Netflix, so I don't have to homogenize the storytelling. So we're doing these movies that are -- like "Roma," a Spanish-language black-and-white period movie that we -- but we'll have in very big viewing on Netflix all over the world, and there was no creative compromise to make it easier to sell in China or more marketable on network television or any of those things. We actually, by focusing on the quality of the product, whatever it is, it actually makes it more global, more embraced, and more passionate. And that's kind of been the opposite of entertainment trends.

Eric Sheridan: So I think there's a couple of questions that have come in in a couple of different formats around areas of content, so I'll try to bucket them where there's sort of live versus unscripted, and then there's categories like sports, news --

Ted Sarandos: You love that sports question.

Eric Sheridan: I do love the sports question. I have a lot of them here. And music, I'm getting asked about on the iPad as well, so live versus unscripted. How do you think about the potential for either format for those three segments of the market?

Ted Sarandos: Well, I'll give you one answer that kind of touches on all of them. Part of our core proposition is on-demand, so kind of relieving the consumer from the grid. Do I have to get home and watch this at eight o'clock on Wednesday night? So the more that the on-demandness of the show enhances the value or improves the experience, the better role Netflix will play in that. If it's live, cable and satellite and broadcasts are built perfectly to aggregate big audiences at the same time. But the best way to monetize that viewing is probably through advertising, because you've gotten everything -- all these people to do the same thing in one hour. Doesn't have a shelf life, doesn't have all these things, but it doesn't matter. I've aggregated the audience so I can sell them advertising. Our world is subscription, and this value, there's enormous value in giving people the freedom to watch it whenever they want at their own pace. So if they're so excited they have to watch 10 hours of this new show tonight, they do. Some people do. And one way we can quantify that is we've done (inaudible) than in other places where we put them all on at the same time, and we've done these scattershot all over the world. And net, the audience engagement, number of people watching, it can get pretty similar, but by hands-down, the all-at-once people spend a lot more time watching that show, because they don't quit, they don't give up. It didn't not meet their schedule this week and they forgot about it. If you're into the show and have the access to watch all of it, it generally leads to a deeper relationship with that programming and higher rates of completing the season of the show. So that's one way of saying that we add value there.

Sports, like live sports, I think on-demand adds almost no value to. People want to watch sports now. They want to know who won. They don't want anybody to tell them who won. So all those things. And I would say that in general, when at some point do we get into sports? If it becomes the next best place to spend $10 billion, I would look at it. I just think relative to the business today and how we're going around the world, professional scripted and unscripted programming is the best place to spend that money. That at some point that may not be the answer, and at some point sports might be the best place for a $10 billion investment, and I think that's what it takes to do it meaningfully. But I don't think that's the case for today.

Eric Sheridan: So one question that came in in a couple other formats as well is how far along is the process of Netflix of making each individual consumer having a more personalized Netflix experience? That's more of a product question. And then the second part of it is, from what you learn about viewing habits, how much with each passing year is that informing some of the decisions you're making around planning where to allocate dollars on the content side?

Ted Sarandos: So there is a more individual experience on Netflix using our profiles, which is, you know, basically there's multiple ability to assign a profile for yourself and for your wife or for your kids, for your partner, and that Netflix experience is personalized to that individual who's watching. And we have over 300 million people in the world who have set up their own profiles and are having a very individual experience on Netflix, so that's already happening. And I'm sorry, what was the second part of the question?

Eric Sheridan: So the second part is, how much that data is feeding into the algorithm or the process of selecting content or thinking through what content works, doesn't work, and how much it factors into sort of the broad decision to allocate capital.

Ted Sarandos: Yeah. It's mostly the other way around. It mostly helps us inform who's watching and what do you want to see versus the other way around, because all that other viewing data was already happening, but just under the same umbrella.

Eric Sheridan: Got it. One of the conversations that's played out on some of the last couple of earnings calls has been a pivot possibly in marketing spend away from just subscriber acquisition into supporting the brand and supporting --

Ted Sarandos: Yes, brand creation.

Eric Sheridan: -- brand creation, and individual content pieces being supported and marketed. Maybe talk a little bit, because we get this question a fair bit, about what drove that decision, just sort of maybe pivot a little bit more towards marketing the brand itself and individual pieces of content, and what do you think that does for content consumption on the platform medium to long term?

Ted Sarandos: Well, a lot of it is a bet that there is some value in viewing density on certain programs. So there's no question there's a value in the world watching the same show or the same movie at roughly the same time, the value meaning if I've got people talking about it, is it a thing you talk about when you go to work, is it what you tweet -- what you're on social media with, all those things. And we see that in all those different projects where the entire -- like when "To All the Boys I've Loved Before" was an enormous hit for us this year, but you saw it in the social media presence of that movie, that people not only love to watch it and love to watch over and over again, they love to post on Instagram about it, they love to post on Facebook about it, they love to talk about Noah, the stars of the movie, and it was just a really incredible kind of global experience that happens all at once, with very little marketing spend, by the way. So the question would be if we had put a bigger marketing spend in that, would that have been even a bigger event. So it's really just trial and error, figuring out what's the best way to enhance the value of creating a new brand and to creating increased viewing density, not total density, meaning still people will be discovering that movie six months from now, but that there's a big value in a lot of people in your own ecosystem watching it at the same time, and how much to invest in that.

Eric Sheridan: So one question that came in from the audience which is an offshoot of the competition topic we talked about before, has the dialogue with content creators who you want to partner with changed at all or changed in terms of what they are looking for in partnership with you because there is more competition in the marketplace to source and partner on original content, whether that be the economics or the strategy of going to market with a piece of content. How has that sort of conversation and relationships evolved?

Ted Sarandos: I think creators want their stories heard. They want to be seen. They want to be in the culture. I think when people talk about, I want my movie in a movie theater, I think that's really a way of saying, I just want my movie in the culture. I want people to talk about my movie in line at Starbucks. I want it to be the topic of discussion with my story that I've invested my entire life telling. And I think they grew up in a world where that was -- the definition of being in the zeitgeist was having the number one movie at the box office.

Eric Sheridan: The watercooler test.

Ted Sarandos: Yeah. But what's happened is, it's changed so dramatically just in the last couple of years. We have this movie "The Christmas Chronicles" that we just launched last week, and Kurt Russell was saying it's the most impact he's ever had from a movie that he's ever done, and it's because even in his successful career he's never had that many people see one of his movies in the first week, ever. And I think that, to me, is a testimony of something we could bring to market for storytellers today that we probably couldn't have 10 years ago with our own original shows. We didn't know we could 10 years ago, for sure. So our pitch to David Fincher wasn't that "House of Cards" would be the most watched show on television, it would be we'd find a great audience for it. And really, I think what ultimately comes up and happens is, you know, you get a show or a film, like we talked about the romantic comedies we made this summer, and we had 80 million people watch one or more of those films roughly in the same time, over the same summer break. And those kids who starred in all those movies are all enormous movie stars now and have incredible social media presence and are off to doing other projects, both for us and for other people.

So I think being able to offer this collective audience and the ability to tap into it in a big way that scales is something that differentiates us from everybody else. And we've been able to do that and have a movie like I would talk about "Christmas Chronicles." We don't talk about ratings a lot, but in the first week more than 20 million views of that movie. So if every one of those was a movie ticket purchase, it's a $200 million opening week, which is -- you know, even movies that go out and do a billion dollars don't typically do that in the first week.

Eric Sheridan: Following up on that, because it came in in a couple of different ways, is there ways on the product side to make Netflix a more social experience? So, moving on from the product question itself, but if you make it easier to share with friends and family what you're consuming and drive that sort of iterative loop on Instagram and social media, are there ways to think through that longer term?

Ted Sarandos: We have tried every variance of it, and the best way to do it is to make great stuff that people want to talk about.

Eric Sheridan: Got it.

Ted Sarandos: Because they're already online and they're already posting and they're already talking about it, and all their friends are on that network already, so they've already known how to take their life experiences and turn it into social media. And so I don't think that'd be different on Netflix. So the best way to get people to talk about you on social media is to blow their mind and to find things that they love and can't wait to talk about.

Eric Sheridan: So one of the other big themes I wanted to talk about is localized content. When you were here a year ago, we did, as I said in the intro, we talked a little bit about "Dark," which was a local German language show --

Ted Sarandos: Which was a hit at that point.

Eric Sheridan: Opening weekend was -- I remember my wife and I watched it right before we did this interview this Monday a year ago. And that went on to appear to be a pretty big global success. A lot of people in the US consumed it. How do you think about the dollars invested in local language content and what that type of content can do for performance of the platform, both locally and then if it happens to go global?

Ted Sarandos: Yeah. I think by having the focus on that it has to be enormously relevant local. I mean, that team is oriented around the big success for them is big penetration in their home market, and then if it then also becomes a pan-regional hit, that's great. And if it becomes a global hit, that's even better. But if they focused on doing a global hit, there would be something artificial and manufactured about it that wouldn't work. So, "Dark" is an incredibly German show. It's very local, and that's what makes it work. People definitely can smell that authenticity and they can taste the authenticity of it, and that's what they're interested in seeing it, and it's different than anything else they're watching. I mean, in the history of German television, I don't think there's ever been a show that has been seen as broadly as "Dark" has around the world. And by the way, it's one of the most subsidized television systems in the world too, so it's not for the lack of money.

Eric Sheridan: Interesting. So, sticking with that as a theme, you seem to also be moving more and more of your production overseas as well and aligning some of your production with maybe being more of a little more global company over time. Can you talk a little bit about the incentives or the push to not only produce content that is local language, but also place production facilities increasingly in a local environment?

Ted Sarandos: Well, it's the desire to make great local programming, not chasing incentives, because I think you can go really far afield on it. The incentives are good, you want to be good at getting them when they're available, but generally you don't want to do it at the expense of the creative. So we have a very large production presence now in Spain where we're producing Spanish-language programming for the Spanish-speaking world, and so far with "Casa de Papel" and "Elite" have been both incredible international, you know, global successes. And I say that, we have a bunch of shows that are popular in 75, 80% of the world. And I don't really care which 75 or 80%. So, you know, "Elite" and "Casa de Papel" have been enormously popular just about everywhere in the world. Played to kind of not as big audiences in the US, but played everywhere else: throughout Asia, throughout Europe, throughout Latin America. And we have a lot of shows from the US that play everywhere but don't play at all in Asia or Europe, and there's all those different kind of trade-offs you make in the programming.

So we have local production in all these countries because we're trying to make the best version of that project. So finding great local storytellers, great local artists, which we have found great crews in Spain. We bought a production facility in Albuquerque, New Mexico, too, which is an incredible facility that we were keeping occupied all the time, that we found that it would make much more sense for us to own the facility so that we can improve it for our own needs and make a better production experience for creatives there. So it's happening simultaneously inside and outside the United States, and inside and outside of California and New York.

Eric Sheridan: Yeah. One of the other questions that came in with an international bent, is there a way to talk through even if it's just qualitatively, the difference of creating content locally in an overseas market versus licensing content overseas in a local market? Do they have different impacts on the business model?

Ted Sarandos: Yeah, well, in some cases, it doesn't exist. Like the thing we're doing in India is this kind of cinema-infused television that prior to "Sacred Games" I don't think really existed much in India, meaning it's a very big movie culture. People love movies there. Television, which has been mostly free ad-supported for the Indian market, mostly is kind of lower production value television, so people are never -- there's no Indian "Breaking Bad" that we're trying to replicate in our model. We are kind of creating a new bit of programming for the audiences, and they love it. And because of that, that programming then travels, which is also great. But in general, like the difference -- sometimes there's plenty of programming. In Germany, I don't think anything we license in Germany would be as impactful to the business as "Dark" was, because I think there's kind of a broadcast quality to German television because of the subsidy models that make the kind of programming we're trying to do not otherwise available in the market. And other places, like in the UK, there's tons of great programming being produced that's underexploited everywhere in the world.

Eric Sheridan: Got it. And I want to stick with India for a minute. Maybe talk a little bit about some of the opportunities and the challenges of creating local language content in India. Obviously, you've got some dialects, you've got some cost that you're trying to -- probably cost hurdles you're probably trying to sort of leap over in terms of creating content in the market, and then whether it does or doesn't scale globally. When you think about your aspirations in India over the next three to five years, how does the content strategy line up with that in India?

Ted Sarandos: Well, we've got a very aggressive production agenda in India right now. There's about 12 local language original series and 20 original local language films coming out of India, various states of production in India right now. And I think there is definitely different languages that you deal with inside of India in different levels of production. But there's a show we're working on right now called "Baahubali" that's a prequel to a very popular movie that came out last year that actually is in multiple languages and was wildly popular in India because it had never been done before where it was appealing to all the different regional fans around the country, that we're doing a prequel series to the film that's also in multiple languages and shot in this incredible scale in India.

So it's difficult for sure, but we think it's a big market and it's going to continue to grow, and we want to be early and be setting the -- hopefully following in the success we were able to do with "Sacred Games" and "Love Per Square Foot" and all of our different love stories and all the different original projects there that have really been resonating in India in a way that I didn't even think was possible, to be honest with you. First time I got to India, I thought, wow, this is a lot of people and a million messages being thrown at them all the time. How does anyone think of the same -- you know, how could two people even think about the same thing, let alone hundreds of thousands of people or millions of people. And it turns out that if you do it well, people get very excited about it, and the word-of-mouth factor is also amplified. Or "Sacred Games" really was a step change in our brand in India, because people were so excited about it and then people loved it so much that it kept kind of self-reinforcing itself. (Inaudible) it's possible to do something at that level that would help the business that would also be viewed outside of India, which is really exciting.

Eric Sheridan: One question that's come in in a couple of different ways that also was a topic I wanted to touch upon is cancellations or deciding to move away from content after giving it a shot on the platform. Maybe talk a little bit about what drives some of those decisions, whether they're just purely viewership decisions, are they budget decisions, and should we see more of that over time, as you've gotten certainly a different level of scale of content now.

Ted Sarandos: Yeah, I think every show has a kind of a weighted measure. What I say by that is it's not purely audience, it's quality of the audience as well. I mean, we have some shows that don't drive a very big audience but do drive acquisition and retention. And we know that -- this is kind of an odd measurement, but there's some shows that people join Netflix to watch and they're so excited about it that that's pretty much all they watch. And for that show, the way that we do the efficiency measurement for everything else is that show gets a thumb on the scale for the viewership that basically is all of the subscription revenue from that member is attributed to that show. And that's a micro of it. But on the larger scale of it is you have a bunch of people who basically didn't join Netflix before because they weren't attracted to something. I think "Longmire" is a good example of that, which was kind of a networky show that played a little older than our typical Netflix subscriber was watching, and it wasn't an enormous show for us, but it was new subscribers who really loved that show and would attribute their whole value to the subscription to that show. And then over time, they found other things and fell in love with other shows, but the coming-in value for "Longmire" was high, so we maintained that show for a couple of years the best we could on a smallish audience, because people were very passionate about that show. So it brought a lot of brand love to Netflix.

A lot of shows that do well in the awards and people can attribute thinking Netflix makes great shows because look at all the Emmys they've just won, I mean so that puts a thumb on the scale a little bit further for the show too. But eventually what you have to do is be pretty judicious about relative to how else you would spend the money, are you spending it wisely for the member, because if we don't do that, we have nothing -- you don't have anything to watch. So you could program a lot of award-winning shows that nobody watches, and there's probably not a very big business in that because people will quit because they're not watching it. So we need the shows that people watch, we need the shows that people love. We need -- the really high-quality, award-winning shows also attract other shows, which is a good thing, you know, with creators and producers who want to be on the winning network. So there's a bunch of different reasons why you'd add value to that other than just pure just viewing.

Eric Sheridan: Got it. And maybe following up on that last point, I think it's a topic that comes up a fair bit. You've obviously struck some very big deals with content creators on the showrunner side. Looking out over the next couple years, what should we expect as an output of those deals? Is it something that you have a fair bit of control over, or do the people who you've partnered with have a fair bit of leeway to create the kind of content they want to create over the next three, five, 10 years, and you're sort of just more focused on getting the right people aligned with you as a platform as opposed to necessarily dictating the content side?

Ted Sarandos: Yeah, we're working closer with those people, with the Shonda Rhimes and the Ryan Murphys of the world, because, A, they have proven themselves to be very successful commercially and creatively. They're both I think as examples of people who really have a brand and a voice about their programming, and they do it with some amount of volume and maintain the quality very high. So Ryan Murphy wants to win Emmys and he wants you to watch his show, and he doesn't want to give up either of those things, which is a good thing. And he wants to make great big shows you care about, and we want to be in that business. So we'll be in that business with Ryan, we'll be in that business with Shonda, we'll be in business with the people who have that kind of mindset. And other than that, we just -- you know, it's a lot of one-off pitches and we'll buy that show because it's a great idea and it's going to a great place and it's with a great creator. But generally, like I said, those overall deals, what we want to do is create a really great creative environment for them to be prolific and maintain a high level of quality and a high level of volume in how they produce for us.

Eric Sheridan: Do you see the same ability to do those overall type of deals on the film side as well, or do you see those more as like sort of one-off partnerships?

Ted Sarandos: No, I think there are people -- again, there are film creators too who have a sensibility and a voice in the films that they make, and they have a routine of what it takes them to get involved in a movie, what it takes them to get excited about a movie, and I want to be part of that filter with them. They bring a very valuable filter to the table. They're so attractive, they get to see all the projects, and the ones that they pick turn out to be the great ones. That they have a really good filter for the things they get involved in, and we have some history with them too, so it's the same dynamic.

Eric Sheridan: A question that came in a bunch of different ways is your China strategy. China strategy, I assume means both content into China as well as possibility of creating Chinese language content. But how should we think about overall, whether it be creating content in China, creating content for that market, using content that you've been successful with globally and adding economic value to the company?

Ted Sarandos: So we don't have much of a China strategy, but we also don't have any China exposure. So I don't think that we're any more likely this year than last year to get Netflix into China, and it's not baked into our business much at all. I think in general, we kind of, we have a licensing deal where we license some of our shows. It's very, very random what gets in and what doesn't, so you can really spin up your wheels trying to get a lot of programming sold into China and then for no rhyme or reason, the show gets blocked or kicked out. And what I found is it's been a mostly frustrating distraction, and that over time that maybe they'll be more open to a western media company operating in China. But today, I don't think that's very likely.

Eric Sheridan: One question that came in that was sort of an interesting bent on it, if you wanted to partner with someone and can't convince them to partner with Netflix as the platform, what would be one of the reasons they might give you? You know, whether they're either not ready to embrace Netflix or streaming. You know, what are some of the reasons maybe you wouldn't be able to acquire piece of content or partner with somebody that maybe you'd be after globally?

Ted Sarandos: I'm not sure exactly the nature of the question. You mean a creator or --

Eric Sheridan: Yeah, if you were to lose out to another platform or another network, what would be some of the things you're still trying to solve for some of the friction (inaudible)?

Ted Sarandos: I think that you'll see some things where some people have a vision of what they want their project to be. I find that there are some people who are great artists, they don't care about money, they care about their artistic vision and they care about, that from beginning, middle, to end. And I couldn't pay them enough to premiere their movie on Netflix if their desire was for that movie to play on 3,000 screens for eight months prior to everyone else and that's the way they went into it, and they don't need the money and they don't care about the money. There's some people that are in that world. There are other people at the other end of that spectrum, which is I have plenty of money, that's why I don't need your money, so I will keep doing that. And I think in general, I don't think that there's any barriers to any TV project, meaning that I think if we're talking about bringing -- how do we bring -- maximize economics and artistic freedom and audience connection. I think we're second-to-none in the world in terms of our ability to do that.

And I think in movies, there's still a bit of an emotional connection to the theatrical experience that people think today they have to do -- has to be either/or. I don't think it does. I honestly believe that the theatrical experience of being on Netflix are just two different experiences. We make movies; studios make movies. They monetize through selling movie tickets and DVDs; we monetize through subscription. And the absolute desire or need for the theater is to demand a long exclusive window. I have not kind of bought into as the best way for us to monetize the movie that we produce. I have not found it to be very consumer-friendly, that consumers who live nowhere near a theater are waiting six months, eight months a year to see a movie so that the theater can have it exclusively for a period of time, a movie that they -- in our case, that they paid to produce with their subscription money. But we're trying to figure out ways to meet in the middle.

You saw with "Roma," "Bird Box," and "Buster Scruggs," we gave a couple of weeks a window, which is, you know, trying to maximize consumer choice. I don't disagree that going to the theater and seeing a movie is a great experience, and I don't think emotionally it's a different experience than watching it on Netflix. It is a different physical experience, for sure, so -- and I don't think that they're mutually exclusive. But that's not for me to determine. We don't own any movie theaters. Movie theaters insist on this kind of 90-day minimum blockade on the content. And as long as they do that, I don't know that we'll be meaningfully broader than we are now. But "Roma" played on select screens for the last three weeks. When it premieres on Netflix, it's going to be on more screens around the world day-and-date, and I think it'll be very successful for those theaters that book it. And probably 80% of the people in the theaters are Netflix subscribers that just wanted to go out tonight and they wanted to pick the best movie, and we just happen to have the best movie, even though they could have watched it at home. They also bought a movie ticket and went and saw the same movie they could have watched at home in a movie theater. Some people will do that. But the vast majority don't live anywhere near that theater and don't have that choice. So that's why we're trying to connect people with movies in a big meaningful way, not trying to hurt theaters in any way. Love the theaters. Trying to make movies a bigger, richer, more passionate connection with consumers, and I think this kind of exclusivity for the theatrical experience has actually disconnected people from movies in a way.

Eric Sheridan: All right. Well, please thank me in joining (sic) Ted for being part of the conference this year.

Ted Sarandos: Thank you.