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Netflix as a player in the digital market

Blog Editor



*The battle for the growing markets of internet TV is far from ended. In this post, **Silvia Elaluf-Calderwood** analyses the overview and current situation of one of the key players—Netflix—and offers conclusions based on their strategy of expansion in the European market.*

“Internet TV is replacing linear TV. Apps are replacing channels, remote controls are disappearing, and screens are proliferating. As Internet TV grows from millions to billions, Netflix is leading the way around the world.”

Netflix, 2013

After a period of rapid expansion, Netflix has slowed down its international expansion in recent months, with the Netherlands marking the only country that Netflix set up shop in 2013. In 2011, Netflix rolled out its service in almost all of Latin America and the Caribbean, and in 2012, it expanded into a total of six European countries.

These next destinations for Netflix will differ from its first wave of European markets — the U.K., the Netherlands and Scandinavia — in one key regard: Incumbent pay-TV providers and pure-play streaming services from Russia to Spain have been anticipating the entry of the U.S. juggernaut. This has given them ample time to counter with broadband-delivered video on demand plays of their own. Nevertheless, a complex web of factors will make Netflix's border crossing either breezy or brutal, depending on which nation is stamping its passport. In each case, the mode of entry, and even the business model, has to be reconsidered.

Netflix first announced last year that it plans a major expansion into continental Europe in the second half of 2014, but the company hasn't said yet which countries it is targeting for that expansion, or when exactly it wants to launch, the following is a quick overview on some of the major European countries.

Netflix strategies in Europe: Overview of current status

UK and Ireland

Launched in January 2012, it faced fierce [competition](#) from BBC iPlayer and from Lovefilm. Netflix has gained much territory in the UK since then partly due to Lovefilm financial issues.

Netherlands

Launched in September 2013, the choice of the Netherlands points towards a more focused approach, with Netflix looking for markets that offer the best opportunities for growth. Reed Hastings (CEO) identified perceived market demand for the choice of the Netherlands in the company's [launch press release](#), which quotes him saying: “The Dutch have incredible broadband, but until today have not been able to take full advantage of their fast connections.”

Scandinavia: Denmark, Sweden, Norway and Finland

[Launched](#) in April-May 2012, it had direct competition from Lovefilm. Lovefilm operates streaming-only movie subscription in Sweden, Denmark and Norway.

There has long been social and enterprise debate on the role of content delivery networks as telecommunication network components. The incumbent in Norway, Telenor, was vocal about the impact on services and business models and mounted competition arguments in relation to Netflix (Bakken, 2012; NPT, 2012 and Vigeland, 2012).

In Sweden, Netflix faced Viaplay, which has deals with all major international and local distributors. Importantly, many of the incumbent Swedish online video providers already distribute premium video content directly to different connected living room devices (TVs, Blu-ray players, game consoles, etc) – traditionally Netflix's strength.

Germany

The [planned launch](#) date is September 2014. Now the only one of Lovefilm's markets uncontested by Netflix is Germany. The three leading over-the-top players, Lovefilm, Vivendi's Watchever and ProSiebenSat.1's Maxdome — all SVOD services — were joined by Sky Deutschland's Snap in December. In addition to the big three OTT providers, there are a further 50 or so players offering transactional video on demand [VOD]; free, ad-supported VOD; or SVOD; with sometimes two or all three of these models existing on the same platform. An additional consideration is the strong consumer preference in Germany for dubbing as opposed to subtitling, which introduces some delay and expense.

Italy

Netflix has been slow to launch due to shortcomings in the infrastructure for broadband. Netflix is not the only company at least partially on the sidelines due to the country's Internet infrastructure problems: streaming services from Amazon and 21st Century Fox's subsidiary, Sky-Italia, have run into similar limits. Their entry is currently [scheduled](#) for the end of 2014.

Italy lags behind Europe in connectivity. Just 55% of Italian households have a broadband connection, compared with an average of 72% across the E.U., according to Eurostat, while average broadband speed is about 4 megabits per second, compared with 7 to 8 Mbps in the U.K. According to industry sources, Netflix has had a preliminary round of early talks for a possible partnership with several Italian Internet service providers.

France

The No. 1 challenge for any service is Gaul's 36-month-long theatrical-to-SVOD window — the one in which Netflix typically gets movies. Moreover, SVOD services that are headquartered in France and have annual revenues exceeding €10 million (\$13.7 million) and must invest 21% of their annual revenues in local and European films via pre-buys and co-productions.

Service is expected in the autumn of 2014. Due to legal restrictions there might be a [delay to launch the service](#). The main hiccup is that in France, however, broadcasters must also re-invest around a quarter of their revenues in French and European productions due to cultural protection laws. So they [might launch their service from Luxemburg](#).

Spain

Spain has piracy problems but the legal video-on-demand market [is growing](#). Netflix is highly unlikely to launch in Spain and Portugal in 2014, according to multiple industry sources, who don't foresee the service entering any part of the Southern European market for a few years. Some 87% of Spanish Internet users still access unauthorized content or download files from illegal sites such as Mega and Rapidshare.

Austria

Big foreign players such as News Corp.'s Sky and German media giant ProSiebenSat.1, which both offer SVOD services, are already carving up Austria's modest market. In 2012, the nation's online movie sector was valued at more than \$9.6 million, although more than 99% of digital movie revenues stemmed from transactional, or pay-per-view, services rather than subscription; in 2013, those revenues hit \$15.1 million.

Portugal

No plans to launch

Poland

No launch date. Poland is substantially behind Western European markets in terms of OTT usage, largely due to its lower broadband penetration. In an audit, the National Broadcasting Council listed 21 companies that provide commercial VOD services nationally. Leading OTT provider, IPLA, a subsidiary of pay TV operator Cyfrowy Polsat, offers VOD and SVOD services, and the country's biggest Web portal, Onet, offers SVOD as well as transactional VOD and ad-supported VOD.

Other Eastern European countries

Netflix is very cautious to enter countries where there is a high use of piracy and this has hampered strategy. No launch dates have been announced.

Russia

No launch date. Russia suffers from rampant piracy and only 11% of its Internet users are willing to pay for online video content, according to the Russian Public Opinion Research Center. But there are Russian services with an SVOD business model, including the leading premium SVOD service, Modern Times Group's Viaplay, and Amedia's Amediateka.

Conclusions

1. Netflix is obliged to explore multiple strategies for the highly diversified markets in Europe.
2. Early introduction in Scandinavia has not been quickly followed or found the same level of success in more mature markets where strong competition has been faced.
3. Expansion has been hampered by conflict with powerful incumbents and other players. This situation is similar for Netflix in Latin America (especially in Mexico and Brazil).
4. Netflix has been welcomed by countries with a policy of increasing competition in the VOD market, although it is not clear how it will provide returns in markets that demand financial contributions to the national film industry (e.g. France).

Further reading

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This article gives the views of the author and not the position of the London School of Economics.

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