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**Now Streaming Everywhere:  
An Examination of Netflix's Global Expansion**

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**Now Streaming Everywhere:  
An Examination of Netflix's Global Expansion**

**by**

**Amanda Mary Halprin**

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## **Abstract**

### **Now Streaming Everywhere: An Examination of Netflix's Global Expansion**

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This thesis explores how Netflix's market positioning strategies evolved as the company began expanding globally. Netflix began offering its streaming service outside of the United States in 2010, when the company introduced its service to the Canadian market. The company's second wave of expansion began in 2011, when Netflix introduced its service to the "Latin American" market. During these first two waves of expansion, Netflix initially used U.S.-centric positioning strategies to introduce its service to these markets. However, after encountering problems in Brazil—Netflix's biggest sub-market in the Latin American market—the company realized it had to shift from using U.S.-centric positioning strategies to using glocalized positioning strategies. As Netflix began this positioning shift, it also began employing a new tool to help execute its positioning strategies: original programming. Netflix used original programming as a way to position itself glocally as the company continued its international expansion efforts. This research considers the challenges Netflix began to face as it broadened its global expansion efforts and sought a larger subscription base. Ultimately, this thesis seeks to use Netflix's

international strategies as a means of understanding the larger transformations taking place within the television industry and as a means of understanding the evolution of cultural form in the post-network era.

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## Introduction

### PURPOSE

The American television landscape of the post-network era (early 2000s-present) features a previously unprecedented amount of international content. Although international distribution has been a part of the United States' television composition since the mid-1950s,<sup>1</sup> advancements in platform technologies have allowed the modern television sphere to become, for the first time, a truly globalized space. In the network (1952-mid-1980s) and multi-channel (mid-1980s-mid 2000s)<sup>2</sup> eras of television, access to international content was heavily mediated by programming: networks selected what international content audiences would be able to access and when they would be able to access this content. With the rise of subscription video on demand (SVOD) services, viewers have become more like programmers, choosing what content to watch and when to watch it, which has removed previous access barriers to content. This has allowed content providers in the post-network era to become more global.

Netflix is one such company that has embraced the post-network era's global potential. The company's official company profile claims, "Netflix is the world's leading internet entertainment service," citing its 125 million members and presence in over 190 countries as evidence of the company's global dominance.<sup>3</sup> Sources outside of the

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<sup>1</sup> Denise Bielby and C. Lee Harrington, *Global TV: Exporting Television and Culture in the World Market*, (New York: New York University Press, 2008), 22-23.

<sup>2</sup> Amanda Lotz, "Introduction," *The Television Will Be Revolutionized* (New York: New York University Press, 2014), 8

<sup>3</sup> Netflix, "Company Profile," *Netflix Investor Relations*, <https://ir.netflix.com/>.

company agree with the assessment that Netflix is a world power. A 2018 headline from *The Guardian* proclaimed Netflix to be “a streaming giant on the brink of global domination.”<sup>4</sup> Other sources argue the global domination has already arrived; a 2016 article in *The Telegraph* claimed to provide insight into “how Netflix plotted its world domination.”<sup>5</sup> Whether Netflix is on the brink of global domination or has already arrived, one fact is clear: Netflix is changing the way the world views television.

In order to understand how Netflix has become a dominating power in the world television market, I believe it is imperative to examine Netflix’s initial entry into this market as a site of analysis. How did Netflix, a content provider based in the United States, transform from American service to global power? To conduct this examination, I analyze Netflix’s industrial documents, trade press documents, and popular press documents and seek to answer the following four research questions:

- 1) When Netflix began its initial global expansion in 2010 and 2011, what positioning<sup>6</sup> strategies did the company use when entering foreign markets? How did these strategies evolve after initial market entry?
- 2) What role did original content productions play in Netflix’s positioning strategies?
- 3) How have conceptualizations of cultural and national borders affected constructions of Netflix’s international markets put forth by the trade press, the popular press, and the company’s marketing materials?

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<sup>4</sup> Simon Osborne, “Netflix’s ‘new world order’: a streaming giant on the brink of global domination,” *The Guardian*, April 17, 2018, <https://www.theguardian.com/media/2018/apr/17/netflixs-new-world-order-a-streaming-giant-on-the-brink-of-global-domination>.

<sup>5</sup> Madhumita Murgia, “How Netflix plotted its world domination,” *The Telegraph*, January 7, 2016, <https://www.telegraph.co.uk/technology/ces/12087786/How-Netflix-plotted-its-world-domination.html>.

<sup>6</sup> Positioning is defined by marketing scholars as “the choice of target market segment which describes the customers a business will seek to serve and the choice of differential advantage which defines *how* it will compete with rivals in the segment.” (qtd. in Brooksbank, 1994; emphasis in original). Media scholars have adapted this term to discuss how media producers and distributors target audiences (see Burroughs, 2018).

- 4) How has the U.S. trade press imagined the role of original programming in Netflix's strategy for international market growth?

These questions allow me to examine how Netflix's international presence was created, providing much needed insight into Netflix's position in the current television landscape. In addition to providing insight into the current state of the international television market, answering these questions will also allow me to discuss the future trajectory of the international television market.

The rest of this introductory chapter is divided into five sections: History of Netflix, Literature Review, Framework, Methods, and Chapter Outlines. In the History of Netflix section, I will provide a brief overview of the company's history to situate this element of Netflix's business plan within a larger industrial context. The Literature Review discusses how this work fits into existing bodies of scholarship. The Framework section framing devices that will be used throughout this thesis to situate my analysis. The Methods section outlines what methods will be used to conduct this analysis. Finally, the Chapter Outlines section provides a brief overview of the remaining chapters in this thesis and establishes the arguments I make throughout this thesis.

## HISTORY OF NETFLIX

In 1997 Reed Hastings and Marc Randolph, two former software-company executives,<sup>78</sup> founded Netflix, which they envisioned as an online space to offer movie rentals. Although the movie rental business had been dominated by VHS technology, in the spring of that year, DVDs were first introduced in the United States, with less than 1,000 titles available to consumers,<sup>9</sup> giving Netflix a new way into the video rental market. However, even with the limited availability of DVDs in the U.S. market, Hastings and Randolph believed DVDs “had the clear potential to replace the bulkier, lower-resolution videotape as the consumer format of choice.”<sup>10</sup> Furthermore, they noticed a lack of DVD availability in video rental stores, leading them to believe they could fill a niche in the video rental market.<sup>11</sup> The company officially launched its website in 1998, which offered rentals and sales of DVDs. However, the company stopped selling DVDs in December of that year, choosing to focus on its rental business. As a result, the company “began directing customers interested in [DVD] purchases to Amazon.com, which had recently begun offering DVDs,”<sup>12</sup> not knowing that it would later become one of Netflix’s competitors.

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<sup>7</sup> Tanza Loudenback, “Meet Reed Hastings, the man who built Netflix,” *Business Insider*, September 6, 2015, <http://www.businessinsider.com/reed-hastings-netflix-bio-2015-8>.

<sup>8</sup> Owen Thomas, “Netflix’s Forgotten Cofounder Says Reed Hastings Is Lying About How He Came Up With The Idea For The Company,” *Business Insider*, October 4, 2012, <http://www.businessinsider.com/netflix-forgotten-cofounder-marc-randolph-2012-10>.

<sup>9</sup> Frank Uhle and Stephen Meyer, “Netflix, Inc.,” *International Directory of Company Histories*, ed. Derek Jacques and Paula Kepos, vol. 115 (Detroit: St. James Press, 2010): 350.

<sup>10</sup> *Ibid.*

<sup>11</sup> *Ibid.*

<sup>12</sup> *Ibid.*, 351.

In 1999, the company launched its signature subscription service, “offering unlimited DVD rentals for one low monthly price,” and in 2000, Netflix introduced its “personalized movie recommendation system,” which claimed to “use Netflix members’ ratings to accurately predict choices for all Netflix members.”<sup>13</sup> By the end of the year, Netflix had a content library comprised of over 7,000 titles and a subscriber base of 250,000.<sup>14</sup>

In 2002, Netflix reached 600,000 subscribers and made its initial public offering (IPO) on the Nasdaq stock market;<sup>15</sup> by 2003, its service had over one million subscribers.<sup>16</sup> In September of 2004, Netflix partnered with TiVo, a digital video recorder (DVR) service, to develop an online streaming service,<sup>17</sup> though Netflix did not officially introduce its streaming service until 2007.<sup>18</sup> This service allowed subscribers to choose from roughly 1,000 titles to stream and gave subscribers 6 to 18 hours of streaming time per month, depending on subscription plan.<sup>19</sup> However, even as executives at the company promoted this new feature, they downplayed its potential success. When discussing the newly-launched service with *The New York Times*, Netflix CEO Reid

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<sup>13</sup> Netflix, “Netflix Timeline,” *Netflix Media Center*, <https://media.netflix.com/en/about-netflix>.

<sup>14</sup> Uhle and Meyer, “Netflix, Inc.,” 352.

<sup>15</sup> “Netflix Timeline.”

<sup>16</sup> Uhle and Meyer, “Netflix, Inc.,” 354.

<sup>17</sup> *Ibid.*

<sup>18</sup> “Netflix Timeline.”

<sup>19</sup> Netflix. “Netflix Offers Subscribers the Option of Instantly Watching Movies on Their PCs,” *Netflix Media Center*, January 16, 2007, <https://media.netflix.com/en/press-releases/netflix-offers-subscribers-the-option-of-instantly-watching-movies-on-their-pcs-migration-1>.

Hastings claimed, “The [streaming] market is microscopic...DVD is going to be a very big market for a very long time.”<sup>20</sup>

Even so, the company continued to explore the potential role of new technologies in the future of its business plan; between 2007 and 2010, Netflix partnered with companies to offer its service on the Xbox 360, Blu-ray players, TV set-top boxes, the PlayStation 3, the iPad, the iPhone, the iPod Touch, the Nintendo Wii, and other various Internet-connected devices.<sup>21</sup>

By 2010, Netflix had realized the essential role of platform evolutions for its continued progress. At this point, Netflix’s streaming service had surpassed its DVD service in popularity. In the fourth quarter of 2010, the company admitted, “[W]e expect year-over-year shipments to decline in the coming quarters...we think the bulk of the remaining video store customers will tend to visit kiosks for \$1-a-day DVDs, and they will get streaming from Netflix.”<sup>22</sup> This rise in the streaming service’s popularity came at the same time the company decided to begin expanding outside of the United States.

This launch was the next step in a rapidly expanding company’s quest for global dominance. Between 2009 and 2010, the company saw a net growth of 7.7 million subscribers, increasing its subscriber numbers from 12.3 million subscribers to 20.01 million subscribers, which was a steep increase in net subscriber growth compared to the 2007-2008 and 2008-2009 growth periods (which saw net subscriber growths of 1.9

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<sup>20</sup> Miguel Helft, “Netflix to Deliver Movies to the PC,” *New York Times*, January 16, 2007. <http://www.nytimes.com/2007/01/16/technology/16netflix.html>.

<sup>21</sup> “Netflix Timeline.”

<sup>22</sup> *Ibid.*, 3.



million subscribers and 2.9 million subscribers, respectively).<sup>23</sup> The company deemed this period as one of “acceleration,” which would eventually be followed by a projected period of “steady net additions,” and then a projected period of “shrinking net additions,” which would slow to match gross domestic product (GDP) and population growth in the United States.<sup>24</sup> Through this subscriber growth model, Netflix would eventually reach a point where they could no longer significantly grow their subscriber base domestically. The company knew that if it wanted to continue expanding its subscriber base, it would have to look for a new pool of potential subscribers to draw from. Therefore, the company began expanding its potential subscriber pool. Starting with Canada in 2010, the company expanded its operations to include Latin America and the Caribbean (2011), Europe (2012-2015), Australia (2015), New Zealand (2015), and Japan (2015).<sup>25</sup> In 2016, Netflix announced it was launching in “more than 130 new countries,” making the service available in every country worldwide except for China, Crimea, North Korea, and Syria.<sup>26</sup>

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<sup>23</sup> Netflix. “Q4 2010 Letter to shareholders and financial results,” *Netflix Investor Relations*, January 26, 2011, 2, <http://files.shareholder.com/downloads/NFLX/5415537477x0x437075/925E81C4-3D5D-44B6-AE5E-A70C91251131/Q410%20Letter%20to%20shareholders.pdf>.

<sup>24</sup> *Ibid.*

<sup>25</sup> “Netflix Timeline.”

<sup>26</sup> Netflix, “Netflix is Now Available Around the World,” *Netflix Media Center*, January 6, 2016, <https://media.netflix.com/en/press-releases/netflix-is-now-available-around-the-world>.

## LITERATURE REVIEW

This thesis primarily intersects with three bodies of scholarship: global media flows, global television studies, and post-network television studies. Although Netflix offers both television and film content and has been positioned as both a television distributor/producer and a movie distributor/producer,<sup>27</sup> in this analysis I discuss Netflix's role as a television service. Netflix itself provides precedent for this conceptualization of the service. The company's investor relations website states, "Starting back in 2011 we started saying that HBO would be our primary long-term competitor, particularly for content."<sup>28</sup> HBO, a cable channel, provides both television and film content, yet historically has been considered a television channel. As Netflix directly compares itself to HBO, I believe it can be regarded as a television service.

Within the scholarship on global distribution flows, I primarily build on two works: "The DVD region code system: Standardizing home video's disjunctive global flows" by Evan Elkins and "Rethinking International TV Flows Research in the Age of Netflix" by Ramon Lobato. Elkins' article analyzes the DVD region code system, discussing how it helped shape media markets and international distribution flows. Lobato's article examines how Netflix's international digital catalogues can be analyzed and connected to larger debates on global media flows. Both articles provide insight into the distribution patterns that helped Netflix shape its global distribution operations.

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<sup>27</sup> For further discussion on Netflix's complicated role in the film industry, see Chris Lee's article "Why Are Academy Voters So Pissed Off About Netflix's Oscar Prospects?"

<sup>28</sup> Netflix, "Top Investor Questions," *Netflix Investor Relations*, accessed April 28, 2018, <https://ir.netflix.com/top-investor-questions#fcq-106>.

Although the articles approach international distribution flows from two different technological eras (the DVD era and the streaming era), incorporating both eras into my analysis allows me to fully situate how the history of international distribution flows affected Netflix's position within the international market, as both eras directly influenced Netflix's international expansion strategies.

The work I engage with in global television studies can be divided into two main subcategories: Canadian television studies and Brazilian television studies. In Canadian television studies, I primarily build on the work of Serra Tinic. Her book *On Location: Canada's Television Industry in a Global Market* is a foundational text in Canadian television studies. The book examines the relationship between television production and preexisting structures in Canada (i.e., the Canadian economy and the Canadian government). I use her work to contextualize the television market in Canada so I can discuss how Netflix fit into the market's preexisting structures and how those structures shaped Netflix's Canadian presence.

In Brazilian television studies, I primarily build on the work of Joseph Straubhaar. His scholarship looks at localization, regionalization, and nationalization in the global television industry, though his work mostly focuses on Brazil. The discussion of localization, regionalization, and nationalization within the television industry from his book *World Television: From Global to Local* is particularly useful to my research, as I examine how Netflix interacted with the local, regional, and global structures he discusses. I also use his scholarship on the industrial structures within the Brazilian television industry to contextualize Netflix's role in the Brazilian market.

Within post-network era television scholarship, I primarily build on Amanda Lotz's work. Her book *The Television Will be Revolutionized* outlines the characteristics of the current post-network era of television. Understanding the main attributes of this era allows me to situate streaming services' place within the larger television landscape. Lotz's book discusses changing practices in television production, storytelling, and audience measurement within the post-network era. I build on her foundation by expanding on her discussion of content curation practices within the post-network era, focusing more explicitly on the relationship between streaming services and content curation practices. I also use discussion of the relationship between audiences and content in the post-network era to contextualize the relationship between Netflix and its audiences. Furthermore, I expand on Lotz's discussion of audience measurement by analyzing how new audience measurement currencies translate to global strategy decisions.

*Portals: A Treatise on Internet-Distributed Television*, another book by Lotz, explores channels of online distribution (which she dubs "portals") as the next stage in the evolution of television channels. In this context, Netflix is defined as a portal. I use Lotz's analysis of portals as the next generation of television objects to better understand Netflix's role within the greater television industry. The discussion of content curation practices she began in *The Television Revolutionized* is continued in *Portals*, which examines how content curation practices function within the new portals industry. *Portals* also discusses how portals affect audiences' interaction with television content. I use this discussion to contextualize how Netflix's internal structures affect its ability to globalize.

## THEORETICAL FRAMEWORK

This thesis utilizes frameworks developed in two fields of scholarship: critical media industry studies and global media studies. My analysis of Netflix's global expansion exists at the intersection of at these two areas of study; therefore, it is imperative I use both frameworks to situate my analysis.

Timothy Havens, Amanda Lotz, and Serra Tinic lay out the framework for critical media industry studies in the article "Critical Media Industry Studies: A Research Approach." They see this article as "provid[ing] a general framework for the nascent yet growing body of work that locates industry research on particular organizations, agents, and practices within vast media conglomerates operating at a global level."<sup>29</sup> This thesis examines contexts situated within the parameters Havens, Lotz, and Tinic outline here. Specifically, my work examines some of these institutional sites, including sites of production practices, distribution, and marketing. My examination of these institutional sites will also emphasize the contradictions that occur at these sites and how these contradictions affect discourse on audiences.

Within critical media industry studies, I primarily draw from Lotz's use of critical media industry studies in *Portals: A Treatise on Internet-Distributed Television*. In *Portals*, Lotz uses critical media industry studies to examine framing devices specific to the portals industry. Therefore, my thesis uses the macro-level concepts outlined in "Critical Media Industry Studies," such as its goal to "provide a research framework that

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<sup>29</sup> Timothy Havens, Amanda D. Lotz, and Serra Tinic, "Critical Media Industry Studies: A Research Approach," *Communication, Culture & Critique* 2 (2009): 234, <https://doi.org/10.1111/j.1753-9137.2009.01037.x>.

further understandings of how [institutional and cultural] contradictions work within actual practices and, more importantly, what the implications these practices—and the texts they generate—hold in terms of larger social and cultural processes of representation and power,”<sup>30</sup> alongside applications of the framework specific to the portals industry as outlined in *Portals*.

Within global media studies, I rely on two framing devices: transnational cultural-linguistic markets and glocalization. Straubhaar defines transnational cultural-linguistic markets as “markets that are less than global but more than national, based on both geography and cultural-linguistic identity groupings.”<sup>31</sup> This framing device is essential to examining how Netflix staged its international roll-out. I use transnational cultural-linguistic markets to both analyze how Netflix segmented the world for its own purposes and segment my own analysis in order to chronologically trace Netflix’s expansion flows. Glocalization is defined by Roland Robertson as a reframing of the economic concept of “micro-marketing: the tailoring and advertising of goods and services on a global or near-global basis to increasingly differentiated and particular markets.”<sup>32</sup> I use glocalization to frame Netflix’s positioning strategies. While Netflix’s initial expansion strategies involved viewing international markets through an Americanized lens (i.e., they used U.S.-centric positioning strategies), the company’s eventual shift in positioning strategies was influenced by glocalization; that is, as the company expanded internationally, their

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<sup>30</sup> Ibid., 249.

<sup>31</sup> Joseph D. Straubhaar, “Creating Global, U.S., and Transnational Television Spaces,” *World Television: From Global to Local* (Thousand Oaks: Sage Publications, 2007), ProQuest edition.

<sup>32</sup> Roland Robertson, “Glocalization: Time-Space and Homogeneity-Heterogeneity,” *Global Modernities*, ed. Mike Featherstone, Scott Lash, and Roland Robertson (London: Sage Publications, 1995), 28.

positioning techniques became more glocalized. Glocalization also allows me to examine how local market needs shifted between markets and how Netflix chose to respond (or not respond) to said needs.

## **METHODOLOGY**

To answer my research questions, I will conduct a discourse analysis of industry documents, trade press articles, and popular press articles. The investor documents include annual/quarterly reports, investor letters, investor questions and written responses, transcripts of quarterly earnings calls, and press releases. The annual and quarterly reports reveal concrete data showing the relationship between larger market segments and the services' finances. These reports also include analyses of the financial data, which explains some of the relationships between segments and financial outcomes. The investor letters explain business decisions made within the past quarter or fiscal year and discuss future directions the company hopes to pursue. Similarly, the investor questions and written responses include general information about the services' business plans, discussions of past business decisions, and discussions of future goals. The transcripts of quarterly earnings calls show the CEO, CFO, CCO, and other leaders confronted with questions on specific decisions, which further explain quarterly results. The press releases are used to positively position the company's developments (e.g., market expansions and content announcements). The investor documents provide a significant amount of information that cannot be found elsewhere, but it is important to

remember that this information is limited because it is first filtered through the company and comes from documents that function as PR materials.

Trade press articles introduce a more diverse range of perspectives on issues within discourse on audiences, although the sources trade press authors limit the diversity of these perspectives. While the materials coming from investors introduce a limited perspective, as they are filtered through the lenses of the SVOD services, trade press articles, while still somewhat filtered through the SVOD lens (due to employee non-disclosure agreements, restricted spokespeople-journalist interactions, etc.), have a less limited perspective than industrial materials. Allie Kosterich and Philip Napoli observed that trade sources

...must, of course, be used with an awareness of their inherent limitations and biases. Thus, for instance, industry trade publications may not provide the most objective reporting of industry developments and their implications, given their position relative to the industry's key organizations and personnel. The positions that the trade publications of different industry sectors take toward specific industry or technological developments can reflect the best interests of these different sectors. Such tendencies need to be taken into account when analyzing these data sources. Nonetheless, industry trade reporting and materials provide a window into industry dynamics and developments that serve as a useful entry point for analyzing the institutionalization process.<sup>33</sup>

Although trade press sources have some inherent biases, the benefit of the insight these sources provide make them a vital source for industry study.

Popular press articles are useful for gaining a sense of market conditions.

Although the popular press is not as closely connected to industrial sources as the trade

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<sup>33</sup> Allie Kosterich and Philip M. Napoli, "Reconfiguring the Audience Commodity: The Institutionalization of Social TV Analytics as Market Information Regime," *Television & New Media* 17, no. 3 (2015): 264.



press, the popular press' distance from industrial sources results in popular press articles containing fewer industrial biases than trade press articles. While trade press authors rely heavily on industrial sources, popular press authors rely on a more diverse variety of sources, as popular press articles are less focused on industrial conditions than trade press articles. Trade press articles are interested in examining industrial actions, while popular press articles are more interested in examining the conditions in which those industrial actions occur. For example, while a trade press article would be more likely to focus on Netflix's strategy for entering a new market, a popular press article would be more likely to focus on reactions to Netflix's entry from people within the new market. I use popular press articles to contextualize the markets with which Netflix interacts.

## **CHAPTER OUTLINES**

In addition to this introductory chapter, the thesis will also include three body chapters and a concluding chapter. The first chapter ["North American Market Growth (first wave expansion, 2010-2011)"] provides an overview of Netflix's initial entry into international markets, which began with the company's 2010 expansion into Canada. The company utilized the same marketing and positioning strategies that helped it succeed in the U.S. market and ultimately deemed the Canadian venture successful as well. Within this market, Netflix also entered its first foreign language market, Francophone Canada. After Netflix deemed these expansions successful, the company decided to expand its international operations. This chapter will explore Netflix's approach to Canada, highlighting how the company relied on the same positioning strategies it used to become

successful in the United States, how it addressed challenges with positioning in regard to its Canadian Francophone expansion, and how its perceived success in these markets set up its Latin American launch. This chapter introduces three key points: 1) Netflix's positioning practices blurred international borders between the United States and Canada while publicly overlooking cultural-linguistic borders between Anglophone Canada and Francophone Canada; 2) Netflix's U.S.-centric strategies are consistent with preexisting trends in international television distribution; and 3) external forces (i.e., the U.S. trade press, the U.S. popular press, Canadian users, and the Canadian government) supported Netflix's use of U.S.-centric positioning techniques.

The second chapter ["Market Issues in Latin America (second wave expansion, 2011-2013)"] examines Netflix's Brazilian launch. Instead of repeating the one country test strategy outlined in the first chapter, Netflix decided to grow into a regional market comprised of many countries. The regional market it entered was "Latin America," which the company defined as being comprised of 43 countries, in 2011. This chapter uses Brazil as a case study for the larger market due to its estimated market potential at the time of launch and its unique position in Latin America's transnational cultural-linguistic market. Additionally, Netflix launched in Brazil a week earlier than in other countries in the region, making Brazil Netflix's first official market expansion outside of North America. This chapter examines how Netflix's continued use of U.S.-centric strategies (such as filling its content library primarily with U.S. English-language titles) caused Netflix to stumble in its Brazilian launch. As a result, Netflix had to adjust its positioning strategy. It could not be just a U.S. company in Brazil; it had to become a company that

was also for Brazilians. I explore the issues Netflix faced in Brazil and how it adjusted its positioning strategies from U.S.-centric to glocalized to address the issues it faced in the market. I also address how discussions of Netflix's problems in Brazil can be limited due to the availability of investor, marketing, and press materials. This chapter introduces four key points: 1) Netflix chose to use its U.S.-centric positioning strategies in Brazil because data (i.e., quantifiable successes in the U.S. and Canadian markets' subscriber numbers) indicated that these were effective positioning strategies; 2) Netflix's reliance on these strategies limited its ability to effectively grow its presence in Brazil; 3) as a result, Netflix found it had to tailor its positioning strategies to adapt to this market; and 4) discussions of Netflix's struggles in Brazil are limited in American Anglophonic contexts because Netflix minimized the issues it faced in Brazil in its investor and marketing materials; additionally, inherent biases within the U.S. trade and popular presses enabled this minimization.

The third chapter ["Original Programs as Market Responses (third wave expansion, 2013-2018)"] examines how Netflix used original programming in the restructuring of its international positioning strategies. The chapter provides a history of Netflix's use of original programming before shifting its focus to Netflix's use of original programming in Brazil to address the market problems outlined in chapter two. This discussion focuses on two original programs Netflix used to address the problems outlined in chapter two: *Narcos* (2015-) and *3%* (2016-). Both programs used glocalization techniques to target the Brazilian market; however, while *3%* was advertised as Netflix's first original Brazilian series, *Narcos* was advertised as a "global"

series with Brazilian elements incorporated. Through my analysis of these series, I introduce three key points: 1) Netflix used original productions to appeal to consumers across multiple markets, which involved negotiating the tension between expanding its appeal to local audiences and making sure its content could effectively circulate in multiple territories; 2) Netflix's growing investment in original productions signaled a shift in positioning strategies from U.S.-centric positioning to glocalized positioning; and 3) although Netflix began using original content investments to glocalize its positioning strategies, the company retained some of its U.S.-centric positioning strategies.

Finally, my conclusion will address Netflix's shift in positioning strategies. In this section I discuss what this shift signals about Netflix's business plan moving forward. Additionally, I suggest potential avenues for future study of Netflix's international expansion.

## **Chapter 1: North American Market Growth (First Wave Expansion, 2010-2011)**

### **INTRODUCTION**

On July 19, 2010, Netflix publicly announced its intention to expand its streaming service into the Canadian market, marking Netflix's first foray beyond the United States. The company noted, "We chose Canada because it forms a great validation market for us in terms of pure streaming. Our future international streaming-only investments will be dependent on our learning in Canada."<sup>34</sup> Netflix appeared to see Canada as a key market for determining the company's future in international markets. Additionally, Netflix saw its Canadian expansion as a testing ground for its streaming service's future role within the company. Canada was essential to Netflix's global future and its streaming future, the latter of which was essential to Netflix's continued growth in the U.S. market as well as its potential growth in international markets. There is a historical precedent for companies viewing the U.S. and Canada media markets as one homogenous market, even though there are cultural differences between these two markets that bring into question this vision of homogeneity (e.g., the Canadian francophone population). Although this vision of homogeneity can be debated, Netflix seemingly chose to ignore those debates, instead continuing in the marketing tradition of viewing Canada as an expansion of the U.S. market. In my examination of Netflix's Canadian expansion, I will discuss three key points. First, I have found that Netflix's positioning practices blurred international

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<sup>34</sup> Netflix, "Netflix Announces Q2 2010 Financial Results, *Netflix Investor Relations*, July 21 2010, <https://ir.netflix.com/static-files/83e850a5-a41e-4776-bfd0-cf6af989fa2c>.

borders between the United States and Canada and largely ignored cultural-linguistic borders between Anglophone Canada and Francophone Canada. Second, I found that Netflix's U.S.-centric strategies are consistent with preexisting trends in international television distribution. Finally, I found that external forces (specifically, the U.S. trade press, the U.S. popular press, Canadian users, and the Canadian government) supported Netflix's use of U.S.-centric positioning techniques.

## FRAMEWORK

This chapter uses framework established in Amanda Lotz's book *Portals: A Treatise on Internet Distributed Television* to examine Netflix's U.S.-centric approach to their Canadian launch. In *Portals*, Lotz states,

As the use of the subscriber-only revenue model has grown more prevalent among internet-distributed media, it has become necessary to theorize the specificities of subscriber-funded media as well as their use in the context of the affordances internet distribution allows...There are few precedents in and limited theorizing of media using a subscription-for-library-access model despite origins of this model that date to the circulating libraries of the 1700s.<sup>35</sup>

This quote demonstrates the need for a new framework to best encompass the changes brought about by a new era of television. Although this framework can be used to study multiple elements of subscriber models that should be analyzed in light of the growth of portals (which she defines as "the crucial intermediary services that collect, curate, and distribute television programming via internet distribution"<sup>36</sup>), this section of my thesis

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<sup>35</sup> Amanda Lotz. "A Model for the Production of Culture: The Subscriber Model," *Portals: A Treatise on Internet Distributed Television* (Ann Arbor: Michigan Publishing, 2017), <http://dx.doi.org/10.3998/mpub.9699689>.

<sup>36</sup> Amanda Lotz. "Introduction," *Portals: A Treatise on Internet Distributed Television*.

aligns with one particular element of her analysis: bundling. On bundling, Lotz states, “[T]he portal strategy of collecting goods in a library is a response to heterogeneous taste, the risk averseness of audiences to paying to try new programs, and the marketing costs of transacting single goods.”<sup>37</sup> All three of the arguments I have put forth here build on Lotz’s conceptualization of portals’ content building strategies, with one modification. Although Lotz argues bundling practices are responses “to heterogeneous taste,” my arguments build on the idea that bundling practices are responses to *perceived* “heterogenous taste.” That is, Netflix’s approach to the Canadian market is a response to the previously established perceived vision of homogeneity. Additionally, Netflix’s approach to Canada as an extension of the U.S. market builds on previously established media flows and consumer tastes; American media has historically been popular with Canadian audiences.<sup>38</sup> Understanding Netflix’s approach within Lotz’s framework allows me to examine how the company emphasized its “Americanness” as it began building its presence in Canada.

In addition to Lotz’s work, this chapter also utilizes Joseph Straubhaar’s discussion of geocultural regions and transnational cultural-linguistic markets within global television distribution flows. He identifies cultural-linguistic and geocultural television markets as being unified by language, history, religion, ethnicity, and culture, which is defined as “(1) shared identity, gestures, and nonverbal communication; (2)

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<sup>37</sup> Lotz. “A Model for the Production of Culture.”

<sup>38</sup> Charles Acland and Ira Wagman, “Canada,” *Global Internet TV Consortium*, May 2017, <https://global-internet-tv.com/netflix-country-reports/canada/>.

ideas of what is considered funny or serious or even sacred; (3) clothing styles; (4) living patterns; and (5) climate influences and other relationships with the environment.”<sup>39</sup> He observes that in these regions, “regional cultural industries have been selling to regional cultural markets based on language, religion, ethnicity, colonial heritage, historical roots, and so on, for hundreds of years.”<sup>40</sup> This framing device is essential to understanding how the U.S. and Canadian markets work together, which will be discussed in more depth throughout the following sections. I will use Lotz and Straubhaar’s frameworks together to understand the industrial and global structures affecting Netflix’s Canadian expansion efforts, allowing me to understand how Netflix operated within these structures and how these structures helped shape Netflix’s service in Canada.

## **WHY CANADA?**

Canada is a valuable case due to its status as Netflix’s first international market and the country’s close cultural proximity to the United States. When Netflix was considering potential markets to use as their first foreign point of entry, Hastings jokingly referred to the Canadian market as “international lite.”<sup>41</sup> Although Canada has a diverse cultural make-up containing many differences from the United States’ cultural make-up, such as the country’s significant French-speaking population, the company chose to publicly overlook those difference. Instead, the company appeared to focus on Canada as

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<sup>39</sup> Joseph D. Straubhaar, “Creating Global, U.S., and Transnational Television Spaces,” *World Television: From Global to Local* (Thousand Oaks: Sage Publications, 2007), ProQuest edition.

<sup>40</sup> Ibid.

<sup>41</sup> Gina Keating, “Netflix drops a few hints on global expansion,” *Reuters*, January 27, 2010, <https://www.reuters.com/article/netflix-international/corrected-update-1-netflix-drops-a-few-hints-on-global-expansion-idUSN2711722220100128>.



a slightly modified version of the U.S. market. When Netflix officially launched in Canada on September 22, 2010, the company confirmed, “[T]he Netflix Canadian service will initially be available in English only,” but added, “it expects to add French language capability over time,” although no specific timeframe was provided for the addition of the French service.<sup>42</sup> In the press release announcing the Canadian launch, Netflix touted the “thousands of movies and TV shows” Canadian customers had to choose from, emphasizing their Canadian licensing agreements with American studios Lionsgate, MGM Studios, Paramount Pictures, Sony Pictures Entertainment, Twentieth Century Fox, and Universal Pictures, as well as Canadian distributors Alliance Films, Maple Pictures, eOne, and Mongrel,<sup>43</sup> which the company presented as being licensing deals made specifically with the Canadian market in mind. The press release mentioned 10 movies and 13 television shows that would be available to the Canadian audience by name in attempt to showcase the quality and specificity of content being offered. Of the 23 titles, 16 were U.S. productions, four were U.K. productions, and three were Canadian productions. This inventory of content aligns with the idea that Netflix approached the Canadian market as a modified version of the American market, as the majority of the content was from the United States. Furthermore, a report published in 2012, the year after Netflix’s initial launch year (2010-2011) in Canada, found “only 3 percent of feature

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<sup>42</sup> Netflix, “Netflix Launches Canadian Service for Streaming Movies and TV Episodes Over the Internet,” *Netflix Media Center*, September 22, 2010, <http://multivu.prnewswire.com/mnr/netflix/46101/>.

<sup>43</sup> *Ibid.*

films and 14 percent of TV content in the Canadian Netflix catalog were Canadian.”<sup>44</sup> The emphasis on American content in Netflix’s Canadian library is due in part to preexisting licensing deals Netflix had with these studios. However, not all studios that licensed content to U.S. Netflix expanded their licensing deals to include Canadian Netflix. For example, while CBS licensed programming to U.S. Netflix, the company did not initially license content to Canadian Netflix.<sup>45</sup> Furthermore, the company could have made an effort to license more Canadian content, but chose instead to build on its preexisting American licensing deals.

Restructuring borders to create audiences is not a new institutional practice. While much literature on Netflix audience constructions focuses on the practice of narrowcasting,<sup>46</sup> constructions of Netflix’s international markets also utilize widercasting<sup>47</sup> practices. The term “widercasting” was coined by Darcey Morris in 2014 to discuss the then state of the cable landscape. Morris defined “widercasting” as, “the process by which cable networks deviate from the narrowcasting that divided audiences in the multi-channel era and broaden programming in an attempt to attract more of a

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<sup>44</sup> Ramon Lobato, “Rethinking International TV Flows Research in the Age of Netflix,” *Television & New Media* 19, no. 3 (March 2018): 246, <https://doi.org/10.1177/1527476417708245>.

<sup>45</sup> Leena Rao, “Netflix Lands Licensing Deal With CBS For Canadian And Latin American Subscribers,” *TechCrunch*, July 27, 2011, <https://techcrunch.com/2011/07/27/netflix-lands-licensing-deal-with-cbs-for-canadian-and-latin-american-subscribers/>.

<sup>46</sup> For more on narrowcasting, see Smith-Shomade’s “Narrowcasting in the New World Information Order: A Space for the Audience?” Tryon’s “TV Got Better: Netflix’s Original Programming Strategies and Binge Viewing,” and Webster’s “Beneath the Veneer of Fragmentation: Television Audience Polarization in a Multichannel World.”

<sup>47</sup> Darcey Morris, “No More Niche—‘Widercasting’ and Cable’s Broad Move,” *Media Economies: Perspectives on American Cultural Practices*, ed. Marcel Hartwig, Evelyn Keitel, and Gunter Süß (Szczecin: Wissenschaftlicher Verlag Trier, 2014), 65-78.

general ‘mass’ audience.”<sup>48</sup> However, the practice has been a key component in industrial audience constructions for decades; it has just been referred to using different terminology to reflect different eras. For example, in “Television and Postmodernism,” published in 1992, Jim Collins coined the term “coalition audiences,” observing,

The emergence of ‘coalition audiences’ as a marketing strategy parallels the development of ‘coalition politics’ in contemporary political theory. Cultural industries and political activists both recognize the fragmentary nature of ‘the public’ and realize that effective mobilization of ‘public opinion’ is possible only through strategies of amalgamation.<sup>49</sup>

Both “widercasting” and “coalition audiences” refer to the practice of grouping viewers into larger audience constructions for marketing purposes. Netflix continues to utilize these practices, though in a slightly modified context, as Netflix exists within a new television landscape; Collins initially used “coalition audiences” to discuss broadcast network programming, and Morris used “widercasting” to discuss cable programming. Although the concept of widening audience constructions is important to this analysis, Collins and Morris’ framework must be considered in the portals landscape context outlined by Lotz.

Netflix’s audience amalgamation practices must also be considered in relation to work on audience measurement practices, such as in Philip Napoli’s work on this area, which examines how new technologies affect how television distributors measure audiences. In the article “Reconfiguring the Audience Commodity: The

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<sup>48</sup> Ibid., 66.

<sup>49</sup> Jim Collins, “Postmodernism and Television,” in *Channels of Discourse, Reassembled*, 2<sup>nd</sup> ed., ed. Robert C. Allen (Chapel Hill: The University of North Carolina Press, 1992), 343-344.

Institutionalization of Social TV Analytics as Market Information Regime,” Napoli and co-author Allie Kosterich highlight the importance of “the ongoing process of ‘intra-media’ fragmentation—fragmentation within individual platforms,”<sup>50</sup> that is, audience fracturing within platforms based on content interests. This article discusses how audience measurement systems have the potential to gather more information on viewers, allowing for the further fragmentation of audience conceptualizations by distributors (such as Netflix). Napoli and Kosterich also observe, “Any change in how a market information regime is calculated or produced, or any introduction of an alternative market information regime, can introduce substantial changes in organizations’ perceptions of a market’s dynamics and their performance within it.”<sup>51</sup> This establishes the idea that Netflix has the potential to prioritize newer narrowcasting practices in their constructions of audiences. Therefore, when Netflix chooses to utilize more traditional audience amalgamation practices (in the same vein as “coalition audiences” and “widercasting”), the company is making a conscious choice to group these audiences together for its own benefit.

Although the U.S. trade press, the U.S. popular press, and the Netflix positioning materials make explicit distinctions between the two services when discussing them (e.g., referring to “Netflix Canada” when discussing the Canadian expansion of the Netflix service), they will sometimes blend the two services into one after establishing their

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<sup>50</sup> Allie Kosterich and Philip M. Napoli, “Reconfiguring the Audience Commodity: The Institutionalization of Social TV Analytics as Market Information Regime,” *Television & New Media* 17, no. 3 (2015): 260.

<sup>51</sup> *Ibid.*, 255.

initial distinction by discussing “Netflix in North America.” Netflix does this in its earnings statement for quarter three of 2010 in a discussion of post-Canada expansion, stating, “[W]e would invest approximately \$50m for beyond-North-America expansion in the second half of 2011, and our addressable market would increase significantly...we plan to operate the very fast North American business with a 12% or better annual operating margin next year, independent of our possible beyond-North-America expansion.”<sup>52</sup> In this statement, Netflix refers to Canada and the United States as a combined “North American” market, allowing them to consider the markets in tandem and as a counter to other, outside markets. Trade and popular press outlets noticed this market combination and occasionally used it in discussions of the Canadian and U.S. markets. For example, a *Hollywood Reporter* article on Netflix acquiring the licensing rights for the U.K. television show *Being Human* in the United States and Canada features the title, “Netflix Licenses U.K. TV Show ‘Being Human’ for North America.”<sup>53</sup> Similarly, a *Slate* article discusses “peak home Internet usage hours in North America” in relation to Netflix service.<sup>54</sup> Interestingly, this construction of North America excludes Mexico, which is geographically classified as part of North America.<sup>55</sup> This again suggests that Netflix, the trade press, and the popular press are willing to ignore national

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<sup>52</sup> Netflix. “Q3 2010 Management’s commentary and financial highlights,” *Netflix Investor Relations*, October 20, 2010, 3, [http://files.shareholder.com/downloads/NFLX/5415537477x0x411049/157A4BC4-4CAD-4D7B-9496-B59006D73344/Q310\\_Management\\_s\\_commentary\\_and\\_financial\\_highlights.pdf](http://files.shareholder.com/downloads/NFLX/5415537477x0x411049/157A4BC4-4CAD-4D7B-9496-B59006D73344/Q310_Management_s_commentary_and_financial_highlights.pdf).

<sup>53</sup> Georg Szalai, “Netflix Licenses U.K. TV Show ‘Being Human’ for North America,” *The Hollywood Reporter*, October 6, 2011, <https://www.hollywoodreporter.com/news/netflix-licenses-uk-tv-show-245193>.

<sup>54</sup> Farhad Manjoo, “Will Netflix Destroy the Internet?” *Slate*, November 2, 2010, [http://www.slate.com/articles/technology/technology/2010/11/will\\_netflix\\_destroy\\_the\\_internet.html](http://www.slate.com/articles/technology/technology/2010/11/will_netflix_destroy_the_internet.html).

<sup>55</sup> “Mexico,” *The World Factbook*, Accessed April 27, 2018, [https://www.cia.gov/library/publications/the-world-factbook/geos/print\\_mx.html](https://www.cia.gov/library/publications/the-world-factbook/geos/print_mx.html).

borders when constructing Netflix's international markets, and further reaffirms that Netflix uses cultural similarities to draw new borders in these market constructions. While Mexico is geographically part of North America, Netflix, the trade press, and the popular press discuss Mexico as a part of Netflix's Latin American market, which, in addition to Mexico, is comprised of countries from Central and South America. This will be further explored in chapter two.

The conceptualization of Canada and the United States as one market is not a new idea. In "The DVD region code system: Standardizing home video's disjunctive global flows" Evan Elkins examines "how the region code helped institutionalize within digital home entertainment industries a conceptualization of the globe as a divisible series of regional markets—one that continues to inform digital media on an international level."<sup>56</sup> When DVDs emerged as the next evolution in distribution technology, Hollywood studios developed a region code system to maintain their control over movie releases: DVDs would only work in countries that were categorized in their same region, so the studios could control which countries were able to access a movie and limit the spread of movie piracy. The development of these codes resulted in the creation of a market hierarchy, as they "align[ed] certain territories together and mapp[ed] both a numerical ranking and a set of cultural and economic meanings onto these groupings."<sup>57</sup> For example, region one, comprised of Canada, the United States (and its territories), and

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<sup>56</sup> Evan Elkins, "The DVD region code system: Standardizing home video's disjunctive global flows," *International Journal of Cultural Studies* 19, no. 2 (2014): 226, <https://doi.org/10.1177/1367877914547300>.

<sup>57</sup> *Ibid.*, 227.

Bermuda, was referred to “the most ‘desirable’ [region] in the world” according to one trade report.<sup>58</sup> This report classified region one as the most “desirable” due to the region’s first-access to content and technological advancements occurring within the region. Historically, region one has received Hollywood content before the other regions because Hollywood is located in one, giving the region an elevated sense of importance. As both the United States and Canada exist within this region, they are regarded as being equal in status. Although Hastings’s reference to Canada as “international lite” was a joke, there was some truth behind his words. Netflix approached the Canadian market using U.S.-centric strategies due to the cultural similarities between the United States and Canada.

Elkins’ discussion of DVD region codes falls within Straubhaar’s geocultural regions and transnational cultural-linguistic markets framing device, as the region codes system utilizes linguistic and cultural markers in the construction of its markets. Additionally, the region codes system uses elements found in Lotz’s bundling construction. Instead of bundling content, however, the industry bundled countries to turn them into segments for marketing purposes. With both Straubhaar and Lotz’s frameworks, countries are transformed into market regions to help distributors control the flow of content.

However, although Netflix built on this history of packaging nations into markets to help the facilitation of transnational flows by treating the Canadian market as an extension of the U.S. market, some Canadian Netflix users believed Netflix did not do

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<sup>58</sup> Ibid.

enough to blend the two markets together. To these users, there was a very distinct difference between Netflix in the United States and Netflix Canada. As the next section explores, these users responded to the perceived distinction between the two Netflixs by blurring the borders between the countries themselves, making the U.S. version of Netflix a part of their Canadian landscape.

### INTERNATIONAL BORDERS

Netflix's limited content library in Canada was a major source of dissatisfaction for its Canadian users. By December of 2010, only three months after Netflix's Canadian launch, users were already complaining about the lack of available content online. One Canadian user posted, "I had heard about the U.S. version and was stoked we finally had Netflix in Canada. When I went to their site and checked the content offered to Canadians I was **immediately disappointed. Netflix sucks**, well the Canadian version at least"<sup>59</sup> (bolded in original). Other commenters agreed, stating, "You don't get nearly the same content you get if you were a USA citizen"<sup>60</sup> and "I agree, the Canadian version leaves something to be desired. My friend has a subscription and...he was able to access the U.S. version on his laptop. He was blown away by the difference in content available. I guess the question is, why does the Canadian version suck?"<sup>61</sup> The Canadian popular

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<sup>59</sup> Sustainable PF, "Netflix Sucks in Canada," *Sustainable Personal Finance* (blog), July 25, 2011, <https://sustainablepersonalfinance.com/netflix-sucks-canada/>.

<sup>60</sup> Miss T @ Prairie Eco-Thrifter, July 25, 2011 (9:49 a.m.), comment on Sustainable PF, "Netflix Sucks in Canada," *Sustainable Personal Finance* (blog), July 25, 2011, <https://sustainablepersonalfinance.com/netflix-sucks-canada/>.

<sup>61</sup> Echo, July 25, 2011 (10:49 a.m.), comment on Sustainable PF, "Netflix Sucks in Canada," *Sustainable Personal Finance* (blog), July 25, 2011, <https://sustainablepersonalfinance.com/netflix-sucks-canada/>.



press noticed users' disappointment with the service. An article by the Canadian Broadcasting Corporation (CBC; Canada's national public radio and television broadcaster) titled "Netflix hints at Canadian expansion success," stated, "[M]any consumers continue to gripe about the content selection on Netflix and the lack of newer titles to view."<sup>62</sup> When Netflix acknowledged these complaints, the company asserted, "[The lack of content] hasn't hampered retention or acquisition of members, those who have come on and complained about it stayed on."<sup>63</sup> As Netflix does not release itemized lists of its content libraries per market, it is difficult to find out how content between the U.S. market's library and the Canadian market's library compared in 2010. However, after 2010, users began compiling lists detailing the content in Netflix's content libraries by country. One such list, compiled in 2015, revealed that even five years after Netflix's Canadian launch, the Canadian library only had half the amount of content that the U.S. library had.<sup>64</sup>

In response to this content discrepancy, many Canadian users tricked their computers into believing they were in the United States by altering their virtual private networks (VPNs), allowing these users to gain access to the U.S. content library without actually being in the United States.<sup>65</sup> Canadian users discussed this practice in blog posts

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<sup>62</sup> The Canadian Press, "Netflix hints at Canadian expansion success," *CBC News*, 24 Dec. 2010, <http://www.cbc.ca/news/business/netflix-hints-at-canadian-expansion-success-1.872503>.

<sup>63</sup> *Ibid.*

<sup>64</sup> Peter Edwards and Joel Eastwood, "The list Netflix doesn't want you to see: How Canada really stacks up to the U.S. version," *The Toronto Star*, 22 Jan. 2015, <https://www.thestar.com/entertainment/2015/01/22/the-list-netflix-doesnt-want-you-to-see-how-canada-really-stacks-up-to-us-version.html>.

<sup>65</sup> Acland and Wagman, "Canada."

and comments sections on Netflix. One user who chose to alter their VPN justified their decision by saying, “Selection sucks, time to have a VPN in the usa [sic] so i [sic] can watch real netflixs [sic].”<sup>66</sup> This practice was also discussed openly in the Canadian popular press. In an article for *The Globe and Mail* (one such popular press source), “What’s a VPN, are they legal and does Netflix care Canadians use them?” authors Shane Dingman and Jeff Gray noted, “The open secret among Canadian Netflix subscribers is that the grass really is greener on the other side of the border. On just about any story we write about Netflix here at *The Globe and Mail* you will find that the first or second comment left by readers will be a variation of ‘Get VPN and you can watch U.S. Netflix!’”<sup>67</sup>

Initially, it appeared that Netflix was not concerned about this behavior as they would still receive users’ subscription fees even if users were tricking the system.<sup>68</sup> While Netflix eventually started taking steps towards preventing this VPN fraud since it could result in lawsuits by copyright owners of content,<sup>69</sup> it is important to note that an explicit effort towards addressing this issue did not arise until 2016. In the year of Netflix’s initial Canadian launch (2010-2011), Canadian newspapers featured articles “not-so-obliquely

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<sup>66</sup> 123, November 19, 2010 (12:51 p.m.), comment on Shelia Roberts, “NetFlix Canada Review, Is it Worth it?” *MoviesOnline* (blog), November 18, 2010, <http://www.moviesonline.ca/2010/11/netflix-canada-review-worth/>.

<sup>67</sup> Shane Dingman and Jeff Gray, “What’s a VPN, are they legal and does Netflix care Canadians use them?” *The Globe and Mail*, January 8, 2015, <https://www.theglobeandmail.com/technology/what-is-a-vpn-are-they-legal-and-whos-not-happy-canadians-are-using-them/article22363040/>.

<sup>68</sup> *Ibid.*

<sup>69</sup> Etan Vlessing, “Netflix Cracks Down on Canadian Proxy Access to U.S. Service,” *The Hollywood Reporter*, April 20, 2016, <https://www.hollywoodreporter.com/news/netflix-cracks-down-canadian-proxy-886056>.

encourage[ing] such practices by telling Canadians about these services,” which they regarded as a similar practice to the use of “‘grey market’ satellite dishes,” which allowed Canadian audiences to pick up U.S. channels not available in the Canadian television marketplace.<sup>70</sup>

By altering their VPNs to gain access to U.S. Netflix’s content library, Canadian users supported the practice of blurring the U.S.-Canada border. If the Canadian users could blur these borders, Netflix’s positioning practices in the same vein could be validated. The users were also utilizing bundling practices. Interestingly, although these users were bundling content outside of Netflix’s official channels, they were relying on the same homogenizing strategy Netflix used in its positioning strategies in Canada, further justifying Netflix’s reliance on U.S.-centric positioning strategies. However, not all Canadian users engaged in the practice of blurring borders.

While Netflix continued the tradition of combining the U.S. and Canada for international distribution purposes, and some users appeared to support this tradition (as evidenced by comments from Netflix Canada users), the market construction being used was flawed as it was based on the idea that the U.S. and Canada are nearly identical culturally. In this conceptualization of the U.S. and Canada as one homogenous space, a portion of Canadians are ignored: the Canadian Francophone population. Although the United States and Canada have been historically regarded as one transnational cultural-linguistic market, the linguistic component of this categorization contained barriers

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<sup>70</sup> Acland and Wagman, “Canada.”

complicating the flow of products between these two regions. In the next section, I will outline how Netflix's U.S.-centric practices publicly overlooked preexisting borders within Canada, and what this disregard for intranational borders suggested about Netflix's global positioning strategies.

### **CULTURAL-LINGUISTIC BORDERS**

Canada recognizes two official languages: English and French.<sup>71</sup> Previous scholarship on Canada has proposed that there are two conceptualizations of Canada: Francophone Canada and Anglophone Canada.<sup>72</sup> In discussions of Canadian broadcasting history, viewers are often split into anglophone audiences and francophone audiences, due to the established precedent for dividing these two populations. In 1952, the Canadian Broadcasting Corporation (CBC) had to place a second transmitter in Montreal so English-language and French-language programs could be separated into two stations.<sup>73</sup> Before the introduction of this second transmitter, the Montreal station split program time so half of the content the station broadcasted was in English while the other half was in French, which angered both audience segments.<sup>74</sup> When the programming was combined into one station, viewers felt "othered" when content in the language foreign to them was on; by creating a second station, both English-language and French-language audiences felt they had content that was for them.

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<sup>71</sup> "Understanding your language rights," Office of the Commissioner of Official Languages, accessed April 27, 2018, [http://www.officiallanguages.gc.ca/en/language\\_rights/act](http://www.officiallanguages.gc.ca/en/language_rights/act).

<sup>72</sup> See Verney (1986), Simpson (1990), and Kaplan (1994).

<sup>73</sup> Frank W. Peers, "A National Service," *The Public Eye: Television and the Politics of Canadian Broadcasting, 1952-1968* (Toronto: University of Toronto Press, 1979), 40.

<sup>74</sup> *Ibid.*, 31.

Netflix did not face the same limitations as the Montreal broadcast station when incorporating French-language content, as Netflix does not need to address the traditional temporal issues that broadcast stations face (i.e., scheduling). While Netflix's lack of time constraints on programming could have led to a model similar to the two-transmitter result (where both Anglophone and Francophone audiences felt ownership of a channel), Netflix's lack of incorporation of French-language content excluded Francophone users. Although Francophone Canadians identify as "Canadian," they see their identity as being somewhat separate from that of English Canadians. The separation between Anglophone Canadians and Francophone Canadians is also reflected within the country's policy frameworks. Starting in the late 1960s with the formation of the Parti Québécois (a Quebec nationalist political party), many Canadian Francophones have advocated for a secession from Canada, citing their cultural differences as a reason to assert their independence from Anglophone Canada.<sup>75</sup> Although no formal separation occurred, Quebec politics are still viewed as somewhat separated from anglophone Canadian politics. For example, while the nine other provinces in Canada have legal systems based off British Common Law, Quebec's legal system is based off France's civil code, which creates differences between Quebec's laws and laws in the other nine provinces.<sup>76</sup> These legal differences do not impact Netflix's viability in Canada, but they establish a

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<sup>75</sup> William Lewis Morton, David J. Bercuson, and Roger D. Hall, "Quebec separatism," *Encyclopaedia Britannica*, accessed April 13, 2018, <https://www.britannica.com/place/Canada/Quebec-separatism>.

<sup>76</sup> "Quebec: Government and Society," *Encyclopaedia Britannica*, accessed April 13, 2018, <https://www.britannica.com/place/Quebec-province/Government-and-society>.

separation between the two groups, reinforcing the cultural separation between anglophones and francophones in Canada.

Serra Tinic explores the issue of separation between “English Canada” and “French Canada” in relation to Canada’s television industry in chapter three of her book *On Location: Canada’s Television Industry in a Global Market*, “The Politics of ‘Space’ and ‘Place’: Mandating ‘National’ Identity in Canadian Media Policy.” As she observes in her examination of the Juneau Report (a government task force set up to explore the relationship between broadcasting and Canadian cultural policy), “the CBC could not ‘be truly national if it is not rooted in the regions.’”<sup>77</sup> Canada’s official television broadcaster could not be a “Canadian” television service if it only acknowledged Anglophone Canada; to be fully representative of Canada, both Anglophone Canada and Francophone Canada had to be acknowledged. When considered in the context of transnational cultural-linguistic markets, Tinic’s exploration of English Canada-French Canada suggests that there is space to break down Straubhaar’s transnational cultural-linguistic construction to better understand the elements that comprise these markets. To better understand the market, the elements of the market must be understood. However, fully understanding a market is not essential to finding financial success within the market.

Netflix did not feel a need to represent an authentic version of Canada, as the company treated it as an extension of the U.S. market. When Netflix introduced French-language capabilities to its Canadian service in mid-2011, little fanfare occurred. A press

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<sup>77</sup> Serra Tinic, “The Politics of ‘Space’ and ‘Place’: Mandating ‘National’ Identity in Canadian Media Policy,” *On Location: Canada’s Television Industry in a Global Market* (Toronto: University of Toronto Press, 2005), 72.

release was not written about the addition, nor were there trade or popular press articles written about the addition. In investor documents, the company only mentioned the addition once, in its letter to investors in the second quarter of 2011. The statement the company made on the addition was, “We recently launched Canadian French support for our service, and Netflix looks great, of course, in French,” followed by a picture of the Netflix homepage in French (see Figure 1).<sup>78</sup> Introducing more French language content into Netflix’s Canadian library was not discussed. Instead of treating this expansion as a cultural expansion, the company treated the addition of this service as a technical update. By doing so Netflix publicly eschewed the reality of Canadian identity. Instead, the company relied on preexisting international distribution models which allowed the company to group Canadian identity in with American identity. Although this practice had historical precedent, it did not fully capture the reality of Canada’s cultural landscape.

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<sup>78</sup> Netflix, “Q2 2011 Letter to shareholders,” *Netflix Investor Relations*, July 25, 2011, <https://ir.netflix.com/static-files/9a40ab76-8608-44b9-b9bf-aac5061ebd17>.



Figure 1: The image of Netflix’s website in French included in the company’s second quarter investor letter.

In chapter one of *On Location*, “Local Cultures and Global Quests,” Tinic asserts,

[W]e can no longer discuss national identity as a simple concept of unification; instead we must consider it as a process of both *inclusion* and *exclusion*. In other words, we cannot assume that communities are neatly bounded, or cohesive, cultural entities. Instead, we must examine the competing cultural tensions within regions and nations in order to better understand how communities are formed within a context of ethnic, economic, and political diversity.<sup>79</sup>

By overlooking Canada’s intranational borders between Anglophonic and French Canadians, Netflix could not position its service using Canadian-centric strategies because the company had already chosen to reject structures essential to defining Canadian identity.

<sup>79</sup> Tinic, “Local Cultures and Global Quests,” *On Location: Canada’s Television Industry in a Global Market*, 7.



Following suit, the U.S. trade press also ignored Canada's intranational borders. For example, in Brendan Kelly's *Variety* article "Canada nixes Netflix levy," which discusses the legal ruling that stated Netflix did not have to follow broadcasting rules requiring financial support of local programming, francophone programming is not mentioned; instead, the article focuses on one identity of the anglophone "Canadian producer" and anglophone "Canadian programming." These cultural struggles are inherently Canadian, and as such, the U.S. popular press did not cover them, most likely due to the additional background knowledge that would need to be provided to readers in order to explain the context. In contrast, the Canadian popular press addressed the language issue,<sup>80</sup> though discussions of it were contained in the larger context of broadcasting issues.

The rejection of Canadian identity in Netflix's positioning strategies is particularly pertinent to this case study due to Canada's broadcasting policies. As Tinic notes, "Canadian broadcasting policy has tended to emphasize cultural identity as a product that can eventually be achieved rather than a perpetual process of self- and group definition; and the establishment of some form of national identity has come to be seen as the last line of defence against the Americanization of Canadian television audiences."<sup>81</sup> The Canadian government put policies in place to protect its cultural heritage and preserve "Canadianness" on television. For example, when Canadian cable providers

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<sup>80</sup> For example, *CBC News*'s article on Netflix's Canadian launch announcement ("Netflix video-on-demand to launch in Canada") mentioned that Netflix initially only planned to provide their services in English but planned to add in French-language capabilities at a later date.

<sup>81</sup> Tinic, "Local Cultures and Global Quests," 21.

carried a U.S. station offering the same programming as a Canadian station, the cable providers were “required to replace the commercials on the foreign [U.S.] station with those of the Canadian signal.”<sup>82</sup> Even when U.S. channels were provided to Canadian audiences, the Canadian government tried to deliver a Canadian viewing experience to viewers watching the U.S. channels. The conceptualization of this Canadian experience ties into the complex definition of Canadianness outlined by Tinic rather than the simplified version of Canadianness presented in Netflix’s investor and marketing materials, the U.S. trade press, and the U.S. popular press. However, the Canadian government’s lack of regulation regarding Netflix enabled the company’s use of this simplified definition and its use of U.S.-centric positioning strategies. The next section will explore how the Canadian government’s response to Netflix enabled its U.S.-centric positioning strategies.

#### **CANADIAN CULTURAL POLICY**

When Netflix entered the Canadian market, Netflix’s official status within the market upset Canadian broadcasters and cable companies, as Netflix was not legally considered a broadcaster or cable company; as such, Netflix was able to circumvent regulations broadcasters and cable companies were required to meet.<sup>83</sup> At the time of Netflix’s entry, there were no services similar to Netflix’s streaming service in the country; the company’s biggest competitors were presented as Blockbuster Canada

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<sup>82</sup> David Skinner, “Television in Canada: Continuity or Change?” *Television and Public Policy: Change and Continuity in an Era of Global Liberalization*, ed. David Ward (New York: Lawrence Erlbaum Associates, 2008), 7.

<sup>83</sup> Acland and Wagman, “Canada.”

(which did not have a streaming presence in Canada<sup>84</sup>) and Rogers Communications (a Canadian cable provider).<sup>85</sup> Therefore, when Netflix entered the Canadian market, the Canadian government was not sure how to regard it. This resulted in a lack of regulation on the service. While Canadian broadcasters and cable companies are required to produce and air a set amount of Canadian content, SVOD services such as Netflix are exempt from these rules.<sup>86</sup>

In response to the lack of regulation on Netflix, leaders of Canadian broadcasting companies and cable companies joined together to form the “Over the Top Services Working Group.” The group’s goal was to convince the Canadian government to enact regulations on Netflix.<sup>87</sup> According to André Bureau, chairman of the board at Astral Media (a prominent Canadian Media corporation at the time that has since been acquired by Bell Canada Enterprises<sup>88</sup>), “The objective [for asking the government to regulate Netflix] is really, that from an industry point of view, that we maintain a level playing field within a system—a system that is a very positive and strong element in terms of our Canadian culture, identity, and the Canadian economy.”<sup>89</sup> Because the content

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<sup>84</sup> Daniel Tencer, “Blockbuster Shuts Down in Canada: Your Options for Renting Movies in the Post-Video Store World,” *Huffington Post Canada*, 1 Sep. 2011, [https://www.huffingtonpost.ca/2011/09/01/blockbuster-shuts-down-in\\_n\\_945485.html](https://www.huffingtonpost.ca/2011/09/01/blockbuster-shuts-down-in_n_945485.html).

<sup>85</sup> Susan Krashinsky, “Netflix to shake up Canadian industry,” *The Globe and Mail*, last modified March 26 2017, <https://www.theglobeandmail.com/report-on-business/netflix-to-shake-up-canadian-industry/article1376569/>.

<sup>86</sup> Acland and Wagman, “Canada.”

<sup>87</sup> Susan Krashinsky, “Broadcasters call for CRTC to regulate Netflix service,” *The Globe and Mail*, last modified March 26, 2017, <https://www.theglobeandmail.com/report-on-business/broadcasters-call-for-crtc-to-regulate-netflix-service/article4192329/>.

<sup>88</sup> “CRTC approves Bell-Astral merger,” *CBC News*, last modified June 27, 2013, <http://www.cbc.ca/news/business/crtc-approves-bell-astral-merger-1.1367433>.

<sup>89</sup> Krashinsky, “Broadcasters call for the CRTC to regulate Netflix service.”

restrictions Canadian broadcasters and cable companies must adhere to are meant to help promote Canadian content (and thus, Canadian culture), the Canadian broadcasters and cable companies lobbying for Netflix regulations promoted this issue as a cultural issue. Following suit, the Canadian outlets covering this story (e.g., *The Globe and Mail* and *The Toronto Star*) presented this issue as a cultural issue. The industrial side lobbying for regulatory changes was represented as hoping to protect the cultural integrity of the Canadian media market. For example, Norm Bolen, CEO of the Canadian Media Production Association and member of the Over the Top Services Working Group was quoted as saying, “[The regulations are] about ensuring that we continue to have a strong Canadian system that can finance Canadian content.”<sup>90</sup>

When Canadians began using satellite dishes in the 1980s to pick up U.S. satellite signals (allowing them to access U.S. programming), the Canadian federal government reshaped their communications policy so that “culture was clearly framed as an industry.”<sup>91</sup> This policy envisioned that cable providers would work to “provide a much-increased range of Canadian and foreign programming services to pull Canadian viewers back into the [Canadian] television system.”<sup>92</sup> However, as technology evolved, this policy did not evolve to incorporate new media platforms into this conceptualization of culture as an industry. The Canadian Radio-television and Telecommunications Commission (CRTC), which oversees regulation of this policy, created a new media

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<sup>90</sup> Ibid.

<sup>91</sup> Skinner, “Television in Canada: Continuity or Change?” 7.

<sup>92</sup> Ibid.

exemption order which allowed companies that fit the CRTC's definition of a "new media" platform (e.g., Netflix) to be exempt from the regulations broadcasters and cable providers were required to follow.<sup>93</sup> By not being legally required to promote Canadian content, Netflix was free to enact its U.S.-centric positioning strategies. If the company had been required to adhere to Canada's broadcasting policies, it would have needed to renegotiate its position within the region to incorporate "Canadianness" within its identity. However, by not being required to meet these broadcasting standards, Netflix could continue to preserve its "Americanness," allowing the company to continue treating Canada as an extension of the U.S. market. This strategy proved to be successful. As later articles (that is, those written after Netflix's initial 2010-2011 launch year) observed, Netflix has taken in an estimated \$300 million in tax-free revenue from its Canadian users without adding "meaningful contribution to the development of Canadian media culture."<sup>94</sup>

Recently, the Canadian government has begun making an effort to encourage Netflix to inject more Canadian identity into its services. In September 2017, the Minister of Canadian Heritage announced a deal between Netflix and the Canadian government for Netflix to "spend a minimum of \$500 million over five years on the production and

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<sup>93</sup> James Bradshaw, "How Netflix and Canada's broadcast regulator arrived at a deadlock," *The Globe and Mail*, last modified March 25, 2017, <https://www.theglobeandmail.com/report-on-business/how-netflix-and-canadas-broadcast-regulator-arrived-at-a-deadlock/article20741142/>.

<sup>94</sup> Acland and Wagman, "Canada."

distribution of Canadian movies and TV shows.”<sup>95</sup> The government intended this deal to generate growth in the cultural industry while also allowing Netflix to take on more of a Canadian identity. However, some have argued that the deal only benefits Netflix. In *The Globe and Mail*’s article “The Netflix deal is a very sweet deal for Netflix, not Canada,” author John Doyle argues, “[Netflix’s] estimated content budget for this year alone is \$6 billion (U.S.). Investing \$100 million (Canadian) a year to help out the production of TV and movies in Canada is the kind of figure Netflix shrugs off as the cost of doing business.”<sup>96</sup> While Netflix the company chose to enter this deal to promote Canadian content, a company defined as a traditional broadcaster or cable provider would have forced the company into promoting Canadian content. As Doyle observes, a macrolevel examination of Netflix’s content spending budget reveals that Netflix’s agreement to spend \$100 million Canadian dollars on production in Canada is not a largely significant amount for the company; this amount is roughly 1.3% of the company’s content budget for the year. Furthermore, the company retains the right to profit on these Canadian investments in non-Canadian contexts, as Netflix will add these productions to its global content library.

Netflix was able to develop a global content library due to its success in Canada. After Netflix Canada’s launch year, the company’s third quarter letter to investors

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<sup>95</sup> Daniel Leblanc, “Netflix deal the centerpiece of cultural policy,” *The Globe and Mail*, last modified September 27, 2017, <https://beta.theglobeandmail.com/news/politics/ottawa-to-unveil-500-million-netflix-deal-as-part-of-cultural-policy-overhaul/article36414401/?ref=http://www.theglobeandmail.com&>.

<sup>96</sup> John Doyle, “The Netflix deal is a very sweet deal for Netflix, not Canada,” *The Globe and Mail*, September 28, 2017, <https://www.theglobeandmail.com/opinion/the-netflix-deal-is-a-very-sweet-deal-for-netflix-not-canada/article36421246/>.

announced, “We’re pleased to report that we have over 1 million Canadian members, and we made a small contribution profit in Q3 in Canada. We’re excited enough by the opportunity in Canada that, over the next year, we are doubling our quarterly content spending.”<sup>97</sup> Although the company encountered some issues within its first year in Canada (i.e., user complaints about the content library selection), this venture was ultimately a profitable one and therefore, according to Netflix, a successful one. The company’s use of U.S.-centric positioning strategies led to this success, as evidenced by the preceding sections. The final section of this chapter will reiterate how and why these strategies led Netflix to perceive its Canadian venture as a success, and what the company’s next steps were in the wake of this perceived success.

## CONCLUSION

It is worth returning here to Amanda Lotz’s theorization of bundling—that is, “the portal strategy of collecting goods in a library is a response to heterogeneous taste, the risk of averseness of audiences to paying to try new programs, and the marketing costs of transacting single goods”—as it is evident that Netflix played into this theorization in their initial positioning strategies as the company pursued international expansion, in addition to Straubhaar’s discussion of transnational cultural-linguistic markets. Netflix’s North American market was created by identifying unifying factors that allowed them to thus identify a “heterogenous taste” among the market. Netflix bundled the Canadian market with the U.S. market by blurring international borders between the United States

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<sup>97</sup> Netflix, “Q3 2011 Letter to shareholders,” *Netflix Investor Relations*, October 24, 2011, <https://ir.netflix.com/static-files/ae7edb1e-6383-4295-962e-f6ded1909834>.

and Canada, ignoring intranational borders between English Canada and French Canada, and utilizing U.S.-centric strategies consistent with preexisting trends in international television distribution. Furthermore, external forces (i.e., the U.S. trade press, the U.S. popular press, Canadian users, and the Canadian government) supported Netflix's use of these U.S.-centric positioning techniques. Ultimately, these conditions led to Netflix perceiving its venture into the Canadian market as a perceived success.

Bolstered by this success, Netflix announced its intent to continue expanding globally in its fourth quarter investor letter of 2010, stating, "Assuming that Canada continues to perform well for us, we will expand into an additional market in the second half of this year [2011]."<sup>98</sup> In July of 2011, the company announced that its next market would be "Latin America," which Netflix defined as being comprised of "43 countries across Mexico, South America and the Caribbean."<sup>99</sup> The company was reluctant to publicly share their thoughts on potential positioning strategies for this new market, though Reed Hastings acknowledged, "[O]n a per capita basis, [market growth in Latin America] will be slower than Canada. On a per broadband household, it will still be slower...but still, we're very optimistic about what we can create, and what will happen in Latin America."<sup>100</sup> While this statement acknowledges Netflix could face some challenges in the Latin American market, Hastings also asserted, "[W]e're starting even

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<sup>98</sup> Netflix, "Q4 2010 Letter to shareholders and financial results," *Netflix Investor Relations*, January 26, 2011, 3, <https://ir.netflix.com/static-files/5b62f6d1-5739-4e2a-89ae-9643b94ef3cb>.

<sup>99</sup> Netflix, "Q2 2011 Letter to investors," 7.

<sup>100</sup> "Q2 2011 Earnings Call Q&A Transcript," *Netflix Investor Relations*, July 25, 2011, 7, <https://ir.netflix.com/static-files/0ebb5ee9-187d-4d96-affe-52a80628c58c>.



stronger in relative terms in Latin America than we did in Canada.”<sup>101</sup> Although the company recognized there were potential issues within this market that could hinder the company’s success in the market, Netflix presented itself as being confident in its chances of success in the Latin American market. However, as the next chapter explores, Netflix was confronted with issues it had not fully accounted for as it officially launched in this next market.

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<sup>101</sup> Ibid.

## Chapter 2: Market Issues in Latin America (Second Wave Expansion, 2011-2013)

### INTRODUCTION

When Netflix prepared to enter its second international market, it appeared the company would choose one country in which to launch its second round of international operations. Netflix implied this expansion would be on a similar scale to its expansion in Canada. In its fourth quarter 2010 letter to investors, the company reported, “Assuming that Canada continues to perform well for us, we will expand into an additional market in the second half of this year...each country represents a new market.”<sup>1</sup> However, when the company officially announced its second wave of international expansion, Netflix announced its intent to launch in an entire region, Latin America, which they defined as being comprised of 42 countries from Central America, South America, and the Caribbean, plus Mexico.<sup>234</sup> However, although Netflix planned to enter the entire region at once, the company did not plan to concentrate on all 43 countries equally. In the company’s second quarter investor call of 2011, CEO Reed Hastings stated,

Our primary focus is on the larger countries, in terms of where we spend on the marketing, but most of the content deals are Latin America-wide. So it’s

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<sup>1</sup> Netflix, “Q4 Letter to shareholders,” *Netflix Investor Relations*, January 25, 2011, 3, <https://ir.netflix.com/static-files/cff5d7cf-b996-415c-8e85-d8c6a84396b1>.

<sup>2</sup> “Netflix to Launch Service in Latin America and the Caribbean for Streaming TV Shows and Movies Later This Year,” *Netflix Media Center*,” July 5, 2011, <https://media.netflix.com/en/press-releases/netflix-to-launch-service-in-latin-america-and-the-caribbean-for-streaming-tv-shows-and-movies-later-this-year-migration-2>.

<sup>3</sup> While the press release refers to this region as “Latin America and the Caribbean,” subsequent investor documents simplify it to “Latin America.” Similarly, the U.S. trade and popular presses refer to this region as “Latin America.”

<sup>4</sup> Although Mexico is geographically a part of North America, there is a precedent for excluding Mexico from constructions of North America within media distribution flows (see the discussion of DVD region codes in chapter one).

inefficient to arbitrarily not allow the service to be in certain countries, when we've essentially paid for the content in those countries anyway, so that's where we get to. But we're definitely focused most of our time and effort on the major countries.<sup>5</sup>

The decision to enter all 43 countries was based on preexisting trends in international distribution licensing agreements. Instead of focusing its marketing efforts on all 43 countries, Netflix concentrated its efforts on a select set of countries within this market. Examining Netflix's publicly available investor and marketing documents along with U.S. trade and popular press coverage, it appears the Latin American countries Netflix focused its marketing efforts on were Argentina, Brazil, Colombia, Mexico, and Venezuela (the most populous countries in the region<sup>6</sup>). In Latin America, Brazil was the first point of entry, with Netflix launching in Brazil a week before its service launched in other countries in the region.<sup>7</sup> This fact, combined with how Netflix and the U.S. press sources regard Brazil as somewhat separated from the rest of the region (which will be explored in subsequent sections), make Brazil an optimal case study for exploring the issues Netflix encountered as it began expanding outside of the North American market. This chapter will explore how Netflix initially approached the Brazilian market, how it had to change its approach to the market post-entry, and why discussions of the issues that forced Netflix to alter its positioning strategies within Brazil are limited in U.S. discourse. Within this discussion, I present four key points. First, I found that Netflix

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<sup>5</sup> "Netflix Q2 2011 Earnings Call," *Netflix Investor Relations*, July 25, 2011, 6, <https://ir.netflix.com/static-files/0ebb5ee9-187d-4d96-affe-52a80628c58c>.

<sup>6</sup> "Country Comparison: Population," *The World Factbook*, Accessed April 27, 2018, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2119rank.html#br>.

<sup>7</sup> Courtney Brannon Donoghue, "Brazil," *Global Internet TV Consortium*, May 2017, <https://global-internet-tv.com/netflix-country-reports/brazil/>.

chose to use its U.S.-centric positioning strategies in Brazil because data (i.e., quantifiable successes in the U.S. and Canadian markets' subscriber numbers) indicated to Netflix that these were effective positioning strategies. Second, I found that Netflix's reliance on these strategies limited the company's ability to effectively grow its presence in Brazil. Third, I found that as a result of these limitations, Netflix found it had to tailor its positioning strategies to adapt to the Brazilian market. Finally, I found that discussions of Netflix's struggles in Brazil are limited in American Anglophonic contexts because Netflix minimized the issues it faced in Brazil in its investor and marketing materials, as well as in its public discourse; additionally, inherent biases within the U.S. trade and popular presses enabled this minimization.

#### **FRAMEWORK**

As in chapter one, this chapter will also frameworks established in Amanda Lotz's *Portals* and Joseph Straubhaar's *World Television: From Global to Local*, though this framework will also be considered in conjunction with Roland Robertson's concept of "glocalization," from "Glocalization: Time-Space and Homogeneity-Heterogeneity." He defines glocalization as a reframing of the economic concept of "micro-marketing: the tailoring and advertising of goods and services on a global or near-global basis to increasingly differentiated and particular markets."<sup>8</sup> In other words, glocalization is the tailoring of global strategies to incorporate the needs of local markets.

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<sup>8</sup> Roland Robertson, "Glocalization: Time-Space and Homogeneity-Heterogeneity," *Global Modernities*, ed. Mike Featherstone, Scott Lash, and Roland Robertson (London: Sage Publications, 1995), 28.

Lotz's asserts, "As the use of the subscriber-only revenue model has grown more prevalent among internet-distributed media, it has become necessary to theorize the specificities of subscriber-funded media as well as their use."<sup>9</sup> In chapter two of *Portals*, Lotz explores the landscape of the portals industry, outlining how economic structures and content curation practices organize how SVOD companies are able to function within markets. This framework establishes how Netflix's positioning strategies translate into market action. When glocalization is considered in conjunction with Lotz's framework, the framework can be modified to examine how SVOD functions are affected by the need to consider both global and local factors.

Additionally, Lotz states, "It is the contents of the collection and the experience of accessing it that offer the primary value propositions to subscribers."<sup>10</sup> Netflix is able to measure if its service is offering "primary value propositions to subscribers" by examining its subscriber growth. For example, Netflix used its positive subscriber growth in the U.S. and Canada to establish that its users received primary value propositions. In this case, Netflix saw its users received primary value propositions because its user base kept growing. In other words, Netflix saw its increase in subscriber numbers as an indicator of success. This led the company to use these strategies in the Brazilian market. However, the U.S.-centric approach that worked successfully in the North American market did not consider how the need for glocalization strategies in foreign markets could

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<sup>9</sup> Amanda Lotz, "A Model for the Production of Culture: The Subscriber Model," *Portals: A Treatise on Internet-Distributed Television* (Ann Arbor: Michigan Publishing, 2017), <http://doi.org/10.3998/mpub.9699689>.

<sup>10</sup> Ibid.

affect “primary value propositions.” Upon initial entry in Brazil, Netflix did not effectively utilize glocalization strategies, which led to low primary value propositions for Brazilian subscribers, as evidenced by the market’s low subscriber numbers immediately post-entry.<sup>11</sup> The following sections will utilize this framework to develop an understanding of the issues surrounding Netflix’s initial positioning strategies and how the company altered these strategies to respond to the issues it faced in Brazil.

### **WHY BRAZIL?**

In Netflix’s first letter to its investors after the Latin American expansion announcement, the company provided three primary reasons for choosing the Latin American market as its second site of international expansion, stating, “Latin America represents a large and rapidly growing market of broadband households...consumers there enjoy Hollywood content, and we are able to take advantage of economies of scale by licensing content regionally.”<sup>12</sup> The third rationale in this quote justifies Netflix’s decision to enter all 43 countries within the same month. As Jonathan Friedland, Netflix’s chief communications officer, explained, “In Europe you have to buy individual content licenses for every movie or TV show in each country, such as France, Germany or Spain.

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<sup>11</sup> Netflix, “Q4 2011 Letter to shareholders,” *Netflix Investor Relations*, January 25, 2012, <https://ir.netflix.com/static-files/5b62f6d1-5739-4e2a-89ae-9643b94ef3cb>.

<sup>12</sup> Netflix, “Q2 2011 Letter to shareholders,” *Netflix Investor Relations*, July 25, 2011, 7, <https://ir.netflix.com/static-files/9a40ab76-8608-44b9-b9bf-aac5061ebd17>.

In Latin America, you only need two licenses—one for all Spanish-speaking countries and another one for Brazil [a Portuguese-speaking country].”<sup>13</sup>

This quote also illustrates why I am using Brazil as a case study to examine Netflix’s second wave of global expansion. Aside from being the site of Netflix’s first official market expansion outside of North America and Netflix’s first non-English-language market,<sup>14</sup> Brazil lends itself to independent study within the Latin American market due to the country’s linguistic independence and size.<sup>15</sup> Here, Straubhaar’s conceptualization of transnational cultural-linguistic markets can be considered in conjunction with Evan Elkins’ discussion of DVD region codes, which observes that region four includes South America and most of Central America (which, in this conceptualization, includes Mexico).<sup>16,17</sup> Straubhaar and Elkins’ discussion of media regions establish a precedent for studying Latin America as one space. However, Straubhaar’s analysis also provides a reason for studying Brazil as somewhat separate from the rest of Latin America.

Friedland’s comment on Latin American licensing appears to demonstrate a lack of awareness about the linguistic divide in the region, as he divides the region into “all Spanish-speaking countries” and “Brazil.” Although those outside of Latin America

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<sup>13</sup> Daniel Gallas, “How to sell movies in the land of piracy,” *BBC News*, November 18, 2015, <http://www.bbc.com/news/business-34838094>.

<sup>14</sup> As explored in chapter one, although Canada has a significant French-speaking population, the market was viewed as an English-language market.

<sup>15</sup> Brazil is the most populous country in Latin America (see “Country Comparison: Population,” 2018).

<sup>16</sup> Evan Elkins, “The DVD region code system: Standardizing home video’s disjunctive global flows,” *International Journal of Cultural Studies* 19, no. 2 (2014): 229, <https://doi.org/10.1177/1367877914547300>.

<sup>17</sup> The other countries comprising region four are Australia, New Zealand, western New Guinea, and “most of the South Pacific.”

typically categorize it as a primarily Spanish-speaking region, Portuguese is widely spoken in this area; in fact, Portuguese is the most widely spoken language in South America, edging out Spanish due to the large size of Brazil's population.<sup>18</sup> As Brazil is linguistically separate from these Spanish speaking countries, it can be established as a separate linguistic market. While Straubhaar's conceptualization of transnational cultural-linguistic markets combines shared cultural and linguistic elements, the conceptualization can be broken down in order to isolate the cultural from the linguistic. As examined in chapter one using Serra Tinic's discussion of English Canada and French Canada, linguistic elements can be used to separate a territory into sub-territories.

The linguistic aspect of transnational cultural-linguistic markets is important to understanding Netflix's prioritization of countries. Friedland mentions countries falling into two linguistic categories: Spanish or Portuguese. However, not all 43 the countries Netflix defines as being in this region fall into one of these categories. Of the 14 countries in South America, four recognize a language other than Spanish or Portuguese as their official language: the Falkland Islands (English), French Guiana (French), Guyana (English), and Suriname (Dutch).<sup>19</sup> Additionally, English is the dominant official language in Caribbean countries,<sup>20</sup> which Netflix included as a part of this market in the company's initial announcement. The exclusion of these countries in the discussion of

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<sup>18</sup> Susan Steward, "Spaniards Had Help in Conquering the Incas," *New York Times*, last modified June 30, 2007, <http://www.nytimes.com/2007/06/26/arts/television/26rebel.html?ex=1340510500#addenda>.

<sup>19</sup> Bill Poser, "Is South America Spanish-Speaking?" *Language Log* (blog), University of Pennsylvania, July 3, 2007, <http://itre.cis.upenn.edu/~myl/languagelog/archives/004674.html>.

<sup>20</sup> Jo-Anne Ferreira, "Caribbean Stuff," *Society for Caribbean Linguistics*, <http://www.scl-online.net/FAQS/caribbean.htm>.



linguistic borders and licensing serves as further evidence that Netflix focused its attention on a limited number of countries in the region.

However, although Netflix acknowledged the importance of language in conceptualizing the region, the company seemingly did not initially consider the importance of language (and more broadly, culture) in its use of positioning strategies within the region. As the following sections discuss, Netflix initially used U.S.-centric positioning strategies in the Brazilian market, which proved to be ineffective due to the linguistic and cultural conditions in the region.

#### **THE BRAZILIAN MARKET IN 2011**

To fully understand Netflix's approach to the region, an understanding of the television and over-the-top (OTT) markets at the time of Netflix's entry (2011) is required. Since the mid-1960s, Rede Globo (also known as TV Globo) has dominated Brazil's television landscape.<sup>21</sup> Rede Globo was initially a commercial broadcaster, though its parent company, Grupo Globo, has since expanded its television investments to include cable channels<sup>22</sup> and an SVOD service, though this service did not launch until 2016,<sup>23</sup> meaning Grupo Globo was not factor in Brazil's OTT market. However, Rede Globo role in the television market was particularly significant at the time, as the pay-TV

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<sup>21</sup> Courtney Brannon Donoghue, "Rede Globo: Global Expansions and Cross-Media Extensions in the Digital Era," *From Networks to Netflix: A Guide to Changing Channels*, ed. Derek Johnson (New York: Routledge, 2018), 45.

<sup>22</sup> Joseph D. Straubhaar, "Grupo Globo," *Global Media Giants*, ed. Benjamin Birkinbine, Rodrigo Gomez, and Janet Wasko (New York: Taylor & Francis, 2018), 223.

<sup>23</sup> John Hopewell, "Brazilian Giant Globo Reveals First Results, Strategies of New VOD Service Globo Play (EXCLUSIVE)," *Variety*, February 23, 2016, <http://variety.com/2016/tv/global/globo-vod-globo-play-1201712749>.

industry was still emerging. Although cable services first began operating in the 1990s,<sup>24</sup> Brazilian consumers were slow to adapt the service. Pay-TV services began to gain traction in the 2000s, with the first significant increase in pay-TV subscribers occurring between 2007 to 2011, where the number of subscribers increased from 5.3 million households to 12.7 million households.<sup>25</sup>

The year 2011 also saw the introduction of Law 12.485 in Brazil, known colloquially as the “Pay Television Law,” which made cable technology more accessible to Brazilian consumers and made the cable market open to foreign companies.<sup>26</sup> Before the law was enacted, “only 230 of Brazil’s five thousand municipalities had access to cable television”;<sup>27</sup> thus, the law intended to make cable technologies accessible to the other 4,770 municipalities, theoretically allowing the pay-TV market to grow substantially. The law also enacted content quota that required international pay-TV channels to include a minimum of three-and-a-half hours of primetime content produced by Brazilian companies in its programming.<sup>28</sup>

The Pay Television Law did not apply to OTT markets.<sup>29</sup> Therefore, Netflix was not legally required to distribute any Brazilian produced content. As with the Canadian market, Netflix took this opportunity to position itself as a distributor of U.S. content.

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<sup>24</sup> Straubhaar, “Grupo Globo,” 228.

<sup>25</sup> Eli Carter, “Entering through the *Porta dos Fundos*: The Changing Landscape of Brazilian Television Fiction,” *Television & New Media* 18, no. 5 (2017), 414.

<sup>26</sup> *Ibid.*, 415.

<sup>27</sup> *Ibid.*

<sup>28</sup> *Ibid.*

<sup>29</sup> Murillo Dias and Rodrigo Navarro, “Is Netflix Dominating Brazil?” *International Journal of Business and Management Review* 6, no. 1 (2018): 24.

Netflix's press release on its official launch in Brazil<sup>30</sup> stated, "With more than 25 million members in the U.S. and Canada, Netflix offers amazing convenience and extraordinary value with a broad range of Hollywood, international and local movies and TV series to choose from. Netflix has revolutionized entertainment in North America."<sup>31</sup> Although this statement acknowledges the presence of local Latin American<sup>32</sup> movies and television in Netflix's content library, it highlights the role of U.S. products in the content library, using "Hollywood" as its own category (as opposed to the more generalized "international" and "local" labels). Additionally, it emphasizes how Netflix "revolutionized entertainment in North America," using its success in the North American transnational cultural-linguistic region as a reason to generate excitement for its Brazilian launch, even though the North American region and Latin American region are separate transnational cultural-linguistic markets.

Furthermore, both this press release and the press release Netflix released a week later announcing its launch in "Mexico, Central America and the Caribbean" include a quote from Netflix CEO Reed Hastings in which he stated, "People throughout the region

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<sup>30</sup> The press release on this launch appears to have been removed from Netflix's website. It cannot be found in the "Press Release" section of the website, nor can it be found on the company blog, which most of the trade and popular press articles on this subject link to. However, although the original posting has been removed, the text of the press release has been preserved on third-party websites.

<sup>31</sup> Terrence O'Brien, "Netflix lands in Brazil, 43 other Latin American countries within the week," *Engadget*, September 5, 2011, <https://www.engadget.com/2011/09/05/netflix-lands-in-brazil-43-other-latin-american-countries-within/>.

<sup>32</sup> While the press release was intended to specifically announce Netflix's Brazilian launch, the press release discusses the launch as one component of its broader Latin American launch, noting, "We are excited to be bringing Netflix to Latin America and the Caribbean" as opposed to "We are excited to be bringing Netflix to Brazil."

are online in ever-greater numbers and they love movies and TV shows.”<sup>3334</sup> In this quote, Hastings did not specify what types of movies and TV shows viewers were interested in, instead using the vague phrasing “they love movies and TV shows.” This comment does not take into account what types of movies and TV shows viewers enjoyed, suggesting the company was not attuned to the desires of viewers in the region, as it does not acknowledge viewer tastes. As previous scholarship on Brazilian audiences has found, “Brazilian audiences have historically been accustomed to consuming local content.”<sup>35</sup> If the company wanted to acknowledge that its Brazilian content library was being developed with Brazilian tastes in mind, Hastings could have acknowledged that people in the region “love *Brazilian* movies and TV shows” in the press release on Netflix Brazil. Additionally, if the company thought its Brazilian users wanted Hollywood content, he could have said people in the region “love *Hollywood* movies and TV shows.” By not qualifying this statement, Hastings suggests Netflix did not initially tailor its positioning strategies to meet the market’s unique desires.

The assertion that Netflix was not attuned to the desires of viewers in the region is further supported by the specific content titles mentioned in the press release. Of the 10 titles referenced in the second press release,<sup>36</sup> one was from Mexico, one was from Brazil, and eight were from the United States. This supports the idea that Netflix was

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<sup>33</sup> O’Brien, “Netflix lands in Brazil, 43 other Latin American countries within the week.”

<sup>34</sup> Netflix, “Netflix Arrives in Mexico, Central America, and the Caribbean,” *Netflix Media Center*, September 12, 2011, <https://media.netflix.com/en/press-releases/netflix-arrives-in-mexico-central-america-and-the-caribbean-migration-1>.

<sup>35</sup> Carter, “Entering through the *Porta dos Fundos*,” 415.

<sup>36</sup> No titles were mentioned by name in the first press release.

positioning itself as a provider of primarily U.S. content; later complaints from Brazilian Netflix users (which will be discussed in the next section) further support the reality of this U.S.-centric positioning strategy.

Although the OTT market in Brazil was significantly limited at the time of Netflix's launch, the company faced OTT competition in the market in 2011. Netflix's most direct Brazilian competitor was NetMovies, which modeled its business plan after Netflix's business plan (offering both DVD mailing services and streaming services), establishing itself as a Brazilian version of Netflix in 2004.<sup>37</sup> In 2011, the service was owned by Tiger Global Management, a U.S.-based portfolio manager, though it continued to present itself as a Brazilian company.<sup>38,39</sup> At the time, NetMovies was the biggest SVOD operator in Latin America, with a streaming library comprised of 4,000 titles; additionally, the company had just signed a multi-year distribution agreement with Disney, suggesting it was continuing to grow.<sup>40</sup> Therefore, NetMovies was able to position itself as a provider of Brazilian content with growing access to U.S. content, making NetMovies a serious SVOD competitor to Netflix in the region. However, whereas Netflix prioritized its streaming service in its non-U.S. markets, NetMovies

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<sup>37</sup> "Brazil's NetMovies Signs Disc and Streaming Distribution Deal with Disney," *IHS Markit Technology*, November 7, 2011, <https://technology.ihs.com/394889/brazils-netmovies-signs-disc-and-streaming-distribution-deal-with-disney>.

<sup>38</sup> *Ibid.*

<sup>39</sup> While this fact highlights the problem of conflating companies and national identities, for the purposes of this thesis NetMovies will be regarded as Brazilian because the trade press and Netflix's investor documents regarded NetMovies as Brazilian.

<sup>40</sup> John Hopewell, "VOD grows fast in Latin America: New video-on-demand services are sprouting across the region," *Variety*, December 30, 2011, <http://variety.com/2011/film/news/vod-grows-fast-in-latin-america-1118047990/>.

relied heavily on its DVD service while simultaneously attempting to grow its streaming service. The process of balancing both its DVD and streaming services proved to be unsustainable for the company, so in 2013, NetMovies chose to terminate its streaming service and focus exclusively on its DVD service,<sup>41</sup> which eliminated it as a direct competitor to Netflix's Brazilian service.<sup>42</sup>

Netflix's second major competitor in the market was iTunes. As another American competitor attempting to enter the SVOD market, iTunes presented a threat to Netflix's U.S.-centric positioning strategy, as iTunes could also present itself as a provider of (primarily) U.S. content. In 2011, Apple launched iTunes in 16 Latin American markets,<sup>43</sup> including Brazil. Although iTunes did not offer a direct answer to Netflix's service, as it provided an electronic sell-through (EST) service, not a SVOD service, it still functioned as a competitor to Netflix because both were providing similar content. While both were American content providers to Brazil, iTunes only offered film content,<sup>44</sup> giving Netflix space to distinguish itself, as it provided television content not available on the iTunes service. However, as the next section explores, Netflix's decision to highlight its position as an American company was not a successful one.

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<sup>41</sup> Donoghue, "Brazil."

<sup>42</sup> As discussed in the "History of Netflix" section in the introduction, Netflix did not offer its DVD mail service outside of the United States.

<sup>43</sup> In addition to Brazil, these markets were: Argentina, Bolivia, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Peru, and Venezuela.

<sup>44</sup> Apple. "Apple Launches iTunes Store in Brazil & Latin America," *Apple Newsroom*, <https://www.apple.com/newsroom/2011/12/13Apple-Launches-iTunes-Store-in-Brazil-Latin-America/>.

## **PROBLEMS BEGIN IN BRAZIL**

As I discussed in chapter one, Netflix deemed its Canadian expansion a success because the endeavor resulted in significant subscriber growth and turned a profit. The company confirmed this fact in its third quarter 2011 investor letter, stating, “We’re pleased to report that we have over 1 million Canadian members, and we made a small contribution profit in Q3 in Canada. We’re excited enough by the opportunity in Canada that, over the next year, we are doubling our quarterly content spending [in Canada].”<sup>45</sup> The company continued using these metrics to gage success as it continued its global expansion. In the same investor letter, Netflix revealed, “Early results indicate that member count [in Latin America] at the end of the year will be a little above Canada at the end of 2010...Given that Latin America has about 4x more broadband households than Canada, there is lots of room for growth...it’s too early to tell whether we will reach run-rate break-even within two years as we would like.”<sup>46</sup> Here Netflix demonstrated that it would continue to define success through the quantifiable subscriber and profit growth statistics. Additionally, Netflix drew a direct comparison between the Canadian and Latin American markets, indicating the company saw the two markets as similar business ventures. When approaching the Latin American market, Netflix used the same primary value propositions its used in the Canadian market to gauge success. Ultimately, Netflix chose to use its U.S.-centric positioning strategies in Brazil because quantifiable data indicated that these were effective positioning strategies.

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<sup>45</sup> Netflix, “Q3 2011 Letter to shareholders,” *Netflix Investor Relations*, October 24, 2011, 6, <https://ir.netflix.com/static-files/ac7edb1e-6383-4295-962e-f6ded1909834>.

<sup>46</sup> *Ibid.*

In Netflix's fourth quarter letter of 2011, the company noted, "In Latin America, we ended the year with about the same number of members as we had in Canada at the same time post-launch last year. Latin America has about 4x more broadband households than in Canada; so, our focus is on capturing a larger portion of the market opportunity."<sup>47</sup> Although the company tried to present itself as being on a successful path by comparing its Brazilian subscriber numbers to its Canadian subscriber numbers, the similarities between these two numbers did not actually indicate success. Since Brazil had four times more potential customers, Netflix needed to have four times Canada's membership numbers to be on the same trajectory for Netflix to deem this venture a success. Netflix further noted, "Latin America presents unique infrastructure challenges relative to our other markets; namely, low device penetration, under-developed Internet infrastructure and relatively low credit card usage as well as general consumer payment challenges for ecommerce...To offset these challenges and improve the consumer experience, we have been continually expanding the content offering."<sup>48</sup> This statement directly addresses a number of problems Netflix faced upon market entry. These problems can be divided into two categories for analysis: content issues and infrastructure issues.

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<sup>47</sup> Netflix, "Q4 2011 Letter to shareholders," 5.

<sup>48</sup> Netflix, "Q1 2012 Letter to shareholders," *Netflix Investor Relations*, April 23, 2012. 6, <https://ir.netflix.com/static-files/4d85f19f-94f1-4b0a-b941-0e9c750589cd>.



## Content issues

One of the largest criticisms Brazilian users had of Netflix was its lack of available Portuguese-language content.<sup>49</sup> As was the case with Canada, Netflix chose to emphasize English-language content over content in other languages. However, while the U.S. and Canada are both predominantly English-speaking countries, Brazil is not. Of the nearly 10,000 titles available in Netflix's Brazilian content library, at first only seven titles were local pieces of content.<sup>50</sup> While the prioritization of Hollywood content seems practical, as this prioritization was due in part to Netflix's preexisting access to this content, Brazilian users felt Netflix was not doing enough to account for their tastes. However, although Netflix appeared to prioritize Hollywood content, based on an analysis of its marketing materials, the company made an effort to include some local content. Netflix claimed it did not have more local content at the time because it had faced resistance from Brazilian TV broadcasters and local producers.<sup>51</sup> This resistance for Brazilian companies to license their content to Netflix may have been due to the preexisting dominance of Rede Globo.

Scholars have found that Rede Globo can capture “between 60% and 80% market share in major Brazilian cities.”<sup>52</sup> Additionally, it has been called “the national agenda setter’ serving as the ‘national cement or glue’ for an imagined television community and

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<sup>49</sup> Donoghue. “Brazil.”

<sup>50</sup> These were: “Tropa de Elite,” “Cidade de Deus,” “A Arte do Insulto,” “Tainá 2,” “Didi, o Cupid Trapalhão,” “Meu Pé de Laranja Lima,” and “Água na Boca” (“Netflix não consegue adquirir filmes nacionais,” 2011).

<sup>51</sup> “Netflix não consegue adquirir filmes nacionais,” *Folha de S. Paulo*, October 26, 2011, <http://f5.folha.uol.com.br/televisao/996537-netflix-nao-consegue-adquirir-filmes-nacionais.shtml>.

<sup>52</sup> Donoghue, “Rede Globo: Global Expansions and Cross-Media Extensions in the Digital Era,” *From Networks to Netflix*, ed. Derek Johnson (New York: Routledge, 2018), 47.

public discourse.”<sup>53</sup> Grupo Globo’s dominance in the Brazilian media industry gives the company an advantage in the market; Globo was more likely to get access to licensing deals first because it was an established, successful, and dominating force in the market. As one Brazilian journalist observed, “Globo today is an economic power without parallel in Brazilian communications. There has never been a media group with as much political and economic power.”<sup>54</sup> Reports on Brazil’s OTT market have confirmed that preexisting players in the television market that had already developed an established presence were a problem in this area, observing, “Throughout Latin America, strong FTA [free to air] and pay-TV providers continue to invest heavily in local content production, premium rights and new services have substantial market power and strong consumer relationships.”<sup>55</sup>

In “Executivo do Netflix explica os problemas e promove soluções rápidas,” Netflix’s then vice president of global corporate communications, Jonathan Friedland, admitted that the company had struggled to build their Brazilian content library, but said, “Estamos fazendo um bocado de pesquisa. Como e onde as pessoas estão usando, o que gostam e o que não gostam” [We’re doing a lot of research. How and where people are

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<sup>53</sup> Ibid.

<sup>54</sup> Ibid.

<sup>55</sup> “For Latin America’s Premium OTT Market, Success Hinges on Quality of Infrastructure and Local Content Offerings,” *Business Wire*, February 9, 2016, <https://www.businesswire.com/news/home/20160209005105/en/Latin-America%E2%80%99s-Premium-OTT-Market-Success-Hinges>.

using it [Netflix], what they like and what they do not like].<sup>56</sup> After Friedland became Netflix's Chief Communications Officer in 2012, he gave an interview with another Brazilian outlet, *TechTudo*, where he stated, "Queremos que as pessoas tenham a oportunidade para assistir o que quiserem, na hora em que quiserem"<sup>57</sup> [We want people to have the opportunity to watch whatever they want, whenever they want]. At the same time, he also claimed "80% do conteúdo servido pela plataforma é o mesmo, seja nos Estados Unidos, na Europa ou no Brasil" [80% of the content served by the platform is the same, whether in the United States, Europe or Brazil].<sup>58</sup> This presented a conflict: while Netflix wanted to provide their Brazilian users with tailored content, the company also believed 80% of the content Brazilian users wanted was not specific to the market. Ultimately, Netflix's content issues in Brazil were a result of preexisting content deals in the marketplace and Netflix's belief that Brazilian consumers did not necessarily want Brazilian content.

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<sup>56</sup> Felipe Ventura, "Executivo do Netflix explica os problemas e promove soluções rápidas," *Gizmodo Brazil*, November 15, 2011, <http://gizmodo.uol.com.br/executivo-do-netflix-explica-os-problemas-e-promete-solucoes-rapidas/>.

<sup>57</sup> Nick Ellis, "'Brasileiros gostam de coisas diferentes', diz diretor da Netflix." *TechTudo*, December 2, 2016. <http://www.techtudo.com.br/artigos/noticia/2012/07/brasileiros-gostam-de-coisas-diferentes-diz-diretor-da-netflix.html>.

<sup>58</sup> *Ibid.*

### **Infrastructure issues**

One of Netflix's main reasons for choosing the Latin American market as its second site of international expansion was the market's economic potential. As previously mentioned, Netflix stated, "Latin America represents a large and rapidly growing market of broadband households."<sup>59</sup> At the time of Netflix's entrance into Brazil, the country was in the midst of an economic boom.<sup>60</sup> However, while considering the financial potential of the market, Netflix did not incorporate differences between American and Brazilian structures into its business plan for the market. One of the "unique infrastructure challenges" Netflix admitting to facing was "relatively low credit card usage as well as general consumer payment challenges for ecommerce."<sup>61</sup> When Netflix entered the market, users could only pay for the service with credit cards.<sup>62</sup> However, in 2011, the "average Brazilian consumer" did not prefer to use online credit card payments, nor was this form of payment seen as a viable option for them.<sup>63</sup> Netflix has explicitly stated that when entering international markets its marketing strategy is geared "primarily [toward] targeting outward-looking, affluent consumers with international credit cards."<sup>64</sup> This U.S.-centric strategy does not account for differences in economic infrastructures. In the case of Brazil, utilizing this U.S.-centric strategy

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<sup>59</sup> Netflix, "Q2 2011 Letter to shareholders," 7.

<sup>60</sup> Carter, "Entering through the *Porta dos Fundos*," 414.

<sup>61</sup> Netflix, "Q1 2012 Letter to shareholders," 6.

<sup>62</sup> Donoghue, "Brazil."

<sup>63</sup> *Ibid.*

<sup>64</sup> Netflix, "Netflix's View: Internet TV is replacing linear TV," *Netflix Investor Relations*, January 18, 2017, <https://ir.netflix.com/long-term-view.cfm>.

prevented a significant portion of the population from being able to pay for the service. In Netflix's first quarter investor letter of 2012, the company admitted that this issue made the market "a more challenging environment than our other markets."<sup>65</sup>

The second main infrastructural issue in Brazil was the market's lack of broadband Internet access. The *New York Times*' brief on Netflix's Brazilian entry noted, "Broadband Internet reaches a far smaller percentage of homes in Latin America than in the United States, and speeds are slower."<sup>66</sup> Hastings also acknowledged this issue in an interview with G1 (a Brazilian technology news outlet), stating, "Outro grande problema aqui são planos de banda larga com limite de download de 20 GB, 40 GB. Nos Estados Unidos, os limites são muito mais altos, de 300 GB...ter este limite é um problema" [Another major problem here are broadband plans with download limits of 20GB, 40GB. In the United States, the limits are much higher, 300GB...having this limit is a problem].<sup>67</sup> This limitation slowed down Netflix's service and negatively impacted its visual quality.<sup>68</sup> By not accounting for the differences in the American and Brazilian markets, inadvertently altered its product so that it was offering a lesser service to its Brazilian consumers.

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<sup>65</sup> Netflix, "Q1 2012 Letter to investors," 6.

<sup>66</sup> "Netflix Begins Expansion in Latin America," *New York Times*, September 5, 2011, <https://www.nytimes.com/2011/09/06/business/global/netflix-begins-expansion-in-latin-america.html>.

<sup>67</sup> Gustavo Petró, "Brasileiros ainda não entenderam o Netflix", diz presidente da empresa," *G1*, August 30, 2012, <http://g1.globo.com/tecnologia/noticia/2012/08/brasileiros-ainda-nao-entenderam-o-netflix-diz-presidente-da-empresa.html>.

<sup>68</sup> *Ibid.*

## SOLUTIONS FOR BRAZIL

### Content solutions

When Netflix acknowledged the challenges it faced in Latin America, the company said it would “offset these challenges and improve the consumer experience” by “continually expanding the content offering.”<sup>69</sup> However, immediately after offering expansion of content as a solution to the Brazilian content issues, instead of offering a list of Portuguese-language titles that would be added, Netflix offered a list of 12 English-language titles and one Mexican film: *Salvando al soldado Pérez* (though the company referred to this film by its English-language title, *Saving Private Perez*), which, according to Netflix, was “the top Mexican film of 2011.”<sup>70</sup> Such a statement suggests that the company was still learning how Brazilian consumers defined value in relation to content and was still struggling to find its place within the Brazilian market. However in the paragraph following this list of content in Netflix’s first quarter investor letter of 2012, the company noted, “In Q1, we increased our subtitle coverage to nearly 100% of non-kids English-language content (in addition to previously available dubbing) to accommodate various viewing preferences.”<sup>71</sup> Although the company was not immediately making all of the content changes Brazilian viewers were asking for (in particular, adding Portuguese-language content to its content library) it was taking steps in the right direction to address users’ concerns.

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<sup>69</sup> Netflix. “Q1 2012 Letter to Investors,” 6.

<sup>70</sup> Ibid.

<sup>71</sup> Ibid.

One reason for Netflix's slowed addition of Portuguese-language content (in addition to potential licensing issues it faced) was because the company did not have quantifiable data suggesting that this addition was needed. Although I do not have access to Netflix's internal data, and therefore cannot point to the specific data sets that affected Netflix's response to this issue, there is precedent supporting the fact that the company's access to quantifiable data affected its response to the content issue. As previously established in the discussion of Netflix's Canadian venture, the company uses quantifiable metrics to measure success. While the company also takes qualitative data it receives into account, Netflix has acknowledged that quantitative data takes precedence over qualitative data in its approach to problem solving. For example, in a 2018 *Variety* article Netflix's vice president of consumer research, Adrien Lanusse, provided an example of one such time when the company chose to favor quantitative consumer data over qualitative consumer testimony. In the example Lanusse provided, consumers told the company they preferred subtitles to dubbing, yet Netflix's quantitative data showed that consumers were more likely to finish a show that was dubbed over a show that was subtitled, leading the company to stream dubbed various of programs as the default option (over subtitled programs).<sup>72</sup> Although Netflix received an array of qualitative user feedback that explained what users did not like about the service's content options, the company also had quantitative data showing, "Most of the content viewing is Hollywood

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<sup>72</sup> Janko Roettgers, "Netflix's Secrets to Success: Six Cell Towers, Dubbing and More," *Variety*, March 8, 2018, <http://variety.com/2018/digital/news/netflix-success-secrets-1202721847/>.

content. And that's how we've programmed [the service]."<sup>73</sup> Therefore, the company's solution to the content problem was to continue expanding its content library, though it continued to prioritize Hollywood content in its expansion efforts.

However, as Netflix's content library continued to grow, the company managed to expand its Portuguese-language content offerings. Around the same time, Netflix had also begun exploring the possibility of expanding its original production investments. By 2013, Netflix decided to pursue the possibility of combining the continued need to expand its Portuguese-language content offerings with its interest in expanding its original production investments. A 2013 *Variety* article observed, "Netflix has been inching in the direction of a localized original strategy in Brazil."<sup>74</sup> Combining these two areas was a way for the company to address the qualitative data it had gathered from users while also building its original content investment portfolio, which the company saw as the next phase in its business strategy. Chapter three will explore Netflix's use of original content investments as the next phase in the evolution of its positioning strategies from U.S.-centric to glocalized in greater depth.

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<sup>73</sup> "Q4 2011 Earnings Call Q&A Transcript," *Netflix Investor Relations*, January 25, 2012, 8, <https://ir.netflix.com/static-files/8357a1b0-d462-4686-87e7-b0a40299581e>.

<sup>74</sup> Andrew Wallenstein, "Netflix Rewrites Original Series Strategy for Brazil," *Variety*, August 6, 2013, <http://variety.com/2013/digital/news/netflix-rewrites-original-series-strategy-for-brazil-1200574734/>.



### **Infrastructure solutions**

Netflix's solution to the economic issues it faced was a simple one. Once the company recognized how its U.S.-centric views of economic structures was limiting its ability to reach potential subscribers, it altered its customer payment structure. To bypass the credit card issue, Netflix worked with local banks to set up a debit payment process for subscribers.<sup>75</sup> On this issue, the company stated, "[W]e've found that processing ecommerce consumer payments is quite challenging as compared with North America and Europe. To overcome this challenge, we are working with our local payment partners to optimize our systems, exploring adding new payment methods and testing various trial campaigns to improve conversion."<sup>76</sup> Here, the company from a U.S. strategy to a Brazilian strategy, localizing its approach to this issue in this market. As the company introduced its service to more markets, it began glocalizing its payment strategies, adapting to market conditions when necessary.

Its response to the infrastructure issue was more complex. As Lotz observes in *Portals*, "In addition to the key role of a library of intellectual property in launching a portal, a considerably sophisticated customer interface is required."<sup>77</sup> However, Netflix's ability to develop a "considerably sophisticated customer interface" was limited by the availability of resources in the region. Netflix could not change the broadband limitations in the market; the company could, however, work within the structure provided by these

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<sup>75</sup> Donoghue, "Brazil."

<sup>76</sup> Netflix, "Q4 2011 Letter to shareholders," 5.

<sup>77</sup> Lotz, "A Model of Production for the Culture."

limitations in order to improve the service to the best of the company's ability. To do so, Netflix again turned to quantitative data. In November of 2013, the company began recording Internet service providers' (ISPs) performance metrics during peak Internet traffic hours to determine how different ISPs affected the delivery of Netflix's service. Additionally, the company announced it was "working with ISPs to make Netflix delivery easy and to avoid congestion." It continued, "Through Open connect, our purpose-built content delivery network, we help broadband providers make it easy to deliver Netflix video at no cost to them."<sup>78</sup> As with the credit card issue, Netflix had to tailor its approach to the broadband issue to respond to the issues unique to this market. To do so, Netflix collected data that allowed the company to track usage statistics and worked directly with ISPs to address the issues found in these usage statistics. This strategy of localizing allowed the company to fix the problems caused by Brazil's broadband structures to the best of the company's ability.

### **BARRIERS TO THIS STUDY**

In addition to the industrial document barriers outlined in the "Methods" section of my introductory chapter, this chapter has presented a unique methodological challenge. While I have outlined several problems Netflix faced in Brazil (as well as Netflix's solutions to those problems), my analysis of the issues Netflix faced in Brazil is limited by the materials I am able to access. My ability to access Brazilian press sources is limited by my position in the United States and my limited knowledge of Portuguese.

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<sup>78</sup> Joris Evers, "New: Netflix Prime Time ISP Performance Metrics," *Netflix Media Center*, November 11, 2013, <https://media.netflix.com/en/company-blog/new-netflix-prime-time-isp-performance-metrics-1>.

While conducting this research, I found retrieving Brazilian press materials difficult, as my database resources are U.S.-oriented, burying Brazilian materials far down in the search results. Furthermore, I am not fluent in Portuguese; therefore, to access Brazilian press sources I had to rely on the help of translation services, which do not always capture the full spirit of a text, particularly in relation to colloquialisms.<sup>79</sup>

While discussions of the Brazilian market in U.S. press sources were useful in my exploration of issues in the Brazilian market, it is important to remember that U.S. trade and popular press sources presented Americanized perspectives on Netflix's services in Latin America. For example, "Netflix and Fox Sign Licensing Agreement for Latin America and Brazil," a 2012 article in *The Hollywood Reporter*, emphasized the addition of content to Netflix's Latin American library from a U.S.-based company, though the story is about Netflix acquiring content for its Latin American content library from a variety of sources, including a Japanese studio, a Mexican studio, a Panama studio, an Argentinian studio, a Colombian studio, and a Brazilian studio.<sup>80</sup> Although this was a potential starting point for a larger conversation about Netflix's globalized content strategies in Brazil, this diversity in content additions was only mentioned in passing.

Additionally, discussions of international infrastructure issues can be limited in U.S. press discussions. The structural economic issues Netflix faced in the Brazilian market were not addressed by the U.S. trade and popular presses. Indeed, in my analysis

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<sup>79</sup> For more on debates surrounding online translation services' place in academic work, see "Friend or foe? Google Translate in language for academic purposes" by Michael Groves and Klaus Mundt.

<sup>80</sup> Agusin Mango, "Netflix and Fox Sign Licensing Agreement for Latin America and Brazil," *The Hollywood Reporter*, May 14, 2012, <https://www.hollywoodreporter.com/news/netflix-fox-agreement-latin-america-brazil-323988>.

of U.S. trade and popular press sources, I have found that structural economic issues are rarely covered in discussions on Netflix. Though macro-level economic issues related to Netflix (e.g., content expenditures, marketing expenditures, etc.) are covered in trade and popular sources<sup>81</sup> (though more so in trade sources than in popular sources), more micro-level economic issues directly connected to consumers (e.g., the credit card issue) are limited in press discussions. Trade and popular press coverage of economic issues tied to consumers are typically limited to discussions of subscriber numbers<sup>82</sup> and price increases.<sup>83</sup> Issues falling outside of these categories are usually limited to a line or two of discussion in an article about a different issue. For example, in the 2014 *New York Times* article “How to Build an Empire, the Netflix Way,” one line is dedicated to the credit card issue: “Infrastructure issues like establishing payment systems for customers proved difficult in Latin America.”<sup>84</sup> Other trade and popular press outlets largely adhered to the same practices, relegating the credit card issue to one or two lines (if any). The exception to these tendencies comes with the tech press; outlets such as *Tech in Brazil* dedicated to exploring technical issues have written articles explaining this issue in depth.<sup>85</sup>

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<sup>81</sup> For example, the macro-level issue of company ownership was addressed in the 2013 *Variety* article “Epic Fail: How Blockbuster Could Have owned Netflix”; similarly, the macro-level issue of content rights ownership was addressed in the aforementioned *Hollywood Reporter* article, “Netflix and Fox Sign Licensing Agreement for Latin America and Brazil.”

<sup>82</sup> See *The Atlantic*’s “Netflix to Lose a Million Subscribers: It’s Worse Than it Looks” and *The Hollywood Reporter*’s “Netflix Stock Tanks; U.S. Subscriber Base Loses 800,000.”

<sup>83</sup> See *CNN*’s “Netflix customers see red after price hike” and *Variety*’s “Survey: Netflix price increases could spark notable user revolt.”

<sup>84</sup> Emily Steel, “How to Build an Empire the Netflix Way,” *New York Times*, November 29, 2014, <https://www.nytimes.com/2014/11/30/business/media/how-to-build-an-empire-the-netflix-way-.html>.

<sup>85</sup> See *Tech in Brazil*’s “Online Payment for E-Commerce in Brazil.”

## CONCLUSION

While these barriers presented some limitations to the scope of my study, I was still able to gain insight into Netflix's entrance to the Brazilian market. In my analysis of the market, I found that Netflix initially chose to use its U.S.-centric positioning strategies in Brazil due to the success of these strategies in the North American market. However, I also found that Netflix's reliance on these strategies limited the company's ability to effectively grow its presence in Brazil. As a result, Netflix found it had to shift its positioning practices to adapt to this new market, signaling the beginning of the company's shift from using U.S.-centric positioning practices in global markets to using glocalized positioning practices in global markets.

By August 2013, nearly two years after Netflix's initial Brazilian launch, the company was still working to improve its localization strategy in Brazil,<sup>86</sup> though it had begun acquiring more Brazilian and Portuguese-language content, corresponding with a "sharp increase in Brazilian audiences" beginning that year.<sup>87</sup> At the same time, Netflix had begun experimenting with acquiring and financing original series throughout its various markets, following in the footsteps of HBO's original content expansion strategies.<sup>88</sup> The company saw original content programming as a way to further strengthen its presence in the Brazilian market. However, while both the trade press and Netflix's investor and marketing materials show the company was beginning to

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<sup>86</sup> Wallenstein, "Netflix Rewrites Original Series Strategy for Brazil."

<sup>87</sup> Donoghue, "Brazil."

<sup>88</sup> For more on HBO's use of original programming as an expansion tool, see Janet McCabe and Kim Akass' chapter "It's not TV, it's HBO's original programming: Producing quality TV."

incorporate original programming into its positioning strategies, the sources disagreed on the definition of original programming, complicating its role as a positioning device. The third chapter of this thesis will explore how the trade press's definition of Netflix originals initially differed from Netflix's definition of Netflix originals (as outlined in the company's investor and marketing materials). I will also examine the different types of Netflix originals. Finally, I will explore how Netflix's introduction of original productions in Brazil served as a response to the issues Netflix faced in Brazil and how these productions changed Netflix's place in the market.

## **Chapter 3: Original Programs as Market Responses (Third Wave Expansion, 2013-2018)**

### **INTRODUCTION**

In Netflix's third quarter investor letter for 2017, the company stated, "Our future largely lies in exclusive original content that drives both excitement around Netflix and enormous viewing satisfaction for our global membership and its wide variety of tastes."<sup>1</sup> As Netflix grew its global presence, it also began to grow its investments in original content productions. This statement implies how the company saw these two components combining as it continued to expand. Growing the original production portion of its content library allowed Netflix to utilize new tools in its positioning strategies. Netflix's Brazilian expansion had marked the beginning of the company's shift from using U.S.-centric positioning strategies to more glocalized positioning strategies. The company's incorporation of original content investments in its positioning strategies further cemented this transition, allowing the company to develop its glocalized strategies.

However, the rise of glocalization techniques in the company's positioning strategy did not result in the complete erasure of U.S.-centric techniques; while the focus shifted to glocalization, the company retained some of its U.S.-centric strategies. To explore the evolution of Netflix's positioning strategies, this chapter will discuss debates around the definition of the term "Netflix Original," provide a brief overview of Netflix's history of original production investments, discuss Netflix's definition of "global,"

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<sup>1</sup> Netflix, "Q3 2017 Letter to shareholders," *Netflix Investor Relations*, October 16, 2017, 3, <https://ir.netflix.com/static-files/27b950a5-8161-4e8d-8d87-6dc03abbf55e>.

address Netflix's use of the "local," examine how the global and the local come together in the company's development of original productions, and observe how the application of glocalization in these original content investments does not fully erase the presence of U.S.-centric strategies. This chapter examines three key points. First, I found that Netflix uses original productions to appeal to consumers across multiple markets, which involves negotiating the tension between expanding its appeal to local audiences and making sure its content can effectively circulate in multiple territories. Second, I found that Netflix's growing investment in original productions signals a shift in positioning strategies from U.S.-centric to glocalized. Finally, I found that although Netflix began using original content investments to glocalize its positioning strategies, the company has retained some of its U.S.-centric positioning strategies.

#### **FRAMEWORK**

This chapter continues to rely on multiple framing devices: Roland Robertson's "glocalization," Joseph Straubhaar's assessment of "transnational cultural-linguistic markets," and framework outlined in Amanda Lotz's *Portals: A Treatise on Internet-Distributed Television*. The industrial focus in this chapter is shifting from the broader examination of portal's structures to a closer examination of one element of portal's structure: vertical integration. On vertical integration, Lotz observes, "[I]t appears that ownership of substantial intellectual property has already become a necessity for



launching a portal.”<sup>2</sup> She defines portals which also own the majority of the content they distribute as “studio portals.” Netflix’s status as a “studio portal” is complicated because it does not own the majority of its content. However, it is growing the amount of content it owns. Netflix’s CFO, David Wells, addressed the company’s desire to grow its original investments, saying, “We’ve been on a multiyear transition and evolution toward more of our own content.”<sup>3</sup> Netflix currently plans to have “half the content on its streaming service to be original productions over the next few years, with the other 50% representing licensed TV shows and movies,”<sup>4</sup> though the company may increase the percent of original content in its library after it reaches this 50/50 split. I believe Netflix can be considered as an aspirational studio portal; in other words, although Netflix does not currently meet Lotz’s studio portal definition, it is working towards that gold. Therefore, I believe Netflix can be analyzed with Lotz’s studio portal conceptualization in mind.

Lotz notes, “Studio portals help maximize the value of intellectual property holdings.”<sup>5</sup> Lotz’s concept of studio portals is important to this chapter’s discussion of Netflix original productions because it situates their importance within Netflix’s larger industrial structure. In addition to understanding how original productions are used in Netflix’s international expansion strategies, it is important to understand how original

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<sup>2</sup> Amanda Lotz, “Strategies of Internet-Distributed Television: Vertical Integration and the Studio Portal,” *Portals: A Treatise on Internet-Distributed Television* (Ann Arbor: Michigan Publishing, 2017).

<sup>3</sup> Todd Spangler, “Netflix Targeting 50% of Content to Be Original Programming, CFO Says,” *Variety*, September 20, 2016, <http://variety.com/2016/digital/news/netflix-50-percent-content-original-programming-cfo-1201865902/>.

<sup>4</sup> *Ibid.*

<sup>5</sup> Lotz, “Strategies of Internet-Distributed Television.”

productions are important to Netflix's overall business practices. Furthermore, Lotz's "studio portals" conceptualization establishes the structure in which Netflix's glocalization strategies function.

This chapter heavily relies on Robertson's concept of "glocalization," defined as a reframing of the economic concept of "micro-marketing: the tailoring and advertising of goods and services on a global or near-global basis to increasingly differentiated and particular markets."<sup>6</sup> In the context of global original content productions, Netflix utilizes glocalization strategies to make these productions appealing to the widest possible audience. Netflix must figure out how to appeal to individual transnational cultural-linguistic markets to generate local interest while simultaneously figuring out how it can cohere multiple transnational cultural-linguistic markets into larger groupings in order to appeal to the widest possible audience.

In Netflix's application of glocalization strategies, the company manipulates preexisting transnational cultural-linguistic markets. While the company relied on traditional constructions of transnational cultural-linguistic markets (e.g., the DVD regions) during its first and second waves of expansion, the third wave of expansion required Netflix to rethink these groupings. As the company continued to expand globally, it had to rethink how it conceptualized its markets. This chapter uses Straubhaar's concept of transnational cultural-linguistic markets to examine how

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<sup>6</sup> Roland Robertson, "Glocalization: Time-Space and Homogeneity-Heterogeneity," *Global Modernities*, ed. Mike Featherstone, Scott Lash, and Roland Robertson (London: Sage Publications, 1995), 28.

Netflix's application of globalization positioning strategies interacted with traditional flows of international distribution.

### WHAT IS "ORIGINAL"?

As Netflix has developed its lineup of original programming, Netflix, the trade press, and the popular press have developed similar definitions of the "Netflix original" category.<sup>7</sup> In this evolved definition, a Netflix original is considered to be a production financed in part by Netflix. While Netflix also acts as a distributor for its original productions, it is not the distributor for all of its original productions in all of its markets. Netflix's role as a distributor is complicated when it takes part in co-productions, which are productions in which Netflix works with a foreign network and independent production companies to finance and produce a series. In this arrangement, the foreign network receives first rights to distribute the series in its country.<sup>8</sup> Therefore, as Netflix is not the main distributor of all of its original programs, the defining characteristic of a Netflix original is Netflix's role as a financier. For the purposes of this thesis, I consider Netflix's original productions to be productions on which Netflix served as a financier.

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<sup>7</sup> Netflix's Media Center includes four sub-categories of Netflix originals which have the potential to complicate the originals discussion: "original," "global original," "original and global original," and "first run." Additionally, some of the productions Netflix classifies as "original" are not, in fact, original Netflix productions (e.g., *Orphan Black*, 2013-2017). For the purposes of this thesis, I will discuss "Netflix originals" in relation to the generalized definition as agreed upon by Netflix, the trade press, and the popular press. However, I suggest future researchers examine how these subcategories complicate the definition of "Netflix originals."

<sup>8</sup> James Gill. "British drama, global budgets: How co-productions are changing the way TV gets made," *Radio Times*, March 23, 2017, <http://www.radiotimes.com/news/2017-03-23/british-drama-global-budgets-how-co-productions-are-changing-the-way-tv-gets-made/>.

## HISTORY OF NETFLIX ORIGINALS

When Netflix began financing original series in 2012, the company dedicated only 5% of its programming budget—then estimated to be in the billion-dollar range—to original productions.<sup>9</sup> By the third quarter of 2017, Netflix revealed that production investments had risen to make up over 25% of the company’s content budget. At that time, Netflix announced that the company planned to spend somewhere between seven to eight billion dollars on content in 2018.<sup>10</sup> Comparatively, Amazon, Netflix’s closest competitor in the SVOD market, plans to spend an estimated five billion dollars on video content in 2018.<sup>11</sup>

Netflix’s first official original production—as agreed upon by Netflix, the trade press, and the popular press—was *Lilyhammer* (2012-2014). In addition to being Netflix’s first original series, *Lilyhammer* was also Netflix’s first co-production. Netflix partnered with Norwegian production company Rubicon and Norwegian public broadcaster NRK1 to produce the series.<sup>12</sup> Although *Lilyhammer* was not used as a positioning tool for Netflix in Norway, as NRK1 aired the series in Norway, not Netflix, this case demonstrates how Netflix was able to use original productions as glocalization tools. Netflix’s decision to choose a co-production as its first original production signaled the company’s interest in expanding its global operations, in addition to expanding the

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<sup>9</sup> Andrew Wallenstein, “The ‘Sopranos’ strategy behind Netflix’s ‘Lilyhammer,’” *Variety*, February 7, 2012, <http://variety.com/2012/tv/news/lilyhammer-netflix-hbo-sopranos-steven-van-zandt-9649/>.

<sup>10</sup> Netflix, “Q3 2017 Letter to shareholders,” 3.

<sup>11</sup> Alex Weprin, “Amazon Expected To Spend \$5 Billion On Video Content This Year,” *Media Post*, February 23, 2018, <https://www.mediapost.com/publications/article/315055/amazon-expected-to-spend-5-billion-on-video-conte.html>.

<sup>12</sup> Kevin Winter, “BBC Picks Up Steven Van Zandt Drama ‘Lilyhammer,’” *The Hollywood Reporter*, February 6, 2012, <https://www.hollywoodreporter.com/news/bbc-picks-up-steven-van-287228>.

company's role in content ownership. In Netflix's first quarter investor letter of 2012, the company explicitly made this connection between original programming and global expansion, stating, "When we embarked on original programming, it was a strategic experiment. We've gained enough confidence and perspective that we now view it as a strategic expansion. In particular, we are now treating it as a capability we should build, like international, to achieve our long-term ambitions."<sup>13</sup>

As Netflix began to invest in more original content, it also began to consider the role of global audiences in the company's content investments. In the case of *Lilyhammer*, Netflix felt it needed to make the Norwegian production less Norwegian. The company explained, "[*Lilyhammer*] is finding a broader audience, as we have introduced new English speaking characters and more global storylines [in the second season]."<sup>14</sup> Whereas most applications of glocalization strategies involve tailoring global products to incorporate local market elements, making them more appealing to a particular local market, this example demonstrates how Netflix's sometimes uses glocalization strategies in the opposite direction. Here, Netflix took a Norwegian production and applied global elements to the production so it would take on a more global appeal. However, in this process for *Lilyhammer*, Netflix did not eliminate its local elements, meaning Netflix was glocalizing, not globalizing. This example demonstrates how Netflix initially attempted to use original productions to appeal to consumers across

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<sup>13</sup> Netflix, "Q1 2012 Letter to shareholders," *Netflix Investor Relations*, April 23, 2012, 8, <https://ir.netflix.com/static-files/0ebb5ee9-187d-4d96-affe-52a80628c58c>.

<sup>14</sup> Netflix, "Q4 2013 Letter to shareholders," *Netflix Investor Relations*, January 22, 2014, 4, <https://ir.netflix.com/static-files/686a2a70-a042-432d-978d-f5c619b79f3c>.

multiple markets and how the company initially tried to negotiate the tension between retaining the content's local appeal while also making sure the content had a global appeal. Furthermore, this example demonstrates how Netflix first attempted to bypass transnational cultural-linguistic borders in its application of glocalization strategies. In a traditional international distribution context, *Lilyhammer* would be marketed to other European countries (or, more specifically, other Scandinavian countries) because Norway exists within the European/Scandinavian transnational cultural-linguistic market. However, Netflix wanted *Lilyhammer* to transcend transnational cultural-linguistic markets. For example, although the United States does not exist in the same transnational cultural-linguistic market as Norway, Netflix wanted *Lilyhammer* to appeal to both countries.

*Lilyhammer* was very popular with Norwegian audiences. *The Hollywood Reporter* found, "One in five Norwegians watched [*Lilyhammer*'s] series premiere, reaching an overall share of 56.3 percent and resulting in an all-time-high for NRK1<sup>15</sup> and the best ratings for a Norwegian made drama-series ever."<sup>16</sup> However, this popularity did not translate to other markets. *Variety* described *Lilyhammer* as a "low-budget version" of Showtime and HBO's programming when the series first premiered.<sup>17</sup> The series attempted to appeal to the North American market by casting Steve Van Zandt, a well-known American musician and actor, in the lead role. His character was "a New

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<sup>15</sup> In Norway, *Lilyhammer* was distributed by NRK1, a Norwegian public broadcaster.

<sup>16</sup> Winter, "BBC Picks Up Steven Van Zandt Drama 'Lilyhammer.'"

<sup>17</sup> Wallenstein. "The 'Sopranos' strategy behind Netflix's 'Lilyhammer.'"

York mobster...that moves to Lillehammer, Norway as part of the Witness Protection Program,”<sup>18</sup> giving audiences outside of Norway a character to connect with and bring them into the show’s world. On his character’s role in the world of the show, Van Zandt noted, “He’s never going to be completely integrated into that society...But he is becoming a bit Norwegian and part of the culture.”<sup>19</sup> Netflix hoped its audiences would mimic the trajectory of Van Zandt’s character; that is, the company hoped North American audiences would bring *Lilyhammer* into their own viewing culture. However, Netflix did not find the success it was looking for with *Lilyhammer* and canceled the show in 2015.<sup>20,21</sup>

The concept of “success,” which Netflix developed a definition for, was important to the company’s future in original production investments. The company’s fourth quarter letter for 2011 stated,

Our spending on original programming is intended to allow us to test a new licensing model using a small portion of our content budget. If ‘Lilyhammer’ or ‘House of Cards’ [Netflix’s second original production] is popular enough on Netflix so that the fees we’ve paid for each are in-line with that of other equally-popular content on Netflix during the same time period, we’ll consider them a success.<sup>22</sup>

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<sup>18</sup> Andy Greene, “How ‘Lilyhammer’ Changed the TV World,” *Rolling Stone*, December 5, 2013, <https://www.rollingstone.com/tv/news/how-lilyhammer-changed-the-tv-world-20131205>.

<sup>19</sup> *Ibid.*

<sup>20</sup> Denise Petski, “‘Lilyhammer’ Canceled After 3 Seasons On Netflix—TCA,” *Deadline Hollywood*, July 28, 2015, <http://deadline.com/2015/07/lilyhammer-canceled-netflix-1201486351/>.

<sup>21</sup> Although the series was cancelled in 2015, its final season was released in 2014, which is why I list it as airing from 2012 to 2014.

<sup>22</sup> Netflix, “Q4 2011 Letter to shareholders,” *Netflix Investor Relations*, January 25, 2012, 7-8.

Netflix's definition of success for its original productions is slightly more complicated than its definition of market success. In response to the question, "How do you measure success of originals?" the company responded,

We measure the impact of our originals on our ability to acquire new members and engagement, which is correlated with retention of existing members. We also seek reasonable economics relative to other exclusive content on a cost per hour viewed. We also take into account critical acclaim and awards for our originals and the impact original series may have on our brand and attractiveness of our service which helps with member growth.<sup>23</sup>

While economic benefits are a part of how Netflix measures success, critical acclaim, awards, and press discussions also impact this measurement. By these metrics, Netflix's first successful original production was *House of Cards*. In the company's second quarter investor letter of 2013, Netflix was quick to boast about *House of Cards*' awards success, noting in the letter's second paragraph, "Our first set of Netflix Originals earned 14 Emmy Award Nominations, including 'House of Cards' for Outstanding Drama Series. This is the first time an Internet TV show has been nominated for top Emmy awards."<sup>24</sup> Throughout this letter, Netflix positioned *House of Cards* as its premiere original series, using statements such as "We have *House of Cards* and many others"<sup>25</sup> when referring to the company's slate of original series, designating *House of Cards* as the face of Netflix's original series lineup.

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<sup>23</sup> Netflix, "Top Investor Questions," *Netflix Investor Relations*, accessed April 28, 2018, <https://ir.netflix.com/top-investor-questions#fcq-121>.

<sup>24</sup> Netflix, "Q2 2013 Letter to shareholders," *Netflix Investor Relations*, July 22, 2013, 1, <https://ir.netflix.com/static-files/7d1deba4-b03c-423f-a633-c01655ab0e57>.

<sup>25</sup> *Ibid.*, 2.



Interestingly, the role of awards in Netflix’s success metrics appear to be different in international contexts. Although *Lilyhammer* was not considered a success on the same level as *House of Cards*, it also won awards, including the Golden Nymph awards for best European series and best actor (for Steve Van Zandt).<sup>26</sup> However, Netflix did not celebrate these successes as much as it celebrated *House of Cards*’ Emmy nominations (and subsequent wins). This is possibly due to Netflix’s history of U.S.-centric positioning strategies, which I discussed in the previous two chapters. Emmy awards are highly regarded from a U.S. perspective, whereas the Golden Nymph awards are not well known in U.S. circles, as they are a part of the Monte Carlo Television Festival, which takes place in Monaco. It is difficult to compare these two awards directly, as the Emmy awards have a higher level of prestige in critical circles due to the breadth of the television landscape they encompass. While the Golden Nymph awards can only be given to programs that participate in the Monte Carlo Television Festival, Emmy awards can be given to any program airing in the U.S. television market. Still, the Golden Nymph awards are prestigious awards<sup>27</sup> with a 57-year history behind them.<sup>28</sup> The fact that Netflix did not acknowledge these awards in their investor materials suggests that when Netflix considers awards success as a component of overall success, it is primarily focused on American awards success. Additionally, it suggests that the company prioritizes the “Netflix Original” label over international awards wins.

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<sup>26</sup> Petski, “‘Lilyhammer’ Canceled After 3 Seasons On Netflix—TCA.”

<sup>27</sup> The Monte Carlo Television Festival is presided over by the prince of Monaco.

<sup>28</sup> “2017 Golden Nymphs Awards Winners,” *Festival de Télévision de Monte-Carlo*, June 20, 2017, <http://www.tvfestival.com/index.php?Movelang=uk&p=533&id=489>.

Subsequent discussions of awards Netflix originals have won in investor materials have continued the tradition of only focusing on American awards success. Although Netflix used glocalization positioning strategies in its approach to *Lilyhammer*, the company retained its U.S.-centric positioning strategy of using American awards success as an indicator of program success. This demonstrates that even as the company's positioning strategies shifted towards glocalizing, they did not completely shift away from their U.S.-centric roots.

Netflix continued using glocalization strategies as it expanded its investments in original content productions. After *Lilyhammer*'s 2012 premiere, Netflix invested in a number of new original productions. For the purposes of this study, I have isolated seven of Netflix's original productions as being key productions in Netflix's globalization strategy (see Figure 2).



Figure 2: Timeline of Key Netflix Original Productions.

As previously noted, *Lilyhammer* was Netflix's first "official" original production and first co-production, while *House of Cards* was the first original production Netflix considered a success. In addition to these productions, I have also included *Hemlock Grove* (2013-2015), *Between* (2015-), *Club de Cuervos* (2015-), *Narcos* (2015-), and *3%*

(2016-). *Hemlock Grove* was a U.S. production set and filmed in Toronto, Ontario, which made the series take on characteristics of a U.S.-Canadian co-production (e.g, the series appeared to be Canadian, as it was shot and filmed in Canada, though it was technically an American production). While the series was not a co-production, it was the first Netflix original that presented a production as taking on Canadian elements. I have included it as a key original production because it establishes that Netflix began using glocalization strategies in the Canadian market in 2013. This corresponds with the company' shifting its positioning strategies in Brazil. *Between* was Netflix's first official co-production with Canada. *Club de Cuervos* was Netflix's first Spanish-language original and Netflix's first original series produced for Latin America.<sup>29</sup> *Narcos*, another Spanish-language original, was positioned as a multicultural Latin American series, but included a number of Brazilian cultural elements that Netflix used to address issues in the Brazilian market. I include this series in my timeline of key original productions because it is a key example of how Netflix uses original productions to appeal to consumers across multiple markets and how Netflix's investment in these productions signals a shift to glocalized positioning strategies. Finally, *3%* (2016-) is Netflix's first Portuguese-language series and its first Brazilian original production.

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<sup>29</sup> The show is Mexican, but its status as a Spanish-language production resulted in Netflix positioning it as a series for the entire Latin American market.

## GLOBAL TENSIONS

To understand how Netflix utilizes glocalization practices, I will first explore how Netflix understands the concept of “global.” Although Netflix divides audiences by markets, the company simultaneously considers its audience as one “Netflix audience.” In its fourth quarter investor letter for 2016, the company stated, “We continue to invest in local programming to complement our content offering and as a means to introduce new members to our global library.”<sup>30</sup> While Netflix is known for its narrowcasting<sup>31</sup> practices, as discussed in trade<sup>32</sup> and popular<sup>33</sup> presses, this quote suggests Netflix uses programming targeted to individual markets as a way of drawing viewers into its broader content library. Netflix’s Vice President of Original Content, Cindy Holland, further suggested this strategy of aiming for a broader viewing audience in a 2014 interview with *The Hollywood Reporter*. She said, “Creating great series that our subscribers love is job No. 1; the two guiding metrics for us are subscriber reach and how many total hours are viewed. But we’re very happy when series get reviewed and become cultural phenomenons.”<sup>34</sup> Although Netflix’s programming does not appeal to every Netflix subscriber, the company aims to reach the broadest possible audience, bringing its niche

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<sup>30</sup> Netflix, “Q4 2016 Letter to investors,” *Netflix Investor Relations*, January 18, 2017, 3, <https://ir.netflix.com/static-files/e676767a-a068-4244-bda7-3540e8607be2>.

<sup>31</sup> Narrowcasting is defined as a platform “target[ing] to distinct and isolated subsections of [its] audience” (*The Television Will Be Revolutionized*, 6).

<sup>32</sup> For example, see *The Hollywood Reporter*’s “Lost in the Supermarket: How to Survive When There’s Too Much Good TV.”

<sup>33</sup> For example, see *The New York Times*’ “Giving Viewers What They Want.”

<sup>34</sup> Lacey Rose, “Netflix’s Original Content VP on Development Plans, Pilots, Late-Night and Rival HBO (Q&A),” *The Hollywood Reporter*, June 18, 2014, <https://www.hollywoodreporter.com/news/netflixs-original-content-vp-development-712293>.

audience categorizations into one larger mass. This practice of audience amalgamation is how Netflix globalizes its audiences.

To define “global,” Netflix must be able to identify unifying factors to connect its audiences. Evidence of these unifying factors can be found in Netflix’s investor documents. For example, Netflix’s third quarter investor letter for 2017 states, “Our future largely lies in exclusive original content that drives both excitement around Netflix and enormous viewing satisfaction for our global membership and its wide variety of tastes.”<sup>35</sup> Globalizing practices are emphasized here through the discussion of predicted global audiences and a “wide variety of tastes.” Instead of segmenting its audiences into transnational cultural-linguistic markets, in this statement Netflix brings these markets together to create a “global audience” with a “wide variety of tastes.” This statement suggests Netflix has identified unifying factors within its various transnational cultural-linguistic markets that allow the company to cohere these markets into a global market. While I cannot specifically identify what the unifying factors identified by Netflix are due to the company’s protection of its internal data, these examples demonstrate that the unifying factors exist. By demonstrating the existence of these unifying factors, I can establish how Netflix incorporates the “global” into its glocalization strategies.

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<sup>35</sup> Netflix, “Q3 2017 Letter to investors,” 3.

## NETFLIX ORIGINALS AS BRAZILIAN SOLUTIONS

As I mentioned in chapter two, Netflix chose to focus its marketing efforts in Latin America on a select set of countries in the region, as opposed to targeting all 43 countries. Of the select countries targeted, Brazil rose in status to become the most important market in the region. Outside of the North American market, Netflix's two largest markets are now the United Kingdom and Brazil,<sup>36</sup> making Brazil Netflix's largest non-English-language market. As the U.K. market can be considered as existing within the same transnational cultural-linguistic market as the North American market (due to shared cultural and linguistic elements between the North American market and the United Kingdom), of Netflix's top four markets, Brazil is seen as linguistically "foreign" when compared to the other three markets. While English is a cohesive property that brings the North American market and the U.K. together, this linguistic element "others" Brazil. However, because Brazil exists outside of this transnational cultural-linguistic market, Brazil's value in Netflix's conceptualization of the "global" rises.

Netflix's size limits its ability to utilize localization strategies. The company cannot localize its content to appeal to every market, as localizing in over 190 markets is not a fiscally viable strategy. Therefore, Netflix must choose which local markets are key local markets. When Netflix chooses which local markets are key markets, the company

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<sup>36</sup> Lucas Shaw. "Netflix is Booming Outside of America," *Bloomberg Markets*, July 17, 2017, <https://www.bloomberg.com/news/articles/2017-07-17/netflix-scorches-subscriber-forecasts-with-overseas-topping-u-s>.

must consider the local market's global potential. Brazil is a strong example of how Netflix chooses to localize in markets that have a strong global appeal.

Markets like Brazil have provided the company with a central base from which to market their content to in addition to giving the company room to experiment with combining the global with the local in particular ways. Brazil, specifically, has proven itself to be important to Netflix because of its status as a vital cultural production center and site for economic incentives. Many media analytic and consulting firms see Brazil as a viable content testing arena. One such firm, Media Partners Asia, asserted, "If you can get it right in Brazil, you can get it right in India."<sup>37</sup> In 2016, the United States International Trade Administration released a market report on Brazil's media and entertainment industry which reaffirmed the market's global potential, listing it as one of the top media and entertainment export markets in 2016, ranking fifth on the International Trade Administration's list.<sup>38</sup> The report predicted that OTT streaming services will generate \$191 million in 2019, noted to be "a large increase in revenues."<sup>39</sup> The report also suggested that the Brazilian government's 2014 announcement of \$470 million in film and television incentives was a good opportunity for U.S. producers "to partner with Brazilian producers of television series and films for TV, who will have access to additional production funds."<sup>40</sup> In short, Brazil was a strong financial environment for Netflix's pursuit of original content expansion. Although the general economic landscape

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<sup>37</sup> Ibid.

<sup>38</sup> International Trade Administration, "Brazil," *2016 Top Markets Report Media and Entertainment*, 2016, [https://www.trade.gov/topmarkets/pdf/Media\\_and\\_Entertainment\\_Brazil.pdf](https://www.trade.gov/topmarkets/pdf/Media_and_Entertainment_Brazil.pdf).

<sup>39</sup> Ibid.

<sup>40</sup> Ibid.

of Brazil was fraught due to an economic recession,<sup>41</sup> the conditions in the Brazilian market's video content sector provided outside producers, such as Netflix, with fiscal advantages. Additionally, the market had proven to be a success due to the volume of customers and the potential for customer growth. If a show failed to engage markets outside of Brazil but was a "hit" with Brazilian consumers, the show could still be considered a success because it would have succeeded in one of Netflix's largest markets.

To examine how global and local strategies converge in this market, I will examine two Netflix original productions as sites of glocalization: *Narcos* and *3%*. *Narcos*, presented as a "global" production by Netflix, the trade press, and the popular press (but set in and shot in Colombia), is an example of how Netflix injects select local elements into a production to give it a localized feel. *3%*, presented as a "Brazilian" production by Netflix, the trade press, and the popular press, is an example of how Netflix injects global elements into a locally positioned production in order to make it glocal.

### *Narcos*

Netflix utilized glocalization strategies in *Narcos*, a Spanish-language series about the Medellín Cartel in Colombia. The trade press initially discussed *Narcos* as a global production; that is, a production not tied to one country. *Variety's* article announcing Netflix's investment in *Narcos* observed that the series had a Brazilian star (Wagner Moura), would be filmed in Colombia, and had a French studio (Gaumont) contributing

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<sup>41</sup> Ibid.



to production on the product.<sup>42</sup> Similarly, *The Hollywood Reporter*'s article announcing Netflix's investment in *Narcos* observed that the show's plot explored multinational issues (specifically, the rise of cocaine use in the United States and Europe).<sup>43</sup> Although *Narcos* could have been considered a Colombian production (as it is set in Colombia and the plot focuses on a Colombian character), the trade press diluted the role of Colombia in *Narcos* by making their discussion of the program multinational, assisting Netflix's glocalization strategies. By discussing the multinational components of *Narcos*'s production, the trade press emphasized how this was a glocal production, as their coverage emphasized the multiple local and international forces involved in the show's production.

However, Netflix's use of *Narcos* in its glocalized positioning strategies relied more on local elements than the trade presses emphasized. To Netflix, local elements of the production were essential to its potential success, but the local elements Netflix emphasized were not Colombian; rather, Netflix emphasized the importance of *Narcos*' Brazilian elements. In the company's third quarter investor letter of 2015, it stated, "*Narcos*, our latest original series, is a hit and is another fine example of a Netflix original—embraced by both critics and audiences and global in nature (bilingual,<sup>44</sup>

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<sup>42</sup> Todd Spangler. "Netflix Series 'Narcos' to Star Wagner Moura as Drug Kingpin Pablo Escobar," *Variety*, April 1, 2014, <http://variety.com/2014/digital/news/netflix-series-narcos-to-star-wagner-moura-as-drug-kingpin-pablo-escobar-1201151156/>.

<sup>43</sup> Michael O'Connell, "Netflix Orders 10 Episodes of Pablo Escobar Drama 'Narcos,'" *The Hollywood Reporter*, April 1, 2014, <https://www.hollywoodreporter.com/live-feed/netflix-orders-10-episodes-pablo-692660>.

<sup>44</sup> Although Netflix labels *Narcos* as a bilingual program, the trade and popular presses label *Narcos* as a Spanish-language program.

Brazilian director and star, US and Latin American cast, shot in Colombia) with substantial viewing across all our territories.”<sup>45</sup> Although this statement highlights the multinational components of this production, the underscoring of the production’s “Brazilian director and star” demonstrates how the company considered the role of Brazil in its glocalization of this production.

By casting a Brazilian actor as the show’s lead, Netflix could position *Narcos* as at least a partially Brazilian show. Wagner Moura was cast as the lead in *Narcos* in part due to his status as “a major name in Brazil,” having starred in the highest-grossing film in Brazilian history.<sup>46</sup> When he was cast, Moura did not speak Spanish; he only spoke Portuguese. Less than a year before shooting began, he began taking Spanish classes to prepare for the role.<sup>47</sup> Although Moura was able to learn Spanish in time for production, Spanish-speaking Netflix users, particularly in Colombia, where *Narcos* is set, complained about the way that Moura spoke Spanish, criticizing his “distinctly Brazilian accent.”<sup>48</sup> Colombian TV critic Omar Rincón observed, “*Narcos* may do well outside of Colombia...But here it produces anger and laughter” due to the foreign-accented Spanish

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<sup>45</sup> Netflix, “Q3 2015 Letter to shareholders,” *Netflix Investor Relations*, October 14, 2015, 3, <https://ir.netflix.com/static-files/86596c43-18f2-44fa-9ca5-b49f8fdf5d22>.

<sup>46</sup> Maeve McDermott, “‘Narcos’ returns: 8 things you didn’t know about star Wagner Moura,” *USA Today*, September 12, 2016, <https://www.usatoday.com/story/life/entertainthis/2016/09/02/narcos-returns-netflix-8-things-you-didnt-know-star-wagner-moura/89763044/>.

<sup>47</sup> Jackie Strause. “‘Narcos’ Star Wagner Moura Talks Life After Pablo Escobar: ‘I’m Free,’” *The Hollywood Reporter*, September 7, 2016, <https://www.hollywoodreporter.com/live-feed/narcos-star-wagner-moura-pablo-escobar-death-season-2-interview-926177>.

<sup>48</sup> Sibylla Brodzinsky. “‘Narcos’ is a hit for Netflix but iffy accents grate on Colombian ears,” *The Guardian*, September 17, 2015, <https://www.theguardian.com/world/2015/sep/17/narcos-netflix-colombian-accents>.

of the series' lead (as well as the foreign-accented Spanish of several supporting characters).<sup>49</sup>

Netflix chose to ignore potential complaints from Colombian viewers about the characters' accents in order to serve its larger objectives of easing the tension between making the show globally appealing while also retaining production elements that make it regionally appealing. Spanish speakers outside of Colombia would likely be less distracted by non-Colombian accents because they would not be as aware of the Colombian accent as Colombians.<sup>50</sup> *Narcos* viewers who did not speak Spanish, of course, would not be aware of the accent at all, as they would be watching the series with subtitles and unaware of the linguistic nuances. By ignoring cultural factors that are important to Colombian audiences (in this case, linguistic "purity"), Netflix was able to incorporate elements into this production that allowed them to utilize cultural-linguistic elements that would appeal to the Brazilian market. Netflix chose to use local cultural elements that were not necessarily local to the show's story because Netflix saw Brazil as a more valuable market than the Colombian market. In this case, the local component of Netflix's glocalization strategy was chosen because it enhanced the global status of the production and appealed to a more valuable market sector.

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<sup>49</sup> Ibid.

<sup>50</sup> Domestic speakers of a language are more aware of the linguistic nuances of regional dialects. For example, when British English speakers were asked to rate English accents in relation to status, they identified multiple dialect variations (e.g., Somerset, Cockney, Birmingham, etc.) within British English, but only identified one generalized "American" dialect for U.S. English speakers (although the U.S. has a diverse assortment of dialects; Hiraga, 2005).

### 3%

Unlike *Narcos*, *3%*'s creative process was fully grounded in Brazilian culture. In Netflix's press release announcing the acquisition of the series, the company emphasized the Brazilian labor and locations involved in its creation. Erik Barmack, Netflix's Vice President of International Originals, said, "We support Brazilian talent, and we continue to recognize their appeal around the world. Our members globally will get to enjoy this incredible story with complex and rarely portrayed characters who have found a home at Netflix."<sup>51</sup> The show originated as a three-episode pilot released in 2011 on YouTube by Boutique Films, who partnered with Netflix on *3%* once Netflix decided to develop this pilot into a full-fledged series.<sup>52</sup> However, although *3%* began as a Brazilian production, Netflix redeveloped it into a "Netflix original" Brazilian production. This distinction is important because it demonstrates how Netflix utilizes both the local (in this case, Brazilian) and global ("Netflix original") in its positioning strategies.

*3%* is described as a post-apocalyptic thriller set in near-future Brazil, where a select few are allowed to join a privileged society after undergoing an intense and competitive process."<sup>53</sup> The show was billed as Netflix's "first Brazilian original series."<sup>54</sup> One of *3%*'s executive producers, Tiago Mello (who represented Netflix's Brazilian co-producer, Boutique Films), said that the original conception of *3%* was

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<sup>51</sup> Netflix, "Cast of *3%*, the new Netflix Original series, starts filming in São Paulo," *Netflix Media Center*, March 11, 2016, <https://media.netflix.com/en/press-releases/cast-of-3-the-new-netflix-original-series-starts-filming-in-s%C3%A3o-paulo>.

<sup>52</sup> Agustin Mango. "Netflix Orders First Brazilian Original Series," *The Hollywood Reporter*, August 5, 2015, <https://www.hollywoodreporter.com/news/netflix-orders-first-brazilian-original-813309>.

<sup>53</sup> Netflix. "*3%*," *Netflix Media Center*, November 25, 2016, <https://media.netflix.com/en/only-on-netflix/53665>.

<sup>54</sup> Mango, "Netflix Orders First Brazilian Original Series."

turned into “a completely new original Netflix series”<sup>55</sup> once Netflix became involved in production of the show. This quote directly points to the company’s intention to incorporate “global elements” into this localized production, resulting in glocalization. For example, *3%*’s plot incorporates elements of dystopian fiction that have proven to be appealing to audiences across the globe, as demonstrated by the international success of *The Hunger Games* franchise.<sup>56</sup> Many U.S. popular press outlets writing about *3%* directly compared it to *The Hunger Games*; MTV News’ article on *3%*’s first season went so far as to claim, “Netflix’s *3%* Wants To Be a New *Hunger Games* For These Dystopian Times.” By incorporating global elements into the production of *3%*, Netflix was able to both address a problem in its Brazilian market and find a way to benefit its global market. The Brazilian market problem being addressed is Netflix’s previous lack of content appealing to Brazilian consumers (as outlined in chapter two), while the global market problem being addressed is Netflix’s need for content with a broad appeal for its content library. As previously referenced, Netflix identified a way to cohere its niche audiences into a broader, “global” audience.

Based on the company’s discussion of *3%* in its positioning materials, Netflix regards *3%* as a site of connection for the local Brazilian market and for the global audience. In both the trade press and Netflix’s positioning materials,<sup>57</sup> *3%*’s Brazilian-ness is emphasized. As previously discussed, the press release for *3%* emphasized the

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<sup>55</sup> Ibid.

<sup>56</sup> *The Hunger Games* franchise made an estimated \$2,968,200,000 worldwide (“The Hunger Games”).

<sup>57</sup> The development process for *3%* was not discussed in popular press sources; this is not unusual, as production development discussions rarely take place in the popular press.

Brazilian labor involved in this production, listing specific, Brazilian above-the-line workers involved in the project. Additionally, the press release used phrases such as “We support Brazilian talent” and “This is a milestone for the Brazilian market.”<sup>58</sup> Similarly, articles announcing Netflix’s involvement in *3%* from both *Variety* and *The Hollywood Reporter* emphasized the production’s “Brazilian-ness” in their headlines: *Variety* with “Netflix Orders Brazilian Drama Series ‘3%’” and *The Hollywood Reporter* with “Netflix Orders First Brazilian Original Series.”

*Variety*’s article announcing *3%*’s launch date stated, “*3%* is made for Netflix’s 83 million global subscribers, not just Brazil.”<sup>59</sup> Although this article, like the initial announcement article, emphasizes the role of Brazil in *3%*, it also emphasizes the production’s place in Netflix’s “global” audience. While the Brazilian angle is underscored in these documents, it nonetheless co-exists with the global angle. *3%* exists as a site of glocalization where Netflix injected global elements into a localized production.

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<sup>58</sup> Netflix, “Cast of *3%*, the new Netflix Original series, starts filming in São Paulo.”

<sup>59</sup> John Hopewell, “Netflix Sets Launch Date for ‘3%,’ Its First Brazilian Original Production,” *Variety*, October 10, 2016, <http://variety.com/2016/digital/global/netflix-launch-date-3-first-brazilian-original-1201883610/>.

## CONCLUSION

On Netflix's conceptualization of the "global," CEO Reed Hastings said, "To be a successful global service, we need to be more than Hollywood to the world. We need to be a company that shares stories from all around the world."<sup>60</sup> Two phrases in this statement suggest that Hastings means Netflix needs to incorporate more non-English-language content: "more than Hollywood" and "stories from all around the world." "Hollywood" is used in Netflix's positioning materials to describe U.S. English-language content; in this quote, Hastings says the company needs to be "more than Hollywood." "Stories from all around the world" suggests Netflix is looking for stories from locations underrepresented in its content library. This phrasing also suggests the company needs more non-"Hollywood" content, as Netflix's CFO has described Netflix's international content as "about 80% Hollywood content and 20% locally produced, in-language programming."<sup>61</sup> To be "more than Hollywood," Netflix must grow the 20%. Although Netflix is working to grow the 20% in its international original content investments, Netflix's Hollywood investments currently outweigh its international investments, demonstrating that Netflix still prioritizes Hollywood content over "globalized" content.

Netflix justified the current state of the Hollywood/non-Hollywood split in the answer to one of its "Top Investor Questions." In response to the question "Will you have to invest in more local content to be successful internationally?" the company stated, "Hollywood content travels very well abroad with local content representing a minority

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<sup>60</sup> Shaw, "Netflix Wants the World to Binge-Watch."

<sup>61</sup> Spangler, "Netflix Targeting 50% of Content to Be Original Programming, CFO Says."

of viewing in our markets. We make investments in local content (both second run and Netflix originals) as a way to onboard members and introduce them to our global catalog.”<sup>62</sup> In this answer, Netflix views “Hollywood content” as global content. Although this content could be considered locally specific to the United States, the company has found that this content can travel across markets, suggesting it has the cohesive properties of global content. In the company’s execution of glocalization strategies, U.S. cultural properties are considered as a part of the global, not the local, giving them greater weight. Therefore, when a production is glocalized, a production’s local cultural elements would be emphasized in conjunction with the Americanized global elements. Although the company no longer uses U.S.-centric positioning strategies, its glocalized positioning strategies continue to prioritize American cultural elements.

As Netflix continues to grow its international markets, it continues to struggle to find a balance between local market considerations and global market considerations. While Netflix spends billions of dollars on content investments, it still has to strategically place these investments in order to find the biggest return (which, in Netflix’s case, is measured in subscriber numbers). Netflix’s original content investments, as conceptualized by Netflix’s positioning materials and the U.S. trade press, serve as junctures for local and global forces to best balance market-specific and global audiences.

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<sup>62</sup> Netflix, “Top Investor Questions,” *Netflix Investor Relations*, <https://ir.netflix.com/top-investor-questions>.



The conclusion to this thesis will discuss what these junctures reveal about the future of Netflix.

## **Conclusion**

### **GOING GLOCAL**

When Netflix first began its international expansion in 2010, the company relied on U.S.-centric positioning strategies to introduce its service to international markets. This U.S.-centric strategy worked in Canada because the United States and Canada existed in the same transnational cultural-linguistic market. However, as the company introduced its service to Latin America, which existed outside of the North American transnational cultural-linguistic market, it found that the U.S.-centric positioning strategies it used to grow its service in Canada did not work in the Latin American market, as demonstrated in my case study of Netflix in Brazil. Therefore, Netflix had to change its positioning strategies from a U.S.-centric approach to a glocalized approach in order to generate interest in the market. Netflix further developed its globalization positioning practices as it began to incorporate original production investments into its international expansion strategy. However, while Netflix's positioning strategies have shifted from U.S.-centric to glocalized, elements of the U.S.-centric strategy remain, particularly as Netflix considers U.S. cultural elements as being global cultural elements. Therefore, when Netflix glocalizes, it combines localized positioning strategies with U.S.-centric positioning strategies.

At the time of Netflix's Canadian and Latin American launches, Netflix had limited brand recognition outside of North America. Now, Netflix has a wider brand recognition and a more nuanced positioning strategy. However, although the company has made progress in developing its content library, it is still working to build its content library to appeal to a larger portion of its "global" audience. While the case studies I used here demonstrated how Netflix

negotiated the tensions between local market needs and global market appeal, I believe these tensions may manifest differently in different territories. For example, while Netflix's current Hollywood content/local content divide is 80% Hollywood content/20% local content in the majority of its regional markets, there is one market where the content divide is 50% Hollywood content/50% local content: Japan.<sup>1</sup> This distinction is particularly interesting when considered alongside Netflix's Asian expansion efforts. Netflix first entered Japan in 2015, months before it expanded into the rest of Asia (excluding China) in January 2016.<sup>2</sup> At the time of Netflix's Japanese launch, Parrot Analytics, a U.S.-based media analytics company, found that "Japanese audiences had far less interest in Western series such as 'Orange Is the New Black' or 'House of Cards' than folks in North America or Western Europe."<sup>3</sup> Industry executives based in the region agreed with the assessment, believing that "local content is key to success in Asia."<sup>4</sup> Netflix is currently struggling to grow its presence in Asian markets, in part due to the company's lack of content and high prices. One commentator noted,

Here in Japan, Netflix isn't even something worth considering. Hulu is king, and Amazon Prime runs a distant 3<sup>rd</sup> as far as foreign-content providers go. There are several local offerings such as DMM, but I believe they only host locally produced content. Hulu is cheap, too! Only about \$8 a month, while Netflix is considerably more with a lot less content. Amazon is the cheapest at something like \$35 a year, but we only have it for the cheap shipping they provide.<sup>5</sup>

Japan (in addition to the larger Asian market) serves as an interesting site of study for future researchers. While this thesis has established how Netflix has transitioned from utilizing U.S.-

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<sup>1</sup> Todd Spangler, "Netflix Targeting 50% of Content to Be Original Programming, CFO Says," *Variety*, September 20, 2016, <http://variety.com/2016/digital/news/netflix-50-percent-content-original-programming-cfo-1201865902/>.

<sup>2</sup> Patrick Frater, "For Netflix, Local Content Is King in Asia," *Variety*, October 16, 2017, <http://variety.com/2017/tv/markets-festivals/for-netflix-local-content-is-king-in-asia-1202588618/>.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Rancor01, October 2017, comment on Eric Liston, "Why Is Netflix Struggling In Asia, and Who Are They Competing Against?" *Flixed*, October 27, 2017, <https://flixed.io/netflix-struggling-asia/>.

centric positioning practices to glocalization practices, studying Netflix's presence in Japan (not to mention many other territories) would reveal how Netflix is continuing to develop its glocalization strategies. Additionally, examination of the U.S. trade and popular presses' discussions of the Japanese market could reveal how U.S. sources view Asia's role in Netflix's continued expansion.

## **EVOLUTION OF GLOBAL ORIGINALS**

Netflix has not indicated how many different countries it plans to produce original content for. However, the company's first quarter investor letter of 2018 suggests that it is continuing to grow its international original content investments. The letter states,

Our investment in international production continued to increase [this quarter] with big, non-English originals like *O Mecanismo (The Mechanism)*. Loosely inspired by real events and from *Narcos* creator José Padilha, this drama is tracking to be one of our most viewed originals in Brazil. We are also seeing more examples of non-English content transcending borders. This quarter, *La Casa de Papel (Money Heist)* in English language territories, a Spanish language heist thriller, became the most watched non-English series on Netflix ever.<sup>6</sup>

Although this statement does not specify which markets Netflix plans to invest in original content, it suggests that Brazil continues to be a key market for the company, indicating Netflix will continue to invest in Brazilian original productions. Furthermore, this statement demonstrates that the Spanish-language market is a key market for Netflix's continued expansion efforts; therefore, the company is likely to invest more resources in Spanish-language original productions.

This letter also emphasizes the growing importance of original productions in Netflix's globalization strategies. It states,

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<sup>6</sup> Netflix, "Q1 2018 Letter to investors," *Netflix Investor Relations*, April 16, 2018, 2, <https://ir.netflix.com/static-files/419958ac-5fd7-4bcd-9fb1-ebca445a9016>.

We're investing in more marketing of new original titles to create more density of viewing and conversation around each title (i.e. bigger hit in a nation or demographic). We believe this density of viewing helps on both retention and acquisition, because it makes our original titles even less substitutable. Because we operate in so many countries, we are able to try different approaches in different markets, and continue to learn.<sup>7</sup>

Here, Netflix states that it is investing more resources into original productions because the inclusion of these productions in its content library allows Netflix to present unique, tailored products to a variety of markets. Future scholars should continue to examine Netflix's original content investments as a key element of the company's globalization strategy. Original productions could also be studied to analyze the evolution of Netflix's brand identity. In future analyses of Netflix's original productions, I suggest that scholars examine the sub-categories of originals outlined in chapter three in greater depth, as they may provide further insight into how Netflix approaches original content investments.

#### **FUTURE EXPANSION STRATEGIES**

The expansion of international original content investments is currently positioned as Netflix's main strategy for its continued international development by the trade press, the popular press, and Netflix's investor materials. Netflix attributes the rise in its global subscription numbers to "the growing breadth of our content and the worldwide adoption of internet entertainment."<sup>8</sup> However, I suggest future scholars examine Netflix's global expansion strategies outside of its continued investment in original content. While this is currently the company's main strategy for growing its global audience, an examination of the practices Netflix uses in conjunction with original content investments could present a more developed picture of how Netflix interacts with its global markets. Additionally, while this thesis focuses on Netflix's

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<sup>7</sup> Ibid., 3.

<sup>8</sup> Ibid., 2.

original television investments, Netflix has also expanded its original film investments. Studying these films in relation to Netflix's international expansion efforts could provide further insight into the company's global positioning strategies. This thesis provides a base for studying Netflix's interaction with non-U.S. markets; therefore, I suggest future scholars build on this foundation by conducting more micro-level analyses of Netflix's presence in various international markets. Again, I suggest Japan as a useful site for this type of analysis, due to the company's current struggles in the Asian market, though as Netflix continues to grow, more markets will present themselves as strong sites of analysis to examine the relationship between Netflix and local markets.

Understanding how Netflix expanded internationally provides perspective on how the television industry is evolving in the post-network landscape of portals. Developments of SVOD platforms along with shifts in financing and licensing practices have allowed the television industry to become more globalized. Although international distribution has been a component of the television industry since the 1950s, television products have been largely confined to circulating in the markets they were originally produced for. With the development of Netflix's (and its competitors') role in the television industry, audiences now have more access to content foreign to them, making the once segmented industry a more globalized space. Through this evolution to a more globalized space, audiences may now connect with groups they were once limited to accessing.

However, Netflix is only one component of the rapidly evolving SVOD market. There are many facets of this market which future researchers might explore, such the role of local SVOD services in markets outside of the United States or how other U.S.-based services (e.g., Hulu and Amazon Prime) are challenging Netflix outside of the United States. Future studies

could also be enhanced by utilizing different methodological tools, such as interviews with executives or ethnographic studies of audience reception in markets outside of the United States. Work on portals' place within the post-network era of television is still emerging. By studying the role of Netflix and its competitors in this era, scholars will provide insight into how the SVOD sector of the media industries is globalizing television in the post network era. Ultimately, this will lead to a more developed understanding of the role SVOD services play in global industry expansion efforts as well as the role they play in global audience-content interactions.

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