Netflix in Spain: lights and shadows of an ongoing economic integration

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Is Netflix a player integrated in the Spanish audiovisual market?

► Contextual: SVOD services and Netflix
  * 400 VOD services; 134 Spanish - any type of AV content
    (Findanygame 2017)
  * 41 pay VOD OTT services; 16 US origin, 17 established in Spain
    (García Leiva, 2019; Revista CIC)

► Conceptual: economic integration

► Dimensions of integration

► Final remarks
## Spain: Main SVOD services offer (October 2019)

<table>
<thead>
<tr>
<th>Service</th>
<th>Launch</th>
<th>Offer</th>
<th>Nº references(*)</th>
<th>Business model: SVOD</th>
<th>Users Subscribers (June 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amazon Prime Video</strong></td>
<td>Dec. 2016</td>
<td>US content mainly</td>
<td>Films 1,746, Series 344</td>
<td>36 € annually (incl. Amazon Drive &amp; Prime)</td>
<td>4.178.000, 3.687.000</td>
</tr>
<tr>
<td><strong>HBO España</strong></td>
<td>Nov. 2016</td>
<td>“Originals”</td>
<td>Films 741, Series 324</td>
<td>From 8,99 € monthly (2 screens)</td>
<td>3.933.00, 1.229.000</td>
</tr>
<tr>
<td><strong>Netflix</strong></td>
<td>Oct. 2015</td>
<td>Some blockbusters</td>
<td>Films 2,261, Series 1,105</td>
<td>From 7,99 € monthly (1 screen)</td>
<td>8.357.000, 6.391.000</td>
</tr>
</tbody>
</table>

Source: own elaboration, The Cocktail Analysis & JustWatch.com (*)
<table>
<thead>
<tr>
<th>Service</th>
<th>2016 Q2</th>
<th>2017 Q4</th>
<th>2018 Q2</th>
<th>2018 Q4</th>
<th>2019 Q2</th>
<th>2019 Q4</th>
<th>2019 Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>No use</td>
<td>89.3</td>
<td>88.0</td>
<td>77.5</td>
<td>70.2</td>
<td>66.3</td>
<td>68.3</td>
<td>62.9</td>
</tr>
<tr>
<td>Movistar+ (in devices)</td>
<td>7.8</td>
<td>7.6</td>
<td>12.6</td>
<td>13.5</td>
<td>13.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netflix</td>
<td>1.8</td>
<td>3.4</td>
<td>7.3</td>
<td>9.1</td>
<td>12.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vodafone TV online</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>5.9</td>
<td>5.8</td>
<td></td>
</tr>
<tr>
<td>App Orange TV</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>2.8</td>
<td>4.5</td>
<td></td>
</tr>
<tr>
<td>Amazon Prime Video</td>
<td>*</td>
<td>*</td>
<td>1.1</td>
<td>3.5</td>
<td>4.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HBO</td>
<td>*</td>
<td>*</td>
<td>2.6</td>
<td>2.3</td>
<td>2.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>beIN CONNECT/Total Channel</td>
<td>0.2</td>
<td>0.2</td>
<td>1.2</td>
<td>0.8</td>
<td>2.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rakuten TV</td>
<td>1.1</td>
<td>1.3</td>
<td>0.8</td>
<td>1.0</td>
<td>0.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sky</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>0.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>0.5</td>
<td>0.6</td>
<td>0.9</td>
<td>0.3</td>
<td>0.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Filmin</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
<td>*</td>
<td>*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* No data

Source: CNMC, Panel de Hogares (multiple answers allowed)
Market penetration: ?

Launch: October 20, 2015; pan-European player

Plans (monthly fee): basic 7,99 €; standard 11,99 €; premium 15,99 €

Established in The Netherlands, Netflix International B.V.

Audiovisual regulation: currently 'no obligations' (AVMSD-EU; LGCA-ES)

Spanish catalogue

- Highly dynamic
- Dominated by US content (films & TV series; EAO 2017)

‘Netflix Originals’: any content exclusive rights; no matter degree involvement in production

- ‘Netflix Originales’ in Spain (pilot project Audiovisual Diversity group):

  *2018 Feb. = 511 references (out of 2.746); 2019 Feb. = 542 (out of 3166) of which only 245 in the Feb. 2018 dataset.

  *Most productions offered come from the US and Spanish contents are virtually non-existent
What is integration?
- Process of incorporation of a foreign element to a certain system or set

What kind of integration? Economic
- In everyday parlance, bringing together of parts into a whole. In economic literature, is a term with no clear-cut meaning (Balassa 2018)
- Combination of different activities under unified control. This may involve vertical integration or horizontal integration (Hashimzade et al. 2017)

Our focus
- Integration of one specific player (Netflix) into one specific audiovisual market (Spain)
How many dimensions?

- **Distribution**: presence in different distribution ‘channels/mechanisms’ (the importance of devices, physical and virtual networks....)
- **Production**: of audiovisual content
- **Advertising**: of the service and some audiovisual works
- **Audience**: via data obtained from interactions with users
- **Taxation**: incorporation into the local tax system
1. Distribution ‘channels/mechanisms’

- **Multilayered concept and process** formed by many different private agreements ‘invisible’ for consumers and regulators

- **Wide range of deals** to secure effective and efficient distribution ‘anywhere, everywhere’:
  - Negotiations to place Open Connect Appliances in ISPs networks
  - Deals to be part of pay TV bundles within triple/quadruple-play bouquets
    Vodafone (November 2015), Telefónica (December 2018), Orange (March 2019)

- **Partnerships with consumer electronics companies (‘recommended devices’)** which benefit Netflix user interface and actual availability
2. Audiovisual production

- **Flexible strategy as regards content production** (2016 on)
  - **Deals:** actual production, co-production, partnerships...
  - **Partners:** well established producers, emergent creators, broadcasters....
  - **Types and quantity of contents:** films, documentaries, serialized fiction...

- **Focused strategy as regards management** (2018 on)
  - Partnership with Spanish Grupo Secuoya to establish its **first European production hub in Madrid**; multi-year deal to provide ‘facility management and exclusive production services’
  - Creation of subsidiary **Los Gatos Entretenimiento de España**; dedicated to the development and production of films, new series and other digital entertainment products
Since October 2015 we have developed 40 co-productions and 24 productions, and we have another 15 ongoing projects even though many will not be released until 2020

(María Ferreras, April 2019)

-Others: Joaquín Reyes: una y no más (unitary, 2017)…
3. Advertising

- **Netflix as advertiser** works with different local creative agencies in charge of creating new campaigns as well as adapting to the local market those defined in headquarters.

- Very active and aggressive with BTL, native and localized campaigns for some of its series or films; many in public spaces, controversial.

- **Los Gatos Servicios de Transmisión España** (2018); dedicated to MKT, business development and public relations.
4. Audiences

- Information that users provide free of charge allows Netflix to develop its own production and marketing strategies (actual consumption, dropouts, duration of sessions, devices used, etc.)
  - Implies data-mining, profiling
  - Refinement of the process of converting audiences into commodities (Smythe, 1977), departing from the data generated 'automatically' by them
  - Disaggregation of consumers of the local market (Spain) and its subsequent reconfiguration into global audiences
- Secrecy about the consumption data of the contents temporarily housed in catalogues
5. Taxation

- Netflix started operating in Spain from the very beginning billing its clients from The Netherlands via Netflix International B.V.
- VAT tax has been included and raised in/for Spain, BUT Netflix’s taxable income remains in another jurisdiction
- In mid-2018 created 2 subsidiaries - their 1st annual balance sheets showed the results of their first months of activity (August-December)
  - Netflix paid 3,146 € in corporate income tax in Spain in this first ‘short’ fiscal year
Returning to the idea that integration has to do with the process of incorporation of a foreign element to a certain system or set, and observing the economic integration dimensions presented, the following can be underlined:

- Since its arrival in the Spanish market (October 2015), Netflix has put in motion different actions in the areas of distribution and audiovisual production, as well as the advertising market.

- Very active as regards sealing agreements with other transnational companies as well as with local companies, opening two subsidiaries, reaching a historic agreement with Movistar+ and opening the first production centre on European territory.

- However, _the secrecy that accompanies these moves does not allow to know investments made in the areas of distribution, production and advertising._
Lights & shadows

- It should be noted that Netflix's growing integration in the field of production has been exempted from the pre-financing obligations of European works held in Spain by other public & private companies that operate AV services.

- As regards relationships with local audiences, the company's actions have escaped supervision and tracing of its offer until now (classification of contents by age groups, data on effective consumption, etc.).

- Data extraction that the company makes of its users (local level), contributes to cementing strategic decisions on a global scale.

- Despite the growing activity developed by Netflix in the Spanish market, its integration into the tax system in these first 4 years is minimum.
Is Netflix a player integrated in the Spanish audiovisual market?

- **Distribution:** early fast deployment, high degree of integration
- **Production:** increasing involvement but mixed outcome, partial integration
- **Advertising:** important investor in this market, ‘indirect’ or mid-level degree of integration?
- **Audiences:** secrecy about relationship, unknown degree of integration
- **Taxation:** ‘engineering’, low degree of integration

Different degrees and paces of integration depending on the dimension considered
Thank you for your attention

AUDIOVISUAL DIVERSITY RESEARCH GROUP

DEPARTMENT OF JOURNALISM AND AUDIOVISUAL COMMUNICATION – UC3M
‘Audiovisual Diversity and Online Platforms: Netflix as a case study’

Understand the performance and impact of transnational online platforms that commercialize OTT audiovisual content based on:

a) socioeconomic profiling

b) political-regulatory reactions
June-July 2019, main audiovisual Spanish players reacted taking their existing platforms as a point of departure:

-8€ month, non-disclosure subscribers.

-From 2.5€/month; 250,000 subscribers?

-2.99€/month; 75,000 subscribers?

Transnational (global?) players will launch competing services (Apple TV, 1/11/2019, 4.99€/month)
How many dimensions?

Netflix sube sus precios en España con efectos a partir de este jueves

La compañía justifica el aumento de uno o dos euros mensuales por la mejora del servicio y la inversión en series y películas

Netflix teje una red de filiales para su expansión en España

Reed Hastings (Netflix): “Este año generaremos 25.000 empleos en España”

Nuestro negocio es un modelo de servicio de suscripción que ofrece recomendaciones personalizadas para ayudarte a encontrar series y películas que te interesen.

Disfruta de Netflix en tu smartphone, tableta, Smart TV, ordenador o dispositivo de streaming, todo por una pequeña tarifa mensual fija. Planes a partir de 7,99 € al mes. Sin cargos adicionales ni contratos.

Subida precio https://www.expansion.com/economia-digital/companias/2017/10/05/59d65ae8268e3e782c8b545d2.html


El marketing digital de NFLX https://www.entrepreneur.com/article/309325


https://www.gruposecuoya.es/es/noticias/netflix-europa-se-instala-en-secuoya-estudios/

Spain: Subscribers and users to main SVOD services OTT (June 2018)

<table>
<thead>
<tr>
<th>Service</th>
<th>Users</th>
<th>Subscribers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netflix</td>
<td>8,357,000</td>
<td>6,391,000</td>
</tr>
<tr>
<td>Amazon Prime Video</td>
<td>4,178,000</td>
<td>3,687,000</td>
</tr>
<tr>
<td>HBO España</td>
<td>3,933,000</td>
<td>1,229,000</td>
</tr>
</tbody>
</table>

41% of Netflix users in Spain acknowledge that they share the payment of their subscription.

Source: The Cocktail Analysis (calculation based on Internet users aged 18 to 65)
## Spain: Households subscribed to main SVOD services (June 2018)

<table>
<thead>
<tr>
<th>Service</th>
<th>Origin</th>
<th>Nº households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Movistar+ in devices</td>
<td>Spain</td>
<td>2,200,000</td>
</tr>
<tr>
<td>Netflix</td>
<td>USA</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Vodafone TV online</td>
<td>UK</td>
<td>950,000</td>
</tr>
<tr>
<td>App Orange TV</td>
<td>France</td>
<td>741,000</td>
</tr>
<tr>
<td>Amazon Prime Video</td>
<td>USA</td>
<td>648,000</td>
</tr>
<tr>
<td>HBO España</td>
<td>USA</td>
<td>476,000</td>
</tr>
<tr>
<td>beIN CONNECT</td>
<td>Qatar</td>
<td>375,000</td>
</tr>
<tr>
<td>Rakuten TV</td>
<td>Japan</td>
<td>153,000</td>
</tr>
<tr>
<td>Sky</td>
<td>UK</td>
<td>115,000</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td>98,000</td>
</tr>
</tbody>
</table>

Source: CNMC, Panel de Hogares (multiple answers allowed)
4.2.1.9. Spain (ES)

Table 161. ES Netflix – Country of origin of films, in units and percentage

<table>
<thead>
<tr>
<th>Region of Origin</th>
<th>European OBS</th>
<th>International</th>
<th>Total Films</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2,094</td>
<td>1,691</td>
<td>2,156</td>
</tr>
</tbody>
</table>

- **European OBS**:
  - Of which EU 28:
    - National: 349 (17%)
    - Non-national: 262 (13%)
  - Of which other European OBS: 54 (3%)

- **International**:
  - Of which US: 1,236 (59%)
  - Of which other International: 455 (22%)

Source: European Audiovisual Observatory

(European Audiovisual Observatory, 2017)
The origin of TV content in VOD catalogues

2.2.4.11. Netflix in Spain

Table 34 – Netflix ES – Country of origin of TV episodes, in units and %

<table>
<thead>
<tr>
<th></th>
<th>Netflix ES Total episodes 8 060</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of TV series titles</td>
<td>641 Identified 554 86%</td>
</tr>
</tbody>
</table>

Breakdown by Region of Origin of episodes identified 7 110 88%

<table>
<thead>
<tr>
<th>Region</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>European OBS</td>
<td>1 655</td>
<td>23%</td>
</tr>
<tr>
<td>EU 28</td>
<td>1 635</td>
<td>23%</td>
</tr>
<tr>
<td>Other European OBS</td>
<td>20</td>
<td>0%</td>
</tr>
<tr>
<td>International</td>
<td>5 455</td>
<td>77%</td>
</tr>
<tr>
<td>US</td>
<td>3 406</td>
<td>48%</td>
</tr>
<tr>
<td>Other International</td>
<td>2 049</td>
<td>29%</td>
</tr>
<tr>
<td>EU 28 non-national</td>
<td>1 386</td>
<td>19%</td>
</tr>
<tr>
<td>National</td>
<td>249</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: European Audiovisual Observatory

(European Audiovisual Observatory, 2017)
In the case of the Spanish ‘Netflix Originales’ we verified that (Feb. 2018 & 2019):

- About half of the contents offered were serialized fiction
- About 90 per cent of the contents were produced by companies belonging to a single country
- Most of the audiovisual productions offered come from the United States of America
- Audiovisual co-productions (very common in European countries) are really scarce, and in the case of co-productions there is a large presence of US companies
- The presence of Spanish contents is virtually non-existent
Netflix and advertising…. as product placement

- Reject the idea they accept payment in return for promoting products (controversial example, New Coke in Stranger Things 3)

- But benefit from brands appearing in works (since they invest in promoting / merchandising the content)

Source: Diesel

Source: The Coca-Cola company
Membership plans - price increases ‘to invest in original content’ in October 2017 & June 2019

- **Basic**: 1 device at a time, SD
  - 7.99€ (remains stable)
- **Standard Plan**: 2 devices at the same time, HD (if available)
  - 11.99€ (9.99€ and 10.99€ before)
- **Premium**: 4 devices at the same time, HD/UHD 4K (if available)
  - 15.99€ (11.99€ and 13.99€ before)

**Subscribers (accounts) & churn rate** – unknown

**Subscribers vs. users** - unknown