



Netflix Presents

The main attraction is still renting movies by mail, but now the company is producing its own indie flicks. Look out, Bob and Harvey

BY ERIN BIBA

TELL US WE'RE BRILLIANT," Mark Duplass says. He and his brother Jay are standing in front of an audience that's just seen *The Puffy Chair*, a movie the brothers wrote, directed, produced, and starred in. Their euphoria is understandable: The indie film they made has finally been released in theaters, and this is their publicity tour.

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Mark Duplass couldn't get *The Puffy Chair* into theaters until Netflix stepped in.

The post-screening Q&A session at Mezzanine, a San Francisco club, gets under way, but the first question isn't about the movie's quirky plot (a guy buys an overstuffed recliner on eBay and hauls it cross-country to give to his dad as a surprise birthday gift). It isn't about the shoestring production, either - the \$15,000 budget, the crew of one, the free catering by the lead actress's mom. What the audience really wants to know is how these scruffy twentysomething neophytes ever got a distribution deal.

"It was really painful," Mark tells the crowd. "Every studio came to us after the screenings and said, 'We love this movie.' We thought we were gonna be millionaires." *The Puffy Chair* toured festivals for more than a year, drawing raves and racking up awards. But no studio believed the audience would be big enough, so no theatrical deal. Finally, in January, the brothers were approached by a film distributor that loved the picture and knew exactly how to find an audience for it. But it wasn't Fox or Universal. It was Netflix.

You know, Netflix. In the last seven years, the company has amassed 5 million subscribers and now mails 7 million DVD rentals each week. Along the way, it drew Blockbuster and other chains into the online rental market and eventually persuaded Wal-Mart to drop its rival service and become a partner. But that's only one side of Netflix. The company also has quietly become the exclusive distributor of more than 100 indie films, and it's even starting to produce original movies. Netflix will make *The Puffy Chair* available to its sub-

scribers, and it helped the Duplass brothers get a nonexclusive DVD distribution deal so the movie will be offered at Blockbuster and other rental chains, too. The company even teamed with Roadside Attractions to fund a theatrical release.

Netflix's move into distribution and production calls to mind early Miramax. Back in the 1980s and '90s, Bob and Harvey Weinstein, the founders of the company, toured independent film festivals like Sundance, signed innovative movies (early distribution deals included *sex, lies, and videotape* and *Reservoir Dogs*), created savvy marketing campaigns, and - eventually - produced their own box office gold. Netflix is pursuing a similar model, and in just a few years it has distributed as many exclusives as Miramax did in its first 15 years of existence. "Last year we acquired four new titles from Sundance, and this year we're working on about 12 deals," says Ted Sarandos, chief content officer of Netflix. "Eventually we'll be coming to Sundance and saying, 'We can buy *everything*.' There's a deal for every film."

SARANDOS, 42, OVERSEES all of the company's DVD purchases. He has an annual budget north of \$100 million and a mission to keep expanding the company's library of more than 60,000 titles. It's a job he was born to do.

As a youth, Sarandos fell in love with video stores because they exposed him to indie cinema even though he lived in the "very secondary movie market" of Phoenix. By 30, he was a regional sales director for ETD, a company that buys videos for Blockbuster, and he was observing first-

hand the effects that big chain stores were having on the video rental business. "It mirrored what was happening in theaters," he says. "Eighty percent of the business was coming from the 10 top-grossing movies each year."

In 1999, Sarandos bought his first DVD player. Inside the box was a red flyer advertising a new rent-by-mail service. Netflix was a dream come true for the cinephile. He wrangled a meeting with Netflix CEO Reed Hastings and COO Bill Henderson to discuss opening a line of retail stores. Hastings and Henderson didn't bite, but they found Sarandos' enthusiasm infectious. Soon after, he was working for the company. "He had a gleam in his eye," Hastings recalls. "He'd spent his whole life in the business as a film fanatic."

At first, Sarandos spent all his time securing rights to rent out films that were playing in theaters. But he was hoping to do more. He floated what he now calls "a harebrained idea" to produce original content to supplement the company's DVD library. But higher-ups gave him only \$100,000 for the project - "This way you won't feel so bad if it doesn't work out," Hastings told him - so Sarandos started small. He used the funds to sign obscure, overlooked films that had no theatrical or video distribution.

The first deal - a simple revenue-sharing agreement - was for a low-budget romantic comedy called *Nice Guys Sleep Alone*. He'd seen it at the 2000 US Comedy Arts Festival, in Aspen, Colorado, and knew that it had languished unsigned for two years. "It was very funny," he says. "Nothing groundbreaking, but it deserved to be seen." Sarandos told the film's director, Stu Pollard, "Send me 500 DVDs. Every time it rents, we'll pay you something." Pollard was eager to comply - he had thousands of copies of the film in his Louisville, Kentucky, garage. *Nice Guys Sleep Alone* fared so well with subscribers that Netflix doubled and then quadrupled the order. "An awful lot of people started renting this no-name title with zero marketing budget," Pollard says. "As a result, it was picked up by HBO."

Since then, the division, called Red Envelope Entertainment after the packaging the discs are delivered in, has boosted the careers of many filmmakers. It struck a deal to distribute *Born Into Brothels* on DVD six months before the movie won an Oscar for best documentary. Sarandos also points to the success of *Open Hearts*, a picture by Susanne Bier, whom he calls

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"the most popular romantic-comedy director in Denmark." It bombed theatrically in the US but did so well on Netflix that Sony is considering picking it up for wider DVD distribution.

Hastings says Red Envelope is something of a mission for Sarandos. "For him, it's as much about giving back to the film community as it is about growing the Netflix content base," he says. But, Sarandos insists, "this isn't philanthropy. We're not 'supporting the arts.' This is a market-based solution using technology."

THE TECHNOLOGY that makes Netflix profitable and Red Envelope viable is the company's recommendation system, which Sarandos swears skirts the annoyances of similar software used by a certain popular ecommerce site. ("I went through a divorce," he says, "and I bought a book on Amazon.com about coping with it. Now you would think I'm a divorce psychologist - those are the only suggestions I get") Netflix's version is more effective, he says, because it has more data: During the same period that an Amazon customer might select one or two purchases, a Netflix user may select a dozen DVDs. And subscribers are surprisingly eager to rate the films they view - they've already submitted in excess of 1 billion ratings, an average of 200 per person. With rich data like that, the company can develop sophisticated profiles to anticipate preferences and tastes. "It can tell that you liked *The Godfather* because you love family immigrant pics, and I liked it because I enjoy gangster flicks," Sarandos says. "So the next film suggested to you will be *Avalon*, and the next one for me will be *Scarface*"

Knowing so much about your customers makes acquiring unknown film properties a little less risky. It's also how Netflix determined that a critical mass of subscribers across the country - particularly the ones who loved *Garden State* and *Sideways* - would probably like *The Puffy Chair*, and that a critical mass of subscribers in Boston, San Francisco, and five other cities would actually trek to theaters to see it.

Funding the production of new films is the next step. The company has partnered with the Independent Film Channel to coproduce several shows, and Netflix is executive producer of six original features, including John Waters' *This Filthy World* and the documentary *This Film Is Not Yet Rated*. IFC general manager Evan Shapiro says money from Netflix has allowed him

to triple the number of his original productions, and he gushes about the reach of his business partner. "They buy and move more independent film than anybody else on the planet," he says. "They're the Google of DVD. They are FedEx."

SO HOW LONG UNTIL Netflix becomes the new Miramax? Both companies started out acquiring movies and ended up making them. Bahman Naraghi saw this transition six years ago, when he was named executive VP of finance and operations at Miramax. "It was a fascinating period. Miramax shifted from being an independent distributor to producing *Shakespeare in Love*.' Now Naraghi may see it happen again: He's gone from being "the guy Harvey and Bob would throw ashtrays at," he says, to the new VP of original content at Netflix, where he'll work under Sarandos.

Naraghi is cautious about original productions. Even if a filmmaker is eager to strike a deal, Netflix will still have to wade through a morass of details - clearing music rights, remastering the film, creating menus and bonus features - for everything it signs. "There's a limit to the appetite of the company," Naraghi says. Hastings is much more enthusiastic. He maintains that original content will be an increasing part of the company's strategy from now on. Netflix will distribute finished movies, help filmmakers complete their pictures, and even collaborate on projects that are still on the drawing board. "We're agnostic about what stage of creation the film is in," Hastings says. "That can mean some production, some finishing funds - a whole continuum." He also outlines a scenario that outstrips Sarandos' lofty vision of acquiring every picture that plays at Sundance. "About 3,000 films are submitted; only 100 or so get in," Hastings says. Ultimately, Netflix wants to be able to pick and choose from the 3,000 submissions, he explains, and maybe even allow moviemakers to circumvent the festivals altogether.

There's a link two clicks away from the Netflix.com homepage where anyone can submit a movie for possible distribution. Netflix will not only rent it out, but may get it into theaters and then help you shoot your next flick. Soon the only barrier to success for filmmakers will be lack of talent. • • •

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