

Is piracy helping or hurting online word of mouth buzz around motion picture releases?

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Researchers from the University of Houston and Western University in

London, Ontario, published new research in the INFORMS journal *Management Science* that has found that the power of word of mouth (WOM) is effective at boosting demand for counterfeited copies of motion pictures, but it depends on when the copies are made available.

The study to be published in an upcoming edition of the INFORMS journal *Management Science* is titled "Does Piracy Create Online Word of Mouth? An Empirical Analysis in the Movie Industry," and is authored by Shijie Lu of the University of Houston, and Xin (Shane) Wang and Neil Bendle of Western University in London, Ontario.

According to the study's authors, counterfeiting or [online piracy](#) can help create online WOM and boost demand, but if the counterfeits are made available during the pre-release time period in advance of the motion picture's official screening, that can lead to lower box office revenues. But, when counterfeited copies of movies are made available to the public after the official release of a motion picture, the pirated copies show a positive correlation to the WOM effect and higher revenues.

The researchers were able to use real-world developments, in part, to analyze the impact of limited online access to counterfeits when a major web site that traffics in online motion picture [piracy](#) was taken down.

"One of the key online piracy sites, The Pirate Bay, was blocked in Russia since 2015," said Lu. "Because of that, we were able to estimate the impact of piracy on WOM and [revenue](#) by applying [research methods](#) to all movies widely released in the United States from 2015 to 2017. We were then able to effectively use Russian piracy data to construct instrument variables for piracy in the United States."

In addition, the study's authors noticed that there was a period when the site was temporarily taken down after a raid from the Swedish Police in December 2014. During the period when the site was down there was a

decline in word-of-mouth volume and revenues that were consistent with the effect of lower post-release piracy predicted by the researchers' models.

"The net effect of post-release piracy varies across genres of motion picture. Action movies benefit the most, and thrillers benefit the least," said Lu. "In the process, we conclude that studio managers seeking to counter the negative effects of piracy on their revenues may be best served to target their resources on combating pre-release piracy, because post-release piracy can actually be a net positive."

Provided by Institute for Operations Research and the Management Sciences

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