

Netflix Expanding in Mexico¹

The US firm Netflix was founded in 1997 by Reed Hastings and Marc Randolph who both had prior experience in IT firms. Netflix's original business model was based on a DVD-rental service. However, instead of strategically drifting away from changing consumer patterns, unlike its former competitor Blockbuster, Netflix broke ground first by offering consumers a mail order service. This came with a subscription model, a novel feature that enabled subscribers to rent as many DVDs as possible, without incurring any additional costs. Since then, Netflix's business model has adapted to take advantage of new technology platforms and the evolving internet infrastructure. The firm provides consumers with an online video streaming platform based upon a monthly subscription package. Netflix services include both original shows and/or movies that are commissioned by Netflix, and licensed content (shows/movies owned by different studios). As of 2023, the Californian based firm had impressively grown to accumulate approx. 220 million subscribers around the world with just under 13,000 people employed. Moreover, in 2022, Netflix earned revenues of \$31.6 billion which was a 6.7 per cent increase year-on-year. Netflix's revenue is predominantly generated in the USA and Canada. However, the firm has made several efforts to tap into different markets, including Mexico, which we focus on here.

Year	US & Canada	EMEA	Latin America	Asia-Pacific
2018	8.28	3.95	2.22	0.94
2019	10.05	5.54	2.78	1.46
2020	11.45	7.77	3.13	2.37
2021	12.97	9.69	3.57	3.26
2022	14.08	9.74	4.06	3.57

Source: <https://www.businessofapps.com/data/netflix-statistics/>²

Entering Mexico

In July 2019, Netflix formed an alliance with a cable and telecommunications firm named Izzi Telecom of Televisa. Importantly, the alliance would enable Netflix to take advantage of Izzi's Triple Play packages in Mexico. The US firm had partnered with Televisa to distribute part of their catalogue which included soap operas, comedy series and movies. But in 2016, Televisa made the decision to suspend the launch of its own platform, Blim, due to fierce competition. The Netflix-Televisa agreement authorised Televisa to distribute the Mexican company's back

¹ Sources: Netflix Annual Report (2022); Gómez, R., & Muñoz Larroa, A. (2023). Netflix in Mexico: An Example of the Tech Giant's Transnational Business Strategies. *Television & New Media*, 24(1), 88-105; <https://www.similarweb.com/blog/insights/media-entertainment-news/streaming-q1-2023/>; <https://www.businessofapps.com/data/netflix-statistics/>

Case/Material taken from the book of Collinson et al 2024

² The table consists of 5 columns and 5 rows. The headings of the columns are as follows: Year, US and Canada, EMEA, Latin America, and Asia-Pacific. The row entries are as follows. Row 1: Year: 2018. US and Canada: 8.28. EMEA: 3.95. Latin America: 2.22. Asia-Pacific: 0.94. Row 2: Year: 2019. US and Canada: 10.05. EMEA: 5.54. Latin America: 2.78. Asia-Pacific: 1.46. Row 3: Year: 2020. US and Canada: 11.45. EMEA: 7.77. Latin America: 3.13. Asia-Pacific: 2.37. Row 4: Year: 2021. US and Canada: 12.97. EMEA: 9.69. Latin America: 3.57. Asia-Pacific: 3.26. Row 5: Year: 2022. US and Canada: 14.08. EMEA: 9.74. Latin America: 4.06. Asia-Pacific: 3.57.

catalogue, which was seen as a win-win situation for both firms. Although it is important to note that Izzi does not hold the exclusive distribution of Netflix on its packages.

Innovative new technologies in capacity storage have ensured that video streaming platforms are able to offer large catalogues, which is very useful for firms, such as Netflix, that have the financial capital to acquire exclusive distribution licenses and produce content at a global level. Moreover, Netflix has continually adapted and refined its content annually, guided by the analysis of huge databases of selection decisions and preferences from consumers. Moreover, working with local content providers helps adapt the overall portfolio to local tastes. In order to ensure Netflix's offerings were culturally adapted for Mexican consumers, the US firm started to produce content with Mexican partner companies three years prior entering Mexico. Notably, Netflix released *Club de Cuervos* (45 episodes) in 2015, representing an important milestone for the US firm because it was their very first commissioned production in Spanish. Three years later Netflix released its first self-produced series in Mexico, *La casa de las flores* (34 episodes). Netflix arguably deployed four models of production for their Mexican market:

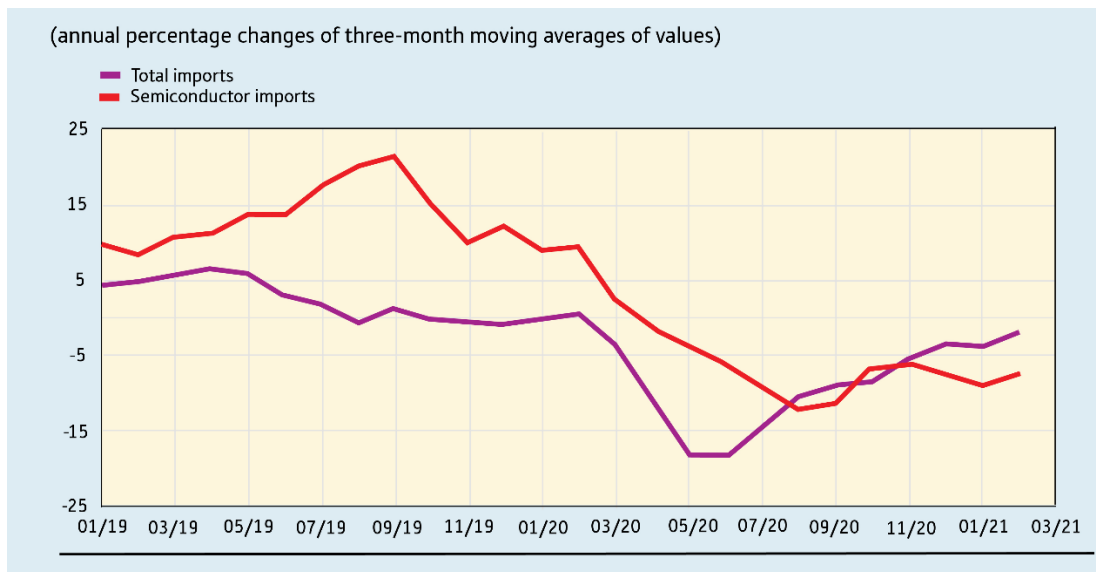
1. Self-produced content, such as the TV series *La casa de las flores* (Netflix Studios) mentioned previously.
2. Commissioned material from third party studios. This is when Netflix finances an entire project to be exclusively streamed on the platform (e.g. For instance, *Club de Cuervos* - Alazraki Films-Netflix, and *Narcos Mexico* - Gaumont International-Netflix).
3. Co-productions with a major broadcaster/studio. Although these projects were broadcasted on TV, regional and global streaming of these projects would be made exclusive to Netflix (e.g., *Luis Miguel*, the series - Telemundo, Netflix, and *Dragón* - Televisa, Univisión, Netflix).
4. Successful local titles that were already released in the country, which were then purchased by Netflix for exclusive global streaming (e.g. *El Chapo* - Gaumont International, Univisión, A&E) and branded as "Netflix originals".

Over the years Netflix has gradually invested more in local content for Mexico. For example, it invested \$200 million in local production in 2020 and \$300 million in 2021. The Californian based firm officially opened a local office located in Mexico City 2021, which became the operational hub to all Latin American markets. Netflix's four production strategies named previously were a way to ensure that the firm is locally involved in the production and acquisition of a range of broad titles relevant to its Mexican subscribers.

A strong strategy for Netflix, for entering new markets such as Mexico, is to develop local alliances with either consolidated independent companies or commercially successful producers. This proved to be especially effective for dealing with the licensing of content from third parties and achieving distribution agreements.

Although this case reports on Netflix's success in Mexico, it is important to note that the video streaming industry has witnessed significant growth over the last 10 years. This has resulted in an influx of companies entering the sector in order to take a slice of the increasingly crowded market. As new players emerge and challenge Netflix's dominance, the competition has become fierce, with the focus shifting to pricing strategy and general affordability. Although its revenues are still growing, Netflix's global market share has been declining. If Netflix are to hold a dominant market share in this crowded market the US firm will need to think of more innovative ways that can attract and retain viewers in the near future.

Streaming industry digital market share



Source: <https://www.similarweb.com/blog/insights/media-entertainment-news/streaming-q1-2023/>³

Questions for discussion

1. How did Netflix increase its chances of a successful market entry strategy in Mexico?
2. What barriers to integration had to be overcome in Mexico before Netflix could enter into the market?
3. In what ways will integration and localisation be important issues facing Netflix when conducting business in Mexico?

Answer

1. How did Netflix increase its chances of a successful market entry strategy in Mexico?

Netflix arguably deployed four models of production for their Mexican market:

³ The area chart is titled streaming industry digital market share. The text under the title reads traffic share, desktop and mobile web, March 2020 to March 2023. The horizontal axis ranges from Q 2 2020 to Q 1 2023 in increments of 1 quarter (3 months). The vertical axis ranges from 0 to 100 in increments of 25 percent. A curve for netflix dot com starts at 70 percent in Q 2 2020 and falls concave down and then concave upward to 52 percent in Q 3 2021. It then rises to a small peak at 56 percent in Q 4 2021 before falling to 50 percent in Q 2 2022. It continues falling ending at 44 percent in Q 1 2023. The area between the curve and the horizontal axis is shaded in blue. A curve for hulu dot com starts at 88 percent in Q 2 2020. It then falls passing through the points 75 percent in Q 2 2021, 74 percent in Q 4 2021, and 72 percent in Q 3 2022, and finally ending at 70 percent in Q 1 2023. The area between the curve and the curve for netflix dot com is shaded in orange. A curve for h b o max dot com starts at 90 percent in Q 2 2020 and falls passing through 85 percent in Q 4 2021, 82 percent in Q 2 2022, and ending at 76 percent in Q 1 2023. The area between the curve for h b o max dot com and the curve for hulu dot com is shaded in purple. A curve for peacock t v dot com starts at 90 percent in Q 2 2020 and travels almost horizontally passing through 88 percent in Q 2 2022 and ending at 82 percent in Q 1 2023. The area between the curve for peacock t v dot com and the curve h b o max dot com is shaded in light orange. A curve for disney plus dot com starts at 95 percent in Q 2 2020 and travels almost horizontally ending at 90 percent in Q 1 2023. The area between the curve for disney plus dot com and the curve for peacock t v dot com is shaded in pink. A curve for t v youtube dot com starts at 100 percent in Q 4 2020 and falls almost linearly ending at 95 percent in Q 1 2023. The area between the curve for t v youtube dot com and the curve for disney plus dot com is shaded in grey. The area between the curve for t v youtube dot com and the horizontal line corresponding to 100 percent on the vertical axis is shaded in sky blue and labeled paramount plus dot com.

- Self-produced content, such as the TV series La casa de las flores (Netflix Studios) mentioned previously.
- Commissioned material from third party studios. This is when Netflix finances an entire project to be exclusively streamed on the platform (e.g., For instance, Club de Cuervos – Alazraki Films – Netflix, and Narcos Mexico – Gaumont International – Netflix).
- Co-productions with a major broadcaster/studio. Although these projects were broadcasted on TV, regional and global streaming of these projects would be made exclusive to Netflix (e.g., Luis Miguel, the series – Telemundo, Netflix, and Dragón –Televisa, Univisión, Netflix).
- Successful local titles that were already released in the country, which were then purchased by Netflix for exclusive global streaming (e.g., El Chapo – Gaumont International, Univisión, A&E) and branded as ‘Netflix originals’.

2. What barriers to integration had to be overcome in Mexico before Netflix could enter into the market?

In order to ensure Netflix’s offerings were culturally adapted for Mexican consumers, the US firm started to produce content with Mexican partner companies three years prior. Working with local content providers helps adapt the overall portfolio to local tastes.

3. In what ways will integration and localisation be important issues facing Netflix when conducting business in Mexico?

Localisation and understanding the market is a critical factor if Netflix are to continue its success in Mexico. A strong strategy for Netflix, for entering new markets such as Mexico, is to develop local alliances with either consolidated independent companies or commercially successful producers.