Plataformas y diversidad: Netflix un debate

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Introduction

- Does the entry of Netflix into the French market mark a break in the history of the French audio-visual industry?
  - Central hypothesis: the entry of Netflix is both an indicator and a vector of rupture, accompanying and deepening certain trends that were already at work.

Plan

- Part 1: The French audio-visual sector from the public monopoly to an oligopolistic market organized by the public and regulatory authorities
- Part 2 : The on-going transformations since mid-2010

Part 1: The French audio-visual sector from the public monopoly to an oligopolistic market organized by the public and regulatory authorities

- **From 1949 to 1982 : a public monopoly**
- 1949, creation of Radiodiffusion et Télévision Française (the French public institution of French Broadcasting and Television)
- This public institution is dismentled in 1974,
  - Television channels acquired legal personality :
    - competition for audience and advertising revenue.
- The maintenance of political control, particularly on television news

- From 1982 to the mid-2010 : an organized and state-controlled liberalization

- Television is liberalized in1982 : private interest can enter in TV but…
- Public policy, both industrial and cultural
  - Develop powerful private audio-visual and cinematographic producers in position to promote independent production and to export audio-visual content
  - Develop powerful private TV channels that count in Europe and at the same time help which can finance the production of French audio-visual and cinematographic content.

- Three separate television policies:
  - for broadcasting
  - for pay TV
  - for Public Service

- Policy towards commercial television:
  - Develop the private sector : The most powerful French channel by audience and advertising revenue, TF1, is privatized :
    - the French national industrial champion in broadcasting and a contributor to public policies mechanisms
  - a limited number of channels in a position to capture resources : “Big” channels
    - and thus to contribute to public policy mechanisms for financing television and film production.

- Public policy towards pay television:

- Create a very dominant actor who is at the same time the French champion of the Pay-TV and the biggest financer of the French cinema
- Rather than bet on the cable and the satellite, the channel created, **Canal +**, is a broadcaster, which allows C+ to touch immediately millions of homes and to conquer quickly millions of subscribers.

- With its substantial revenues, Canal + has benefited of a monopoly of pay TV in France for nearly 30 years, with the best :
  - sports content,
  - French films (which it can broadcast before other channels),
  - American films
  - and exclusive American and French TV series.

- The policy towards the public service is not very legible…
  - One of the few specificities of the public service channels is to contribute a lot to the obligations of financing of the production

A set of regulations:

- Obligations for TV channels to devote a portion (3,2%/12%) of their turnover for the purchase of broadcasting rights for French and European content
  - without necessarily owning the content they financed : only a minority share the expenses of the channels can be done by acquisition of co-producer shares,
  - these expenses must benefit mainly to “independent” producers
- Quotas : 60% of European films and 40% of French original works,
- Prohibition of broadcasting movies certain days or evenings
- Advertising bans
- A chronology of the different valorisation supports, from movie theaters to free TV channels.

- Cross-subsidies in the cinema and TV production via the CNC, with
  - a tax (10,72%) on movie theater admissions (10,73% of 1,3 B€ for 206 millions tickets in 2018)
  - and a tax on the turnover of TV editors and distributors
- which feed a fund that supports production, distribution, creation, etc.

Part 2 : The on-going transformations since mid-2010

- Very quickly Netflix has won many subscribers; Netflix is in 2019 the Svod's first service in France with 6 million subscribers.

- Netflix's economic contribution to French creation is currently limited.
  - Netflix produces about seven works a year
- It is difficult to estimate the total amount of this investment: several tens of millions of euros according to Reed Hastings.
  - In comparison, 1.125 B€ invested in 300 French or co-producted movies in 2018
  - The Video market in 2018 : DVD and Blu Ray : 448 m€, pay per view : 216 m€, Svod : 455 m€.

- Netflix begins to respect certain aspects of French regulation
  - the value-added tax,
  - a 2% tax on its turnover negotiated with the National Film Center.
  - Netflix will make "efforts" in order to reach soon 30% of European works in its catalogue.

- Netflix also announced to open an office in Paris. The Paris team will employ marketing and press profiles, as well as production managers

- However Netflix still does not want to release his films in cinemas in France,
  - "because it would wait our subscribers thirty-six months to see them, under the current regulations ".

Different questions about Netflix and its strategies

- 1. Questions on Netflix’s strategies in the content:

- A tension : Purchasing of rights on contents already produced or will creation and production entirely controlled by Netflix of a content.

- How and to what extent Netflix tries to integrate into both the value chain and "corporate cultures" of the French cinema and field?
  - At the same time, Netflix is trying to impose new practices on traditional players (distribution of tasks, financial condition, symbolic loss of capital by branding platforms as "originals").
    - Important reactions of professional producers, distributors but also agents of artists.

- However the amounts spent are considered very attractive by the French professionals
  - and to a certain extent more innovative than French TV players (public or private)

- 2. Questions on editorial choices:
  - what role do algorithms play in decision-making with respect to human decision-making,
    - particularly from the point of view of the transnational dimension of content
      - and what “transnational” means?

The stakes of Netflix's entry are also indirect

- First, (with other phenomena related to digitization, transformations of cultural practices, etc.)
  - Svod as a standard competitor of linear television and not just as a complement.

- Other offers have emerged including telecommunications operators: Orange (OCS) and Altice (SFR Play).
  - The competitive dimension of the market has been affirmed with the entry **of non-audiovisual and non-French actors**.

- Second, Netflix's relatively low tariff level has generated a standard
- and led to **lower margins** and ARPU for pay-TV players, coupled with **subscriber losses.**
- At June 30, 2919, the number of Canal + subscribers was 7.659 million.
  - A loss of about 1.5 million since the end of 2018...
- Nearly half of them had not signed a contract directly with Canal + but with an Internet service provider, which further lowers the margin for Canal +
  - The ARPU per premium subscriber fell by one euro over one year, to 44.50 euros on June 30, 2019. It remains high but the proportion on premium subscribers is limited..

- TF1 and France Television are also loosing revenue year after year

- **All these actors have created Svod services**
  - while they had done everything to stifle the Svod (C +)
  - or they made this decision very late (Salto TF1, M6 and France Television)

- Thirdly, the costs of acquiring certain content increase, as sports content for instance
  - Canal + lost broadcasting rights for football to Mediapro and BeIN Sports
- And content are more difficult to acquire:
  - The offers try to obtain exclusives (OCS with HBO for example) competition between them is strong and raises prices for some US content.

- Fourthly, some actors try to articulate two positions,
  - on the one hand a content offer and
  - on the other hand a function of aggregator of various third-party offers.
    - This is the case of Altice and Orange but also that of Canal + which has an alliance with Netflix.
      - Since October 15, 2019 Netflix is offered in the piss pack Ciné / Séries Canal + for a total of 35 euros.

- The development of this aggregation function allows the players to organize competition
  - in a context of abundant offers and where consumers start to subscribe to several subscriptions.

- The actors rely on various assets:
  - their control of networks and boxes of access to the Internet,
  - their number of subscribers,
  - the quality of their content.

- Fifth, the regulation on compulsory TV distributors investment in content is being transformed
- This reform is underway and two paths are explored
  - On the one hand, the drop in the percentages of turnover that distributors must devote to these expenses.
  - On the other hand, decrease from 80% to 50% of the sums allocated to independent production

- Today, the share of television channels in the financing of film production, based on a percentage of their turnover is declining but is still high: it represents 36.6% of the production costs of French films, and 70% of the TV series.
  - Canal + spent 211 million euros in 2013 for cinema, but only 142 million euros in 2017.
  - In 2017 TF1 has invested € 47 million for films,
  - And France Télévisions € 66 million

Conclusion

- 1. The stakes raised by Netflix are more especially related to its ability to bring to its limits the French "system" of the audio-visual industry with its private actors and its public intervention.

- 2. The audio-visual economy loses its autonomy in the face of foreign actors or players whose core business is foreign to the audio-visual sector (e-commerce telecommunication, etc.)
  - In terms of the world of communication, transnational American actors are moving from a logic of indirect presence (via national relays) to a logic of direct exploitation via the SVOD.

- 3. The link between audio-visual and national cultural identity is eroding
  - This link which had been put forward since the 1920s was at the heart of the defence of the cultural exception of 1994.