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Exclusive Contracts in the Video Streaming Market

ABSTRACT:

In the video streaming market, streaming services use exclusive contracts to differentiate their content offerings and soften competition, while studios leverage these contracts to negotiate higher licensing fees against streaming services. I investigate who gains and who loses from such contracts. I develop and estimate a structural model that incorporates bilateral negotiations between streaming services and studios, streaming services setting subscription prices, and consumer demand for service subscriptions and titles. The findings reveal that the effect of exclusive contracts varies significantly across firms. Streaming services that rely on exclusive third-party content (like Hulu) gain from exclusivity, while those with extensive in-house content (like Netflix) or strong subscriber loyalty (like Amazon Prime) see minimal or negative impacts. For studios, exclusive contracts benefit those with weak bargaining power but harm those with strong bargaining power (like the "Big Five"). In addition, exclusive contracts reduce consumer surplus by limiting title availability and driving up subscription prices.