

# Netflix takes a great leap forward in the international market

## The streaming service added six countries to its footprint last year

Irina Kornilova – Senior Analyst

### Key findings

- International subscribers represent about 40% of the total paying streaming members
- UK, the first market outside the Americas is expected to slow down as the market becomes saturated
- Rapid success across all four markets of Nordics raises plateau and retention questions
- Strong pay TV market and lack of online video competition are key features of Netflix success in Netherlands
- The importance of the local content and the opposition from the local film industry cause Netflix's stumble in France
- Developing infrastructure and deals with pay TV operators are called to help Netflix in fight with pirates over Southern Europe
- With the worldwide launch, Netflix has launched a platform upon which it aims to build the service

Netflix ended 2015 with 74.76 million members of its streaming service worldwide, of them 70.84 million (95%) were paying subscribers. The total number of paying streaming subscribers grew by 7% over the previous quarter, and 30% year-on-year. There was an expected increase in the number of free trialists to almost four million at the end of 2015, driven by addition of new markets. In 2015, Netflix added six additional markets: Australia and New Zealand in March, Japan in September, and Spain, Italy and Portugal in October.

International subscribers represented about 40% of the total paying streaming members. There were 27.44 million international members and 43.4 million domestic members at the end of 2015. The domestic streaming market has begun to plateau: there was only 3% growth over the previous quarter and 15% year-on-year. The international market is driving the growth with 13% increase over previous quarter and 64% year-on-year.

### UK: wide reach in first European launch market

Netflix launched in the UK in January 2012. The UK was the first market for Netflix outside of the Americas. Netflix continues to grow strongly with IHS estimating the company finishing 2015 with five million subscribers in the UK, representing 44% growth year-on-year. The growth is expected to slow as the market becomes increasingly saturated. IHS forecasts over 7.5 million subscribers in the UK at the end of 2019.

In the UK, Netflix is present on a range of mobile and living room devices, including pay TV providers' own platforms. Netflix is supported on the Youview (used by BT and Talk Talk) and Virgin TV set top boxes. Virgin has fully integrated Netflix into its TiVo set-top boxes and BT has dropped its own brand TV series offer and is now driving customers towards the bundled Netflix instead. BT

and Virgin are also involved in promoting the service.

Netflix changed its pricing plan for the UK in May 2014, increasing the standard plan from £5.99 to £6.99. Additional changes were made in June 2015 when a tier system was introduced. A basic subscription is now £5.99 a month, Standard in £7.49 and the Premium service is £8.99. The Premium service is now the only way to access UHD content, and the Standard edition adds HD over the Basic's SD. Each of the options also increases the number of concurrent streams.

Netflix's closest competitor in the UK, Amazon Prime, has two pricing options: £79 for a year of Prime Instant Video with one-day delivery service or the standalone Instant Video-only option for £5.99 a month. Amazon Prime has also responded with its own selection of UHD content, which is available only through TV apps on some smart TVs.

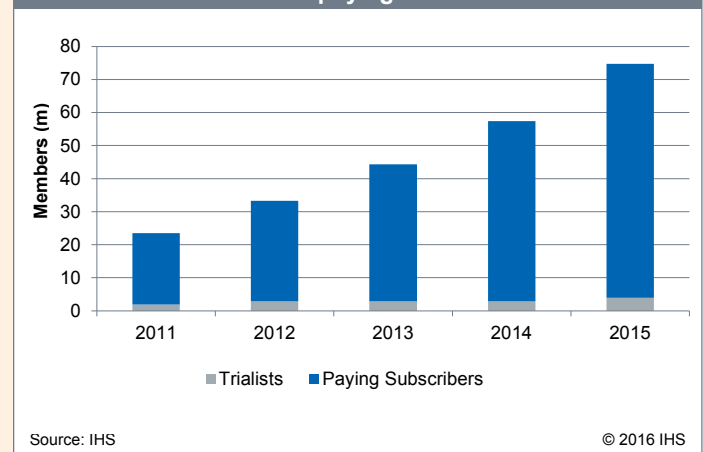
Pay TV platform Sky launched a standalone over-the-top service branded as Now TV in July 2012, exploiting its output deals with Hollywood studios and access to TV content from HBO and other US suppliers. Now TV movies and TV pack comes as £16.98 a month, compare to £6.99 for the Netflix Basic pack. By the end of 2015, IHS estimates that Now TV managed to get to 1.28 million subscribers.

### Netflix makes rapid inroads into the Nordics

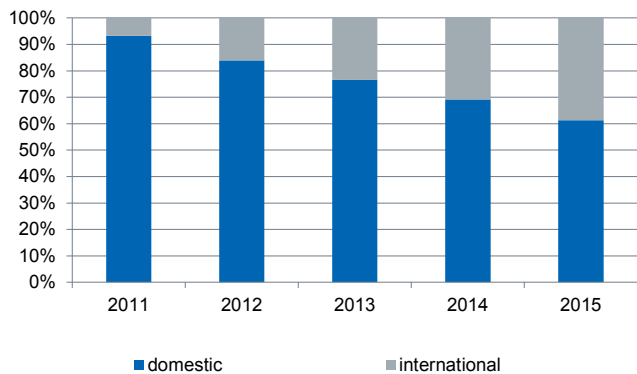
Netflix launched its streaming services in Sweden and Denmark, Norway and Finland in October 2012. The service was initially priced at 79 kronor a month in Sweden, Denmark and Norway; however, due to the difference in the local exchange rates in 2012, the Swedish service was the cheapest across the region. Finland was originally priced at €7.99 (excluding tax) a month.

After June 2015, the pricing in Sweden, Denmark and Norway was 89 kronor for Basic, 99 kronor for Standard and 199 kronor for Premium. Finland is priced the same as the rest of the Eurozone: €7.99 for basic, €8.99 for standard and €9.99 for premium.

Netflix total subscribers: paying vs. free



Netflix paying subscribers



Source: IHS

© 2016 IHS

The company's launch was accompanied by free trials, strong marketing and importantly a critically acclaimed, locally produced series; *Lilyhammer*. While this title was mainly in English, the show's local focus tested well with audiences, helping the SVoD service establish a consumer relationship.

The Nordics, with its strong economy, well-developed taste for online video services and habit of paying for legal services, has been a success story for Netflix. After three full years of operation at the end of 2015, there were 1.2 million subscribers in Norway, 1.1 million in Denmark, 0.82 million in Finland, and 1.5 million in Sweden, accounting for over 50% of broadband penetration across the whole region.

Netflix faces competition from incumbent Viasat's service Viaplay, and US SVoD service HBO. Viaplay must co-exist with the parent company's traditional services and avoid undermining them, leaving it with a pricing disadvantage, but also has access to more local and sports content. HBO experienced a difficult launch as the service did not launch with many of the hit series that fans were expecting, and did not support many connected devices. Recently as these issues have been address the service is gaining traction.

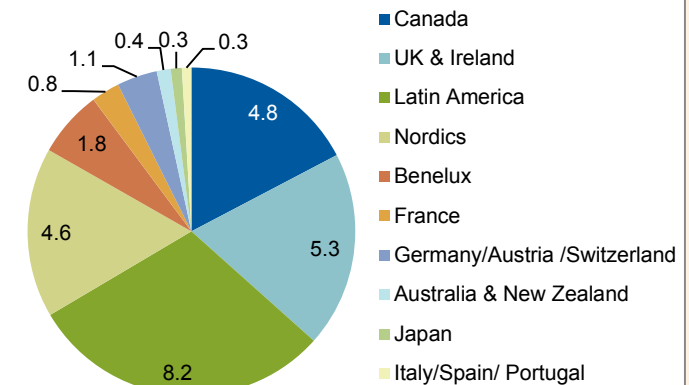
The rapid success for Netflix in the Nordics makes it the first international region where growth will plateau in the coming years. The need for retention solutions is strong, especially given HBO's increasing success in the region. The Nordics have shown a strong appetite for English language content, making Netflix's strategy of global rights deals and original content production highly applicable.

### Netherlands: uptake reaches close to 25%

Netflix arrived in the Netherlands in September 2013, its seventh European country. It has since then become one of the most successful regions for the service in terms of user uptake: 23% of broadband households subscribed to Netflix by the end of 2015, which represents about 1.5 million subscribers. The market grew 65% year-on-year in 2015 and is expected to reach 2.3 million in 2019.

Unlike the Nordics, in the Netherlands, Netflix moved into a market composed solely of niche local video-on-demand (VoD) players and multiscreen services from pay TV operators. The subscription business model had not been widely used by video

Netflix International subscribers by region, end 2015



Notes: Paying subscribers

© 2016 IHS

content providers, leaving the market wide open. At the same time, the strong position of cable and IPTV services indicated the readiness of Dutch people to pay for video content.

Netflix has also managed to acquire exclusive first pay TV window rights for Disney movie content. The deal came into effect at the beginning of 2014, giving additional and significant value to Netflix's proposition.

Belgium and Luxembourg saw Netflix arrive only in September 2014, as part of the wider European launch, and have also seen a strong uptake of the service. The total numbers for Benelux region at present amount to 1.8 million subscribers.

### France: resistance from Canal Plus

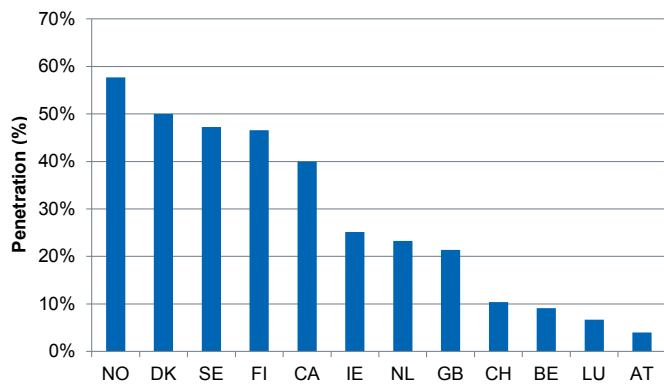
Netflix arrived in France in September 2014, as part of a wider expansion in Germany, Austria and Switzerland as well as Belgium and Luxembourg. The French market has proved to be difficult for a number of reasons, including the ongoing effects of the economic crisis, a strong telco presence in the paid-for television sector, strict laws governing distribution and investment in content by online video service providers, and strong opposition from the French film industry, which due to sector's cultural importance, took a stance of refusing to grant it distribution rights.

Netflix was forced to enter the market with a limited content library and few local productions, falling short of launch expectations. The problem was exacerbated by the presence of CanalPlay, an online subscription video service from pay TV market leader Canal Plus. At the time of launch the Vivendi-owned group was already offering a more comprehensive selection of titles, including Netflix's famous original production *House of Cards*.

More than many other Western European markets, France is a territory in which locally-originated content is particularly important for a service's success. Local film and TV remains strong, partly due to the laws governing investment in content, and consumers are less tolerant of English-language films and TV shows than their counterparts in territories such as Scandinavia or the Netherlands.

Netflix actively invested in the local content creation, despite not being legally obliged to, but rather in understanding the importance of local content and in order to offset the risk of creating public opposition and losing the market altogether.

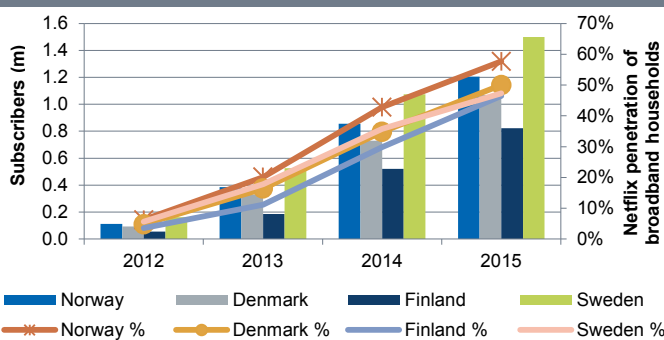
2015: Netflix penetration of broadband households



Source: IHS

© 2016 IHS

Nordics: Netflix subscribers vs. Netflix penetration of bb households



Source: IHS

© 2016 IHS

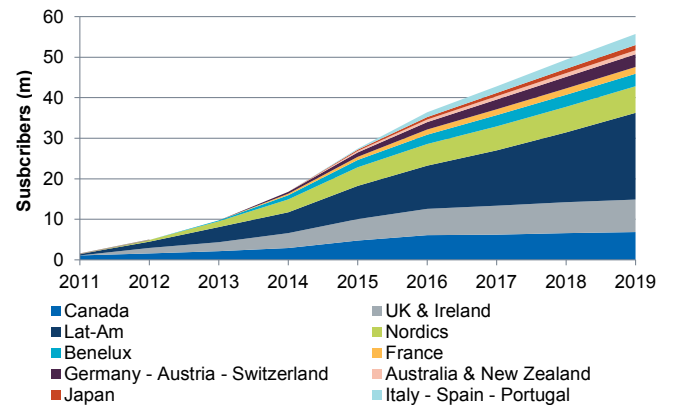
### Germany, Austria and Switzerland: difficulty in gaining traction

Overall, the uptake of Netflix has not been particularly strong in either Germany or Austria. Germany closed 2015 with 650,000 subscribers (around 2.5% broadband households penetration) and just shy of 100,000 subscribers in Austria.

Amazon Prime has proved to be a very effective competitor, offering more local titles and generally subscription offers have been available in Germany since December 2010 (as Lovefilm). Unlike other territories, Netflix has less opportunity to gain the significant traction seen in other neighbouring Western European countries, given the strength of free TV (particularly in Germany) and a stable physical market. IHS expects Netflix to reach two million subscribers by 2019, representing about 7% penetration.

Switzerland is a stronger territory for Netflix uptake: there were 340,000 subscribers at the end of 2015 (10% broadband penetration). There has been traditionally greater adoption in Switzerland of digital consumption, mainly in TV-based VoD, which indicates a good potential for Netflix. Amazon Prime is not yet available in Switzerland and there had been reported high levels of VPN use of the US service by Swiss consumers prior to the local launch.

Netflix International subscribers by regions



Notes: Paying subscribers

© 2016 IHS

### Australia: local competitors aim to get regulators on their side

Netflix launched in Australia in March 2015. Broadband household and smartphone penetration in Australia is high by regional standards for Asia-Pacific, at 69% and 67% respectively at the end of 2015, according to IHS. Improvements in infrastructure will also facilitate further growth, particularly the ongoing rollout of the National Broadband Network (NBN).

Netflix faces formidable competition from homegrown over-the-top players in Australia including Presto TV, Stan, Quickflix and Dendy Direct. Presto TV and Stan, launched in the first three months of 2015. Both new VoD services are backed by players in the traditional TV space—Stan by Nine Entertainment/Fairfax Media and Presto by Seven West Media and Foxtel.

The Australian Communications and Media Authority (ACMA) estimates 3.2 million or 17% of adult Australians watched video content via SVoD in the six months to June 2015, of which 2.5 million (14% of adults) used Netflix to stream content.

Netflix also faces political challenges as the company finds itself embroiled in the country's ongoing media reforms debate in early 2016. Not surprisingly, local OTT players are arguing that Netflix does not face the same regulatory restrictions including advertising restrictions, content quotas and tax liabilities, which allow the company to operate more freely than its Australian-based competitors. The discussion comes as the Australian government considers changes to media laws that would relax media ownership and concentration rules.

However, the scale of Netflix's success in Australia will depend on how it promotes and programmes its service locally and on its ability to drive subscription take-up via its local internet and IPTV providers. Despite their smaller budgets, Presto TV and Stan are already investing in exclusive, original local content.

### Japan: going mobile and local

Netflix launched in Japan in September 2015. Prior to its launch in the country, Netflix entered into partnership with SoftBank, a mobile operator in Japan. This partnership allows SoftBank customers to subscribe to Netflix at its stores and pay the monthly fee through their phone bill. SoftBank added that it will begin pre-installing the Netflix app on its smartphone for sale after October

## Global: Operator-Netflix partnerships

Country	Operator	Type	Announced
UK	Virgin Media	Cable	Sep-13
Sweden	Com Hem	Cable	Oct-13
Denmark	Wao	Telco/ISP	Oct-13
US	Atlantic Broadband	Cable	Apr-14
US	Grande Communications	Cable	Apr-14
US	RCN Corp	Cable	Apr-14
US	Suddenlink	Cable	May-14
US	GCI	Cable	Jun-14
US	Midcontinent	Cable	Jun-14
US	Cable ONE	Cable	Jul-14
Belgium	Proximus	Telco/ISP	Sep-14
France	Bouygues	Telco/ISP	Sep-14
France	Orange	Telco/ISP	Oct-14
France	Numericable SFR*	Telco/ISP	Oct-14
Germany	Deutsche Telekom	Telco/ISP	Oct-14
UK	BT	Telco/ISP	Oct-14
US	Dish	DTH	Dec-14
UK	TalkTalk	Telco/ISP	Jan-15
Finland	Elisa	Cable	Jul-15
Mexico	Totalplay	Telco/ISP	Jul-15
Italy	Telecom Italia	Telco/ISP	Jul-15
Spain	Vodafone	Telco/ISP	Sep-15
Netherlands	KPN	Telco/ISP	Oct-15
Portugal	Vodafone	Telco/ISP	Sep-15
Canada	Bell	Telco/ISP / DTH	Dec-15

Source: IHS

© 2015 IHS

2015. Partnership with Softbank provides Netflix with access to approximately 37 million SoftBank mobile subscribers as a potential user base.

Mobile operators are playing a significant role of the Japanese online video market. In 2014, Japan had a smartphone subscription penetration of 54.8%, this number is expected to reach 85.6% by 2019. Mobile services in Japan, most notably SoftBank, NTT Docomo and KDDI, are operating successful mobile video services, including Lismo Video and Video Pass by KDDI, dTV by NTT DoCoMo and UULA by SoftBank.

Netflix is investing in local and original content, co-producing local content with Osaka-based talent agency Yoshimoto Kogyo and signing a deal with Fuji Television for exclusive rights to deliver its content.

### Netflix expected to be major player in Spain, Italy and Portugal

Spain, Italy and Portugal were added in October 2015. The launch of Netflix in Spain followed the signing of a high-speed network sharing agreement between the Vodafone/Orange joint venture and Telefonica in mid-2013, and the launch of fibre-to-the-home services by the Vodafone/Orange joint venture in April 2014. In addition, Vodafone also announced a fibre-sharing agreement with Portugal Telecom in 2014, and Italian telco FastWeb launched its 'Superjet' fibre-optic service with plans to expand further over the next 18 months. Therefore, potential customers in parts of Italy, Spain and Portugal can now sign up for broadband services which can comfortably support Netflix services. In Spain, Netflix has signed an agreement with Vodafone to

get access to subscribers of Ono cable TV and Vodafone's mobile customer base. Netflix will utilise the connectivity of Ono's TiVo box. Partnership with Vodafone brings Netflix 784,000 potential users of Ono TV and with the inclusion of Vodafone's total mobile customer base, which stood at 14.1 million at the end of June 2015, the potential customer reach of Netflix expands further.

In Italy, Netflix has reached an agreement with Italian IPTV provider Telecom Italia to add the service to its TIMvision set-top box. Telecom Italia reported 350,000 subscribers to its TIMvision services, including IPTV customers with TIMvision set-top boxes and standalone SVoD subscribers in Q3 2015.

We expect Netflix to swiftly become a major player in these markets. Netflix has a strong pool of content from Latin America, which should help the company to develop its subscription base and tackle both local competition and the piracy issue.

### Going global—without local content or currency

Netflix has executed its global expansion plan by launching in 130 new territories simultaneously. The online-video streaming giant made the announcement at the CES conference and trade show in Las Vegas in January this year. Netflix is now available in almost every country worldwide, with exceptions including China, Syria and North Korea.

Unlike with previous launches, Netflix's simultaneous rollout to 130 territories happened without substantial localisation features—the library of content was limited to Netflix's original programming content and international rights deals already in place, no new local content has been added, content was not available in local languages outside of the 21 that Netflix supported to date, and pricing in most territories was in euros rather than local currencies.

With the worldwide launch, Netflix has launched a platform upon which it aims to build and differentiate the service to fit specifics of every region in the future. Therefore, although Netflix has unlocked a colossal reachable audience, it does not expect to see anything close to the same levels of growth in new regions as it has achieved in its previous expansions. Instead, it trusts in its ability to collect data for each specific market and, in turn, learn from it and make informed decisions about content aggregation in the future. Crucially, worldwide expansion makes sense in the light of Netflix's ambition to produce more original content, which it can make available in new regions at no extra cost.

As was the case with previous rollouts, the launch of Netflix serves to educate the public on the availability of other online-video streaming services on the market, and also make consumers more receptive to subscription pricing models. Now that a significant amount of time has passed since Netflix began its international expansion, local players around the world have had time to prepare and strengthen their online-video offerings—a sufficiently competitive alternative may in fact greatly benefit from the current situation.

#### Sectors

Broadband Media

#### Source

IHS Technology Broadband Media Intelligence Service