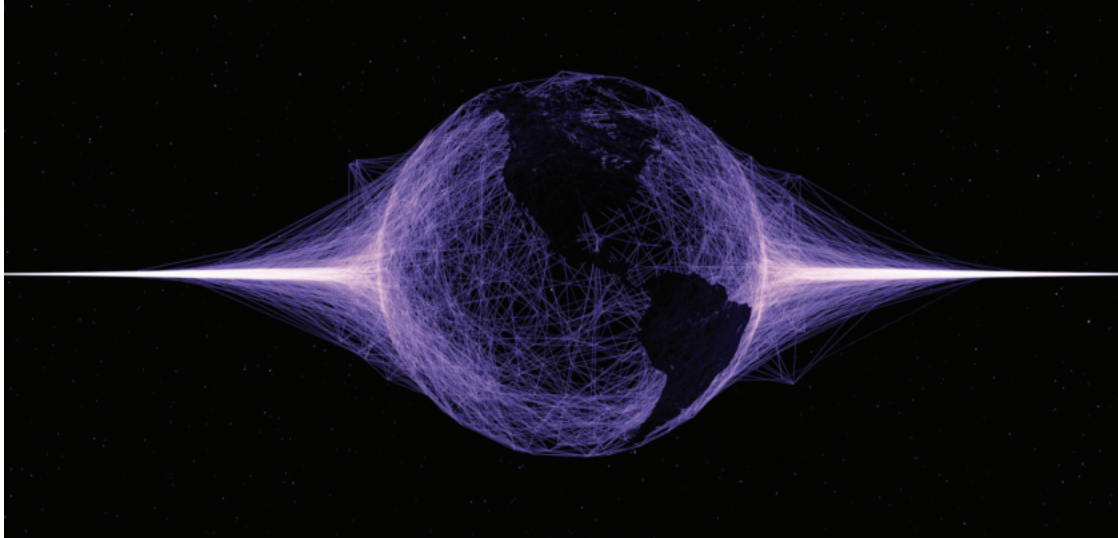


Connections



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M&E Journal: Netflix and Amazon Go Global: The Impact of Content Localization on Video Streaming

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When Netflix and Amazon first introduced their video streaming offerings about 10 years ago, they presented alternatives to traditional video rental, albeit with limited title selection and accessibility only through computers. The popularity of these SVOD services quickly accelerated when over-the-top (OTT) devices such as the Roku box and Apple TV brought streaming video to television screens. Later, these subscription services became accessible through digital apps on mobile devices, further driving online video into the mainstream. Amazon and Netflix had always competed head-to-head, with both services offering movies and TV series licensed from the major studios. Both also pursued exclusive deals with premium content providers.

To further differentiate their services, the next step was the development of original content. The leading SVOD platforms quickly transformed from content aggregators to full-fledged internet television networks.

Now, the new frontier for streaming video is international expansion. In order to continue to grow, SVOD platforms are reaching out to new customers throughout the world. When Netflix expanded its global reach to a total of 190 countries by launching simultaneously in 130 countries in January 2016, it sat alone as the only video streaming service available almost everywhere. By the end of the year, however, Amazon Prime Video had caught up, landing in over 200 territories worldwide.

The push toward international markets has far-reaching implications for all stakeholders of the video streaming industry.

The two companies seem to be taking vastly different approaches to their global expansion. Amazon has been focusing on offering local content that appeals to the broader, indigenous population of the particular country in which its service is available.

In India, for example, it is vying for rights to the Indian Premier League cricket events, which consistently capture the highest viewership rating. In contrast, Netflix is creating “foreign” programming that can find an audience in a broader global membership base. *Narcos*, a French production shot in Colombia with a Brazilian star, played well all over the world. One negative consequence, however, is that Netflix may need to spend more on marketing for its global productions. And Netflix is threatened as Amazon continues to launch original programs such as its new motorsports series *The Grand Tour*.

In this epic battle, both companies face the following challenges:

New cultures and languages

Offering service in international markets means that content must be translated into multiple languages. The Netflix catalog now supports 22 languages, though not all content is available in every language. Also, algorithms that analyze consumer behavior must continually evolve for a global audience. Netflix has always based its predictions about consumers within a particular country on analyzing data from that country’s consumers. Now, it is aggregating data from subscribers all over the world, because it needs to generate recommendations for countries with little historical data. What is challenging is that the content catalogs are not the same all over the world due to distribution rights.

Varying states of internet infrastructure

Broadband internet access is not widespread in developing countries. In mobile-first markets such as India, subscribers tend to rely on cellular data, which is much more constrained than wired internet. In response, Netflix is pursuing more deals with cellular providers in which Netflix streaming would be exempt from data usage charges. To provide better visual quality and fewer interruptions, Netflix and Amazon are offering automated learning systems that provide optimal streaming configurations based on device, location, and ISP. Both companies also allow downloading of movies and TV shows for offline viewing.

Payment systems

Credit card payments have been a stumbling block, especially in markets like Latin America where consumers are reluctant to share personal information. New Netflix subscribers are increasingly signing up on mobile, without even visiting the company’s website. Netflix has been adding mobile payments, just like iTunes and Google Play, to make its service easier to use. Netflix has also made a big investment in gift cards, forming partnerships with local operators.

Regulatory environments

China is one of the only major markets where Netflix and Amazon do not have a presence. Netflix recently announced that it would license its content to Chinese services because the regulatory environment is too hostile to outsiders. In Europe, the European Commission has proposed taxation of streaming services like Netflix to finance film and television production in those countries.

Content providers are forced to learn new digital workflows

Although Netflix and Amazon have been focusing on the development of their own original programming, licensed content from Hollywood studios is still important. As SVOD services have enhanced content localization for international markets, the requirements for digital delivery have changed. The studios have been forced to learn and master new digital workflows in order to satisfy partners' and consumers' higher expectations.

In the past, when SVOD services had a smaller international footprint, studios would deliver a "flat file" with the audio and video for a specific territory married together. Today, SVOD services require component delivery in which the video and audio files are provided separately for greater flexibility. Studios have internal teams that handle digital mastering, localization, artwork, and metadata. However, they often rely on external vendors to support localization workflows and aggressive delivery schedules.

Localization vendors become increasingly important

Third-party vendors perform content localization work including subtitle and dub audio creation. Such vendors handle the workload of many different studios. With such a high volume of content and tight turnaround times, many struggle to keep up. Netflix may reject deliveries because the video does not work or subtitles are out of sync.

Streaming services need to build a strong network of in-country dubbing studios for accurate translations and authentic voice casting. The challenge for vendors is to optimize localization workflows to support accelerated timelines without compromising quality.

ISPs have a golden opportunity

In developed markets, internet service providers may also be cable providers. Big communications companies have an advantage in that they are somewhat immune from the movement toward online video. As consumers eschew traditional pay TV offerings in favor of streaming, these firms can simply charge more for internet access to offset the lost cable revenue.

Bandwidth demands will increase even more in the future as content is made available in new formats such as 4K UHD and High Dynamic Range. In order to maximize quality of service, streaming video giants such as Netflix may pay for high speed lines, similar to how cars pay for access to fast lanes on the highway. And in the more remote parts of the world, it is possible that Netflix or Amazon may subsidize the build-out of internet infrastructure.

A winning situation for worldwide consumers

As Netflix and Amazon expand, consumers worldwide are presented with more entertainment choices than ever before. The global SVOD platforms are competing fiercely with the local streaming options in each territory, and they all want to provide consumers with the best

entertainment experience. Will Netflix's premium pricing strategy be successful, or will Amazon attract consumers with its lower price? Unlike cable and satellite, streaming services offer consumers freedom from long-term contracts, so the risk of signing up is low. If a consumer is dissatisfied with Netflix, he or she can easily cancel and subscribe to another service.

Netflix or Amazon—Who will rule the world?

Both companies will continue to spend several billion dollars on content every year to stay competitive and attract new subscribers. Netflix and Amazon picked up the international distribution rights to many independent films at the Sundance Film Festival this year—at a price of several million dollars per film. Amazon has become the first streaming service to receive an Academy Award nomination. This is one area in which Jeff Bezos's company has superseded Reed Hastings's.

Netflix now has a serious competitor—and one with even deeper pockets. Amazon's big advantage is that it has other lines of revenue from e-commerce and data hosting, and its content spend represents a much smaller percentage of its total revenue. In contrast, Netflix is a content-only business. To remain competitive, it may look to be acquired by a more powerful company.

Although Netflix and Amazon have been the first SVOD services to pursue international expansion on a large scale, other video streaming players will feel pressured to follow in their footsteps. Video streaming in the international marketplace is in its infancy, and it is still anyone's game.

It is no longer a business just about managing digital inventory and keeping up with technology. To be successful, streaming services must invest in content that caters to the diverse tastes and cultural preferences of consumers in various countries. As the two video streaming giants battle it out, consumers can look forward to greater accessibility and even more cutting-edge content.