

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)

	Launch	Offer	N° references(*)		Business model: SVOD	Users Subscribers (June 2018)	
			Films	Series			
Amazon Prime Video	Dec. 2016	US content mainly	1,746	344	36 € annually (incl. Amazon Drive & Prime)	4.178.000	3.687.000
HBO España	Nov. 2016	"Originals "	741	324	From 8,99 € monthly (2 screens)	3.933.00	1.229.000
Netflix	Oct. 2015	Some blockbust ers	2,261	1,105	From 7,99 € monthly (1 screen)	8.357.000	6.391.000

Source: own elaboration, The Cocktail Analysis & JustWatch.com (*)

Spain: use of SVOD services (% households, 2016-19)

Service	2016		2017		2018		2019
	Q2	Q4	Q2	Q4	Q2	Q4	Q2
No use	89.3	88.0	77.5	70.2	66.3	68.3	62.9
Movistar+ (in devices)	7.8	7.6	12.6	13.5	13.4	* [6.3M]	
Netflix	1.8	3.4	7.3	9.1	12.5		
Vodafone TV online	*	*	*	5.9	5.8		
App Orange TV	*	*	*	2.8	4.5		
Amazon Prime Video	*	*	1.1	3.5	4.0		
HBO	*	*	2.6	2.3	2.9		
beIN CONNECT/Total Channel	0.2	0.2	1.2	0.8	2.3		
Rakuten TV	1.1	1.3	0.8	1.0	0.9		
Sky	*	*	*	*	0.7		
Others	0.5	0.6	0.9	0.3	0.6		
Filmin	0.1	0.2	0.1	*	*		

* 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

INTEGRATION

► 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)

The Netflix logo, featuring the word "NETFLIX" in white, bold, sans-serif capital letters on a red rectangular background.The word "INTEGRATION" written in white, hand-drawn, chalk-like capital letters on a dark, textured rectangular background.

▶ 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

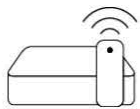
1. Distribution 'channels/mechanisms'

- ▶ **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**

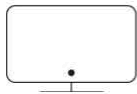
Vodafone (November 2015), Telefónica (December 2018), Orange (March 2019)



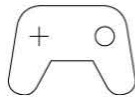
- ▶ **Partnerships with consumer electronics companies ('recommended devices')** which benefit Netflix user interface and actual availability



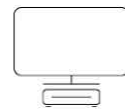
Streaming Media Players



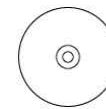
Smart TVs



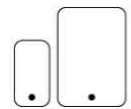
Game Consoles



Set-top Boxes



Blu-ray Players



Smartphones & Tablets

Apple tv

chromecast

Hisense



Panasonic

PHILIPS

SAMSUNG

SONY

TOSHIBA

NETFLIX
RECOMMENDED
TV

PS3

PS4

Wii U

XBOX 360

XBOX ONE

M+



vodafone



Panasonic

SAMSUNG

SONY

TOSHIBA

android



Windows Phone

2. Audiovisual production

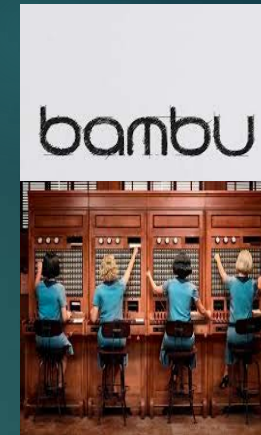
- ▶ **Flexible strategy as regards content production** (2016 on)
 - ▶ **Deals:** actual production, co-production, partnerships...
 - ▶ **Partners:** well established producers, emergent creators, broadcasters....
 - ▶ **Types and quantity of contents:** films, documentaries, serialized fiction...
-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



- Films:** 7 años (2016), Fe de etarras (2017), ¿A quién te llevarías a una isla desierta? (2019), A pesar de todo (2019), Elisa y Marcela (2019), Diecisiete (2019)
- Documentaries:** Dos Cataluñas (2019), El caso Alcàsser (2019), Parchís: El documental (2019)
- Serialised fiction:** Las chicas del cable (2017), Paquita Salas (2nd 3rd seasons, 2018-19), La casa de papel (3rd season 2019), El Ministerio del tiempo (3rd season, 2017), La catedral del mar (2018), Élite (2019), Brigada Costa del Sol' (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

NETFLIX

75% OF USERS SELECT MOVIES BASED ON
NETFLIX'S RECOMMENDATIONS.

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**



Lights & shadows

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**.

NETFLIX

INTEGRATION

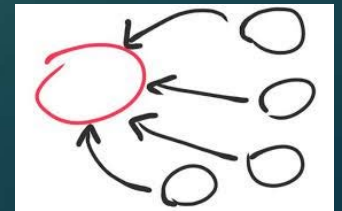
CONCLUSION

?

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

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‘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:

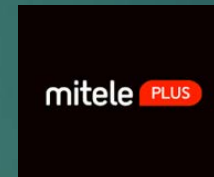
- a) socioeconomic profiling
- b) political-regulatory reactions

- ▶ 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)



NETFLIX

INTEGRATION

► 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”

Todas las películas y series que desees, y mucho más.
Disfruta donde quieras. Cancela cuando quieras.

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.



- ▶ UK tax authority <https://www.cnbc.com/2018/12/03/netflix-revenues-under-investigation-by-uk-tax-authority.html>
- ▶ Subida precio <https://www.expansion.com/economia-digital/companias/2017/10/05/59d65ae8268e3e782c8b45d2.html>
- ▶ Accounting fantasy <https://www.michaelwest.com.au/the-mist-netflix-accounting-fantasy-conceals-half-a-billion-dollars/>
- ▶ Telefónica + Atresmedia https://elpais.com/economia/2019/09/20/actualidad/1568963333_752091.html
- ▶ Generaremos empleo en España https://cincodias.elpais.com/cincodias/2019/04/04/companias/1554372011_245247.html
- ▶ El marketing digital de NFLX <https://www.entrepreneur.com/article/309325>
- ▶ Emplazamiento de producto <https://www.cnbc.com/2017/07/27/bill-gates-ben-does-product-placement-in-netflix-and-amazon-shows.html> <https://www.fastcompany.com/90380266/more-product-placements-may-come-to-netflix-but-dont-call-them-ads>
- ▶ Filiales en España https://cincodias.elpais.com/cincodias/2018/09/21/companias/1537554710_869104.html
- ▶ Letter to stakeholders https://s22.q4cdn.com/959853165/files/doc_financials/quarterly_reports/2019/q3/FINAL-Q3-19-Shareholder-Letter.pdf
- ▶ <https://www.gruposecuoya.es/es/noticias/netflix-europa-se-instala-en-secuoya-estudios/>
- ▶ Impuestos https://cincodias.elpais.com/cincodias/2019/06/27/companias/1561661679_765532.html

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

	<i>Users</i>	<i>Subscribers</i>
Netflix	8.357.000	6.391.000
Amazon Prime Video	4.178.000	3.687.000
HBO España	3.933.00	1.229.000

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)

Service	Origin	N° households
Movistar+ in devices	Spain	2,200,000
Netflix	USA	2,000,000
Vodafone TV online	UK	950,000
App Orange TV	France	741,000
Amazon Prime Video	USA	648,000
HBO España	USA	476,000
beIN CONNECT	Qatar	375,000
Rakuten TV	Japan	153,000
Sky	UK	115,000
Others		98,000

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

The origin of films in VOD catalogues

4.2.1.9. Spain (ES)

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

Netflix ES Total films					
2 156					
Breakdown by Region of Origin					
2 094					97%
European OBS				International	
403				1 691	81%
Of which EU 28		Of which other European OBS		Of which US	Of which other International
349	17%	54	3%	1 236	59%
Of which EU 28 non-national		Of which National		455	22%
262	13%	87	4%		

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 %

Netflix ES					
Total episodes					
8 060					
Number of TV series titles		641			
Identified		554		86%	
Breakdown by Region of Origin of episodes identified					
7 110					88%
European OBS				International	
1 655			23%	5 455	
EU 28		Other European OBS		US	
1 635		23%	20	0%	3 406
					48%
				2 049	29%
EU 28 non-national		National			
1 386		19%	249	4%	

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:
[The Coca-Cola company](#)



Source: [Diesel](#)



Financing via monthly subscriptions

- ▶ **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

