

Brick & Mortar, Localization Strategies, and Netflix's Need for Argentine Expansion

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In 2011, Netflix announced its plans to expand into Mexico and Latin America. This was Netflix's first attempt at an expansion beyond North America, and Chief Executive Reed Hastings credited the decision to the streaming service's prior success in Canada, and the growing importance of Latin America for the international box office figures (Fritz, 2011). Argentina was one of the countries targeted through this expansion, and many commented on the challenges facing Netflix's shift to the markets in Argentina and its surrounding countries: as opposed to their core market in North America at the time, broadband Internet reached a lesser percentage of homes, and its speed in those homes was slower (Associated Press, 2011). As Netflix has spent more time in Argentina, these issues paled to eventual political conflicts and changes in governmental policies. If Netflix wants to see further growth and success in Argentina, they need to invest more in their physical local presence and create content more localized to the Argentine region, rather than just Latin America as a whole. While this will require an increase in time and funding, past reports and past corporate decisions on Netflix's part indicate the importance of not just Netflix within Argentina, but Argentina as a market for Netflix's future success.

Argentina maintains proportionately one of the largest media markets in Latin America as of 2018 (Serpe, 2018). Before Netflix entered the streaming service competition in Argentina, there was already a culture that put value in serialized media, which made the domestic streaming services offered by Argentina's main media conglomerates, Grupo Clarín and Telefónica, profitable (Rodríguez Miranda & Carboni, 2018). Argentina, compared to other Latin American countries, also has a much higher consumption of cable channels and otherwise paid

channels as opposed to free broadcasting, due to government restrictions that led to a stunt in the growth of a national broadcasting system (Straubhaar, et al, 2019).

Piracy of both analog and digital content is commonplace in Argentina, because intellectual property laws are not thoroughly enforced (Becerra, 2012). In fact, some of the most popular pirating websites, such as *Popcorn Time* and *Cuevana*, originated in Argentina (Serpe, 2018). Though piracy is often considered an adversary to production companies and streaming services like Netflix, the prevalence of piracy in Argentina could actually be considered a good thing for the foreign streaming service. The high piracy rate in the country surrounding foreign media (specifically American media) was a positive sign that Argentine people were desiring this kind of content, and they were willing to put in the labor to get it.

When Netflix first launched in Argentina in 2011, users originally responded quite harshly to the catalogue made available to them. Complaining of a lack of local content and poor subtitles/dubs on foreign content (oftentimes without the option to watch in the original English), Argentine viewers complained to Netflix shortly after the initial launch. Ramon Lobato details out this poor planning on Netflix's part in *Netflix Nations*, and while not referencing Argentina specifically, he elaborated on this confusion: in not offering enough local content, Netflix had not localized to Argentina enough, but in not offering proper access to English-language content, they had equally failed in providing the foreign media for which Argentinians had already expressed desire (Lobato, 2019). Netflix actually responded to these concerns relatively quickly, and despite this misstep, Netflix would eventually become the most popular streaming service in Argentina (Serpe, 2018), and Netflix's profits from the country would only continue to rise from its 2011 launch (Statista, 2016).

Netflix's main opposition has been political, rather than cultural. In 2009, Argentina passed the Audiovisual Communication Services Law, which established a regulatory framework for digital media (Rodriguez Miranda & Carboni, 2018). In turn, Argentina actually put more funding into the country's infrastructure in order to allow viewers to reach their Internet-based content more easily, pathing the path for Netflix to be able to arrive on the scene in 2011. However, politics in Argentina shift often, and due to increased economic struggles caused by increased inflation, Netflix would soon face further trouble integrating itself within Argentina's borders.

In 2014, the local government of Buenos Aires decided that the competition created by the foreign streaming service necessitated a tax that would hypothetically even the playing field for the country's local services, despite the disagreement from both Argentine citizens and the national government. This levying of cost on foreign competition quickly became known locally as the "Netflix tax" (Ferdeline, 2014). The 3% gross income tax only applies to the jurisdiction of the capital, which extends as far as the city limits, yet this constitutes over 50% of Netflix's Argentine subscribers (Mango, 2014). The majority who believe that the tax is a direct attack on media freedom or a threat of further impending censorship in Argentina, including the country's president and the mayor of Buenos Aires, point out the unconstitutional nature of the law's creation, as Argentina's constitution only allows the nation's Congress to levy new taxes; therefore, arguably the Buenos Aires legislators do not have the authority to enact this law (Mango, 2014). However, legislators felt the need to regulate Netflix and their subscription price, due to the high inflation rate in the country, in order to protect domestic cash flows (Ferdeline, 2014). Netflix therefore experiences the brunt of the financial loss, but dedicated Argentine

subscribers still feel strongly against the tax which punishes one of their favorite content providers. The negative sentiments of Argentine citizens, and their reference to the law as the “Netflix tax,” indicates the strong cultural value of Netflix in Argentina.

However, in order for the streaming service to continue this success in Argentina, some key aspects of their approach need to change. Considering the economic and political shifts in the country, Netflix has already announced their intent to open physical offices in Buenos Aires (Bertran, 2020). This kind of brick and mortar approach allows the foreign company to become integrated into the host country’s economy, paying taxes directly to Buenos Aires like its domestic streaming service competitors. Since there is not much proof of cultural resistance against Netflix, the largest source of political pushback comes from this economic standpoint (Ferdeline, 2014). Argentina’s depleting reserves in conjunction with their increasing debt make the country’s leaders hesitant to encourage the financial success of a foreign company that continues to take money outside of Argentina. However, should Netflix successfully create more of a physical presence within the country, and therefore relegate a portion of their cash flow back into Argentina’s economy, they could secure a future in which they held more of a legitimate stake in discussions of Argentine economic policies. Bringing money back into the country would also potentially lessen the government’s economic concerns which caused the Netflix tax to be enacted in the first place.

The brick and mortar approach also opens up more opportunities for Netflix to expand its local productions in Argentina. Though Netflix only came out with the first Argentine series, the critically reviled *Edha* (2018), seven years after launching in Argentina, they have taken advantage of the talent available in the country on shows such as *Narcos* (2015-2017) and *Ozark*

(2017-present) (Tami, 2018). In recent years, however, Netflix has faced some criticism from Latin American viewers for their “localized” Latin American content, citing the need for Netflix to create media specifically for certain nations in Latin America, rather than simply regarding Latin America as one mass market (Camacho, 2018). For Argentina, specifically, the company announced in 2018 that it plans on releasing at least four new shows in the coming years, including Martin Zimmerman’s (*Narcos*, *Ozark*) *Puerta 7* (Camacho, 2019). In response to this decision, Francisco Ramos, the Vice President of Original Latin American Productions at Netflix, stated that they will be able “to better serve [their] members and the local creative community, while investing in stories made in Argentina that can be accessed all over the world” (Bertran, 2020).

There are still some concerns about Netflix’s expansion that are more difficult to maneuver, but these issues are not as crucial to the company’s success as one might think. For example, although there is not much Netflix can do directly to combat the level of piracy in Argentina, investing in their physical presence within the country could allow Netflix to redirect this labor into legal and potentially more profitable avenues for Argentine citizens. Argentine people already reported feeling that, comparatively, Netflix was a preferable choice to piracy, due to its reliability and its capacity for faster Internet (Serpe, 2018). Although piracy still remains, it has not been as much of a detriment on Netflix’s expansion as many predicted it would be in 2011 (Associated Press, 2011), and the brick and mortar approach will only further establish Netflix as a respectable competitor against pirated content.

Netflix found great success in Argentina due its citizens’ cultural inclination toward streaming media. They found even greater success when they listened closely to the Argentine

subscribers' specific complaints about a need for localized content and better dubbing/subtitles for U.S. content. The presence of successful domestic streaming services owned by the nation's two largest media conglomerates initially posed an ostensible threat to Netflix's expansion was only made more foreboding considering the effect of Argentina's long lasting and worsening economic troubles on a foreign company's security in the country. However, Netflix's plan to gain a physical presence and begin paying taxes directly to Buenos Aires will likely help appease this political issue and bring more economic opportunities for local people, thus lessening the competition posed by local piracy. Putting in this kind of time and effort might seem like a simple solution, but there are reasons why it is specifically necessary in this situation: Netflix needs to better integrate into the economy, as much as they have in the Argentine culture, in order to secure their future in this country, and with previous success and estimated potential growth, this is an expense Netflix deems entirely worth pursuing.

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