

COVID-19 Impact on Korean Films and Netflix Revenue

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Abstract

The COVID-19 pandemic has significantly affected the health, economic and social sectors, including the film industry. In 2020, the South Korean film industry experienced a 73.3% decline in revenue, from 226.68 million tickets sold in 2019 to only 59.52 million tickets after cinemas closed. In contrast, Netflix experienced an increase in the number of global subscribers by 16 million in the first quarter of 2020. The South Korean film industry adapted to this condition through various strategies, including releasing films directly to streaming platforms, collaborating with Netflix for content distribution, and adjusting production budgets to maintain industry expectations. In comparison, similar trends are occurring in Hollywood and Europe, where the film industry is turning to video-on-demand services as a primary distribution alternative. This study analyzes the impact of the pandemic on the South Korean film industry and Netflix's role in maintaining the existence and profitability of this sector amidst the global crisis.

Keywords: Film industry; Korea; COVID-19; Pandemic; Net income; Netflix

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INTRODUCTION

In the current digital era, the film industry is one of the cultural sectors with a broad global market. The rise of digital commerce or streaming services can reach the global community, including Netflix, which provides video-on-demand streaming services (Cui, 2024). Netflix continues to expand its growth by entering global markets and offering 'localized' content, also known as 'Netflix Originals.' Amid the COVID-19 pandemic, the lockdown means that everyone cannot leave the house and can only access the internet, resulting in a very high increase in Netflix usage. Easy access to the internet causes many people to consume international content easily, so as the number of internet users increases, Netflix is increasingly known and used by the global community (Marcy L. Tanter, 2024). Audiences' desire to consume entertainment via smart devices and aversion to COVID exposure have resulted in a dramatic shift in the fortunes of the Hollywood entertainment industry across television and film products (Johnson, 2021). The estimated results show that revenue losses due to the decline in demand for films amounted to around 52 million dollars across the country during the first five weeks after the outbreak, which means a sales decline of 34 percent (Kim, 2021). Sebagai bagian dari strateginya untuk mengakuisisi konten internasional, Netflix membayar perusahaan produksi Korea untuk membuat serial orisinal seperti *Kingdom* dan *Extracurricular*. Dari 2015 hingga 2020, Netflix menghabiskan sekitar 700 juta USD untuk lebih dari 80 produksi orisinal Korea (Hoon Park et al., 2023). Netflix mengalami pertumbuhan signifikan selama pandemi COVID-19 dengan peningkatan jumlah pelanggan global. Platform ini semakin mengandalkan produksi Korea sebagai strategi utama, dengan investasi sebesar \$463 juta pada 2021 dan rencana tambahan \$2,5 miliar hingga 2027 (Yong Jin & Lee, 2023).

Currently, the global film market competition is still dominated by films produced in America. However, countries outside America are starting to compete well in the global film industry market. The Korean film industry has also grown into a globally active market through the development and production of popular films. According to the Korea

Film Council, the Korean film market is estimated at around \$5 billion, with more than 226 million moviegoers in 2019. The COVID-19 pandemic has caused a decline in revenues in the Korean film industry due to fewer people attending the cinema. Therefore, with the rise of digital commerce, the Korean film industry has begun to invest in its films on digital platforms. One is Netflix, which is dominant and influential in popularizing South Korean film and television content globally. South Korea's total box office revenue in 2020 was approximately US \$467 million, a decrease of 63.6 percent compared with that in 2019. *The Man Standing Next*, produced by Showbox Entertainment, won the annual box office championship, with \$36.56 million. Among the top five box office films of the year, four were Korean local films (*The Man Standing Next*, *Deliver Us from Evil*, *Train to Busan 2*, and *Hitman: Agent Jun*). Among the top ten box office films of the year, eight were local films. With the poor performance of in-theatre releases, Hollywood started embracing streaming media aggressively. Many film producers turned to online distribution and released films on streaming media platforms (Li et al., 2020).

Netflix is one of the leading stocks in this sector. The stock rose 12.5% from January 1 to March 10, 2020, while the S&P 500 index fell 10.8% during the same period. Nearly all types of online video consumption surged during the COVID-19 quarantine period, similar to the gaming industry. The pandemic has accelerated a shift in viewing habits from cinemas to streaming services. Film studios are starting to look for ways to reduce losses by releasing films online more quickly (Hoon Park et al., 2023). Netflix Korea muncul sebagai bagian dari strategi globalisasi dua arah: memperluas basis pelanggan global dan menstabilkan biaya hak kekayaan intelektual melalui produksi konten lokal. Kesuksesan '*Kingdom*' membuka jalan bagi investasi lebih besar di Korea (Jonghyun Jeon, 2023) Netflix Korea mengadopsi budaya kerja yang berbeda dari tradisi korporat Korea yang terkenal dengan hierarki berbasis Konfusianisme. Dalam Netflix Korea, penggunaan honorifik minimal, dan karyawan tidak memperhitungkan usia dalam berkomunikasi, yang kontras dengan budaya kerja di banyak perusahaan Korea lainnya (Han, 2021)

LITERATURE REVIEW

Netflix

Netflix was founded in 1997 by Reed Hastings and Marc Randolph in Scotts Valley, California. In 2007, Netflix introduced a streaming service that allows customers to watch various TV shows and movies directly over the Internet (Yuan, 2023). The Cinematch algorithm-based recommendation system, released in 2000, is one of the essential features that. Despite the COVID-19 pandemic causing global economic disruption, Netflix recorded significant growth in the number of subscribers. In 2020, the number of global subscribers increased by 26% compared to the previous year, reaching a total of 203.7 million subscribers (Bell & Koren, 2022)

Differentiates Netflix from its competitors and significantly improves the user experience. The next big step for Netflix is international expansion. In 2010 and 2011, Netflix launched its streaming services in various countries, such as Canada, Latin America, the Caribbean, the UK, Ireland, and Scandinavia. This expansion made Netflix a global company with millions of users worldwide (Lotz et al., 2022)

According to Netflix's Financial Operations Report, the company's revenue increased by 354.1% from \$5.504 billion in 2014 to \$24.996 billion in 2020. Since the pandemic, Netflix has gained 16 million subscribers (Lozic, 2021). According to data from Netflix's investor site, Netflix is one of the world's leading entertainment services, with 270 million paid memberships in more than 190 countries. To maintain its dominance in the global streaming market, Netflix continues to develop new products and expand its content portfolio.

Korean Film Industry

South Korean dramas, or K-Dramas, are part of the South Korean entertainment industry and are now spread worldwide and known as the Korean Wave spreads South Korean culture, including entertainment products such as drama, music, style, etc. K-Drama is considered one of the essential products of the Korean Wave (Effendi et al., 2016). In the 1980s, going to see Korean films was not a thing. At that time, Koreans considered domestic films low-quality, sappy films. Korean films are increasingly being received with great enthusiasm worldwide and proliferating in scope and diversity. Unique storylines, enchanting cinematography, and creative scripts make the Korean creative film industry lead modern Korean culture. In the late 1990s, Korean dramas were exported to China for the first time and became famous worldwide. Viewers from various countries are impressed by the lives and loves of the actors on the TV screen (Asri Suratmi, 2023)

The Korean film industry faces stiff competition from the global film industry, especially Hollywood. To remain competitive, Korean films must continue to develop their content and technology and find ways to attract international audiences. The cinema industry in South Korea is in crisis due to the COVID-19 pandemic, with prolonged social restrictions resulting in a sharp decline in audience numbers. Many films have postponed their releases or switched directly to streaming platforms to avoid losses (Chang & Yun, 2022).

COVID-19

During the COVID-19 pandemic, Netflix experienced a significant surge in users and viewing time. Lockdown policies and social restrictions implemented in various countries have made people look for entertainment at home, one of which is through streaming platforms such as Netflix. This condition has triggered increased consumption of digital content, especially series and films, including from the popular K-Drama genre. Lockdown measures resulting from the COVID-19 pandemic have had a major impact on the cultural market and the global flow of digital content. Global streaming platforms are the main winners from this restriction policy (Vlassis, 2021)

In the respiratory system, exposure to the COVID-19 virus can cause acute pneumonia, severe respiratory tract infections, and other health problems. According to (Suprapanto et al., 2021), the coronavirus is a large family of viruses that can cause disease with mild to severe symptoms. In late December 2019, pneumonia with unknown causes began in Wuhan, China, marking the beginning of the disease.

When COVID-19 cases increased, people responded to this condition by looking for alternative entertainment. More than a quarter of the public, namely 31% of respondents, choose to download or watch films on the internet for free (Tsao et al., 2021). Based on the results of the Populix survey, Netflix is the most widely used Video on Demand (VOD) application in Indonesia, with a percentage reaching 69% compared to other streaming service applications.

RESEARCH METHODS

Based on the problem formulation we compiled in this research, this research is presented as qualitative research using case studies. We use secondary data sources as library data, including sources from previous research on relevant topics, official reports from related institutions or companies, and news whose credibility can be justified. To present the data analysis, we focus on analyzing the impact of developments in the Korean film industry during the COVID-19 pandemic on Netflix streaming service revenue.

RESULTS AND DISCUSSION

The impact of the COVID-19

The pandemic on the Korean film industry. The COVID-19 pandemic caused the South Korean government to implement a strict policy of limiting social contact among the public to prevent the spread of the COVID-19 virus. Based on the 2020 report from the Ministry of Culture, Sports and Tourism of South Korea, the South Korean

The cultural industry experienced a decline of 38.8% at the beginning of 2020. The film industry experienced a relatively significant decline in income due to the closure of cinemas, which impacted decreasing sales of cinema tickets for South Korean films.

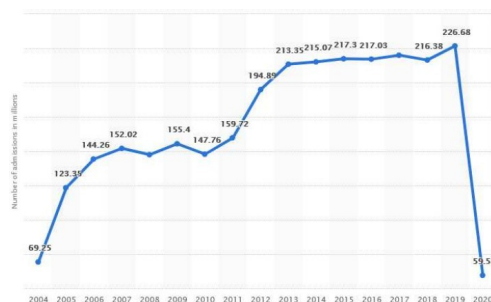


Figure 1. Data on Total South Korean Cinema Ticket Sales for 2004-2020 (in millions)

Source:

Based on the data above, cinema ticket sales in 2020 set a record for the lowest sales in the 16-year history of the South Korean film industry, with 59.52 tickets sold, whereas previously in 2020, 226.68 tickets were sold. This shows a decrease of 73.3% from the previous year. However, the Korean film industry has not stopped consistently making films during the pandemic. According to an article entitled "Secrets of Resilience in the South Korean Film Industry," published by Tirto. Id, the South Korean government contributed to the films broadcast in the first half of 2020. The Ministry of Culture, Sport and Tourism (MCST) provided cost subsidies for producing 20 selected films so that broadcast schedules are not delayed or canceled on the big screen.

The impact of COVID-19 on Netflix streaming rates

If the Covid-19 pandemic hurts various business sectors, this is different from what Netflix experienced. Netflix, which operates as a video streaming service, has succeeded in gaining millions of new subscribers during the pandemic, with a total of more than 200 million subscribers. The increase in demand for Netflix content is due to the lockdown policy, which makes people inevitably do everything from home, thus creating a feeling of boredom and encouraging them to subscribe to Netflix. This method is considered the most affordable alternative for safe indoor entertainment when cinemas, clubs, and other **entertainment facilities are closed**.



The data above shows a rapid increase in the number of Netflix streaming service subscribers before Covid-19 and during the Covid-19 pandemic. In 2020, there was an increase of 148.78 users from 2019 to 2020.

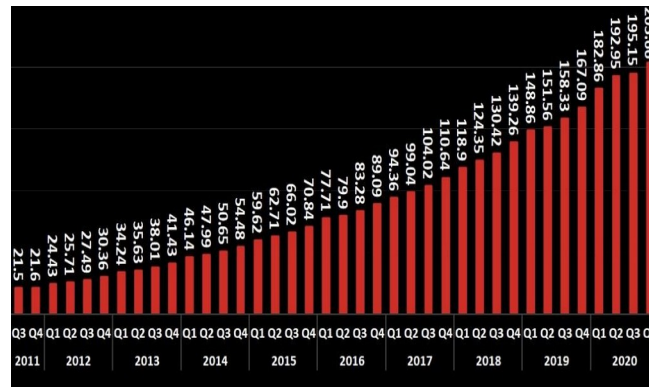


Figure 2. Data on Growth in the Number of Global Netflix Streaming Service Subscribers in 2011.

The impact of streaming growth on Netflix's income

Based on previous research regarding the analysis of Netflix, Inc.'s financial statements. Conducted by (Ahmed, 2020) it was found that from 2016 to 2019, before the emergence of the COVID-19 pandemic, Netflix's revenue increased significantly every year. The company's financial performance proves this: Between 2016 and 2019, Netflix experienced growth in all financial ratios, including liquidity, solvency, and profitability ratios. In terms of revenue, according to Nakono's survey results.

CONCLUSION

When the pandemic hit, to prevent the spread of the COVID-19 virus, the South Korean government implemented a strict policy of limiting social contact. The COVID-19 pandemic has also had a significant impact on the South Korean

Netflix streaming revenue in Indonesia in 2019 reached \$38.97 million and increased in 2020 to \$76.6 million. Based on the data we accessed via Bloomberg, it can be concluded that the Covid-19 pandemic has affected Netflix's Net Income. Before the Covid-19 pandemic (2019), Netflix's Net Income was IDR 26,403.1 trillion rupiah. At the start of the COVID-19 pandemic (2020), Netflix's Net Income rose to 40,255.2 trillion rupiah, which will increase drastically in 2021 to 73,280.0 trillion rupiah. In 2022, when the COVID-19 virus has begun to subside, Netflix's Net Income will decrease to 66,711.6 trillion rupiah. This proves streaming levels during and before the COVID-19 pandemic affected Netflix's revenue.

Netflix Inc (NFLX US) - Comprehensive Income									
In Billions of IDR except Per Share	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Last 12M
12 Months Ending	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	03/31/2024
Net Income	2,482.9	7,478.4	17,251.4	26,403.1	40,255.2	73,208.0	66,711.6	82,397.9	98,747.1
• Growth (YoY)	52.2	199.4	116.7	54.1	47.9	85.3	-12.2	20.4	56.0
• + Foreign Curr Transl Adj - Other Compreh	-72.7	366.7	13.9	-55.7	990.1	-1,214.7	-2,625.9	1,727.6	224.7
• Growth (YoY)	85.7	—	-96.2	—	—	—	-116.2	—	—
• + Unrealized Gain (Loss)	2.8	8.0	0.0	—	0.0	0.0	0.0	-1,828.7	-190.0
• Growth (YoY)	—	191.1	—	—	—	—	—	—	—
• + Pension Related Adjust Other Compreh	0.0	0.0	0.0	—	0.0	0.0	0.0	0.0	0.0
• + Oth Adj-Oth Comp Inc	0.0	0.0	0.0	—	0.0	0.0	0.0	0.0	1,185.1
• + Inc Tax Exp-Oth Comp Inc	0.0	0.0	0.0	—	0.0	0.0	0.0	0.0	0.0
Comprehensive Income	2,413.0	7,853.2	17,265.3	26,347.4	41,245.3	71,993.3	64,085.7	82,296.7	99,971.9
• Growth (YoY)	115.0	225.5	119.9	52.6	56.5	74.5	-11.0	28.4	62.5
Basic Comprehensive EPS	5,627.00	18,183.48	39,656.18	60,181.40	93,543.31	162,456.18	144,110.58	186,372.62	228,381.74
• Growth (YoY)	113.5	223.1	118.1	51.8	55.4	73.7	-11.3	29.3	65.2
Basic EPS	5,852.21	17,260.10	39,594.77	60,247.51	91,257.31	165,268.71	149,999.66	186,645.00	225,573.41
• Growth (YoY)	51.7	193.2	115.5	53.2	46.9	84.5	-12.6	21.3	58.7
• Basic Weighted Avg Shares	428.8	431.9	435.4	437.8	440.9	443.2	444.7	441.6	432.1
• Growth (YoY)	0.7	0.7	0.8	0.6	0.7	0.5	0.3	-0.7	—

Source: Bloomberg

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Source: Bloomberg

Film industry and Netflix. During the pandemic, lockdown policies, social restrictions, and cinema closures caused a significant decline in Korean cinema revenues, resulting in a 73.3% decline in ticket sales in 2020. Lockdown policies encouraged people to turn to streaming platforms, resulting in a significant increase in there are around 270 million Netflix subscribers from more than 190 countries. This increase was driven by increased consumption of digital content during the pandemic. This growth significantly increased Netflix's revenue and strengthened its position as the global market leader in streaming services. Collaboration with the

The Korean film industry also helps expand the reach of K-Drama content in international markets. Overall, the COVID-19 pandemic accelerated the transformation of the entertainment industry. By continuing to develop products and expand its content portfolio, Netflix has managed to maintain its position as a leader in the streaming industry worldwide.

The COVID-19 pandemic has had a significant impact on the South Korean film industry, causing a 73.3% decline in cinema revenues in 2020. On the other hand, Netflix saw its global subscriber base increase by 16 million in just the first quarter of 2020, which contributed to the company's revenue increasing from \$24.99 billion in 2019 to \$29.7 billion in 2020 (Bloomberg, 2021).

To adapt to market changes, the South Korean film industry is adopting various strategies, including increasing content production for streaming platforms, implementing more aggressive digital marketing strategies, and establishing partnerships with other streaming services such as Disney+ and Apple TV+. Apart from Netflix, other streaming services such as Disney+ and Amazon Prime Video have also experienced rapid growth during the pandemic, showing that the increase in digital content consumption is not just happening on one platform.

With increasing demand for streaming services, Netflix has succeeded in maintaining its dominance as a global market leader. However, competition in the streaming industry is getting tougher with the emergence of new platforms and diversification of content. Therefore, the continued growth of the South Korean film industry in the future depends on adaptation to digital trends as well as broader collaboration strategies with various distribution platforms.

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