4

Making Global Markets

To put the internationalization of Netflix in historical perspective, let us go back in time to August 1981, when a new and disruptive cable channel called MTV: Music Television was launched in the United States. MTV—which began as a joint venture between Warner Communications and American Express and was purchased by Viacom in 1985—was the first channel to show music videos 24 hours a day. Massively popular with American teenagers, MTV was a pop-culture phenomenon in its day and is often credited with inventing (or at least popularizing) the music video format. Within a few years of its launch, MTV was available in almost all U.S. cable households. Soon, MTV executives started hatching plans to take the channel global, starting with the newly liberalized media markets of Europe, Latin America, and Asia. Their aim was to build an international advertising market and youth culture around American pop music, with the music video at its center: "One world, one music" was the company's slogan at the time. "Our goal is to be in every home in the world," stated Tom Freston, president of MTV Networks (Banks 1997, 44).

Figure 4.1. Japanese comedian Ryota Yamazato and Reed Hastings at the launch event for Netflix Japan at the SoftBank Ginza store in Tokyo, September 2, 2015. Photo by Ken Ishii/Stringer.

MTV Europe was launched in 1987, and four years later Viacom launched MTV Asia, reaching 42 countries by satellite. These channels were strongly based on the American MTV template and tended to play the same mix of English-language pop videos. The assumption was that MTV's powerful brand would be enough to hook global audiences and that it did not need to customize its programming to suit local tastes. The vast majority of video clips featured American and British artists (Banks 1997, 48). MTV executives justified this approach by stating that "music transcends culture" (Hanke 1998, 223). Advertisers such as Coca-Cola and Levi-Strauss, who were backing MTV's international operations, were of the same opinion, believing that rock'n'roll was an "international language" (ibid.).

This one-channel-for-all approach was a failure. Faced with mediocre ratings, MTV learned that audiences outside the United States were generally less interested in Michael Jackson and Madonna than they were in their own stars, styles, and music genres—from mandopop to merengue. Apparently, not everybody wanted MTV, at least not in the same way. MTV executives soon decided they needed to change their approach, and they began to provide more locally relevant programming. Across Asia, Rupert Murdoch's Channel [V]—MTV's archrival[1]—had been tailoring its programming to local tastes with some success, so MTV followed suit. They increased the proportion of videos by local artists, hired multilingual presenters, and introduced customized blocks of programming specific to each territory. Eventually, MTV Asia morphed into MTV Korea, MTV India, MTV Japan, MTV Taiwan, and so on. By the early years of the new millennium, the company's strategy for global markets had evolved. MTV

executives now described their network as “a global brand that thinks and acts locally” (Santana 2003). MTV Networks CEO Bill Roedy spoke proudly of the differences between the various MTV channels in Asia:

> MTV India is very colorful, self-effacing, full of humor, a lot of street culture. China’s [MTV] is about family values, nurturing, a lot of love songs. In Indonesia, with our largest Islamic population, there’s a call to prayer five times a day on the channel. . . . Japan’s very techie, a lot of wireless product. (Roedy in Gunther 2004, 116)

As these comments suggest, the MTV strategy had changed from an “American export” model to a network of national channels showcasing diverse music styles and locally produced series and skits. MTV executives had learned two important lessons during this period. Localization matters in television markets, and the global will not simply displace the local.

The story of MTV’s misadventures raises issues that are directly relevant to Netflix’s internationalization some twenty years later. In both cases, we see the launch of a disruptive American television service, the attempted export of this service to global markets, uneven uptake, cultural blowback, and then a commitment to localization and local content production. MTV and Netflix are quite different—one is a cable/satellite network, the other a subscription streaming aggregator and studio—so we have to be careful about comparing the two. Nonetheless, there is a common pattern here: initial overconfidence, followed by a dawning realization that what works at home does not always work abroad. This chapter will consider some of the challenges Netflix has faced in the major Asian

markets—China, Japan, and India—where the limits of U.S. media power are plainly visible.

Global Television, Local Markets

The history of transnational television is full of these frictions between the global and the local. In his influential work on pan-European satellite television, the sociologist Jean Chalaby (2005, 2009) offers a detailed analysis of the localization process for U.S.-based channels, including Discovery, National Geographic, and Bloomberg, which entered Europe during the 1980s and 1990s. Chalaby observes that, at the start of the transnational satellite boom in the 1980s, these channels were initially

> unsure how to transmit across boundaries and were at first oblivious to local culture and market conditions. They had overestimated audience appetite for foreign programming and launched general entertainment channels in direct competition with established national broadcasters. To remedy this, they have progressively focused on niche markets and begun adapting their feed to local tastes. In the mid-1990s, the emergence of networks demonstrated how corporate players had acquired a much better understanding of the relationship between the local and the global, and learned how to *articulate the two polarities while benefiting from both*. (Chalaby 2005, 62, my italics)

Chalaby identifies a spectrum of strategies that channels use to localize their offerings, ranging from superficial repurposing of existing content to a deeper, and more expensive, localization. These options include, in order of increasing complexity, subtitling, dubbing, or adding live

voiceover; splitting the original feed to create local windows for additional programming; and creating "a network of local channels around a core broadcasting philosophy," the most expensive and complicated option, which involves considerable investment in original programming (Chalaby 2005, 56).[2]

Chalaby and other scholars who have studied localization in television industries—including Moran (1998, 2009), Straubhaar (2007), and Kraidy (2008)—describe in their work a process of cultural learning through commercial experimentation. By the 1990s, television executives had become cosmopolitans, learning the lesson of cultural difference through trial and error. They understood that international markets do not simply exist, waiting mutely for great content, but must be *made*—which is to say that they must be primed, cultivated, and maintained. Audiences' preference for locally produced content cannot easily be overcome, so it must therefore be respected. These findings lead Chalaby to conclude that the business of transnational television, at least in Europe, is all about the challenge of localization. Serious broadcasters understand that global audiences have distinctive tastes, preferences, and expectations. Local expertise—including staff with a deep understanding of a country's media landscape—is necessary for success. Tailored strategies and programming are needed for each market. The conceptual correlate of this is that the logic of capital does not necessarily lead to standardization, as per the media-imperialist critique of multinational media corporations, but can also lead to increased *difference*.

This literature on transnational television and localization offers important insights for understanding Netflix's situation as it seeks to compete in more than 190

Figure 4.2. Reed Hastings at the launch event in Bogota, September 9, 2011. Photo by Getty Images.

Figure 4.3. Marketing campaign for *House of Cards* season 5 in Warsaw ("It's time for me to take the helm"), June 2017. Photo by Grand Warszawski/Shutterstock.com.

Figure 4.4. In-store display promoting Netflix's tieup with the French telco SFR—seen in Lyon, July 1, 2017. Photo by the author.

Figure 4.5. Promotion for the Spanish-language Netflix original series *Las Chicas del Cable* in the Puerta del Sol, Madrid, April 2017. Photo by Curtis Simmons/Flickr (CC BY NC 2.0 license).

international markets simultaneously (albeit with different levels of commitment to those markets). As we have seen, the tendency among multinational media companies is to begin the internationalization process with an undifferentiated image of the global market, seen as a flat space waiting for innovative content (recall Reed Hastings's remarks at CES—"no more waiting!"). Over time, this undifferentiated image of the global market is replaced with a more complex understanding of national *markets*, seen as discrete containers characterized by diverse tastes, income levels, languages, genre preferences, willingness to pay, and other factors. The challenge of global media is to adapt to these diverse conditions. Success, then, is not just about pushing out great content to the world but also about understanding and negotiating cultural differences.[3] While Netflix initially struggled with this hard truth, it has fully absorbed this lesson over the course of its internationalization.

Long-Distance Localization

One of the distinctive features of internet-distributed television services is that they can enter into and compete in a large number of international markets without extensive in-country infrastructure. For earlier transnational television channels and film studios setting up in foreign markets, market entry used to require "boots on the ground"—a local office, sales and customer service teams, local agents to advise on strategy, and partnerships with producers, brands, advertisers, and telcos (Thompson 1985; Donoghue 2017). This was seen as the necessary work of media globalization. As Michael Aragon, a senior

executive at Sony Network Entertainment, said in 2011 when asked about the challenge of securing local content for international operations: "You can't just run this out of L.A. . . . That was an assumption we quickly blew out of the water" (Aragon cited in Wallenstein 2011). Netflix confounded this logic by coordinating most of its international expansion from its base in California. When entering the key European market of France, Netflix employed only "a stripped down Paris-based team of three people" (Goodfellow 2015). In Canada, its oldest international market and still one of its most important territories, Netflix never opened a local office until it began producing in earnest there after 2017. At the time of the Australian Netflix launch, the only local staffer on the ground who could answer press inquiries was a freelance publicist.

Netflix now has offices in many countries—including the Netherlands, Singapore, Taiwan, Japan, Mexico, Brazil, England, and India—but it centralizes its operational activities in only a few locations. Most customers are billed through Singapore, Amsterdam, or Los Gatos, for instance.[4] Programming and marketing for many countries is managed out of the Beverly Hills office. Wherever possible, Netflix prefers to invest in its technical infrastructures rather than spending money on foreign offices and staff. It mines its greatest asset—its vast stores of customer data—to identify trends that help it understand what kind of programming current and potential Netflix subscribers in international markets might want.[5]

Netflix's approach to localization was a source of derision for industry observers from the old world of broadcasting. John Medeiros of the Cable & Satellite Broadcasting Association of Asia mocked the approach:

"They [Netflix] sit in Silicon Valley, open the gusher, and the sweet crude flows all through the global network, just like that? . . . Maybe that happens (for a while) in a technical sense, but in a commercial sense, you still need access to customers and to their payments, and the governments that you're flipping off might have something to say about that" (Medeiros cited in Frater 2016). Yet the structure has been effective in the sense that it enables Netflix to run most of its most labor-intensive activities from a few key global hubs, achieving economies of scale. The logic of long-distance localization extends the spatial patterns begun with satellite broadcasting in the 1980s, which precipitated this separation of a broadcaster's service zone from its operational infrastructure.

The Unavoidable Labor of Localization

While in-country overhead can be minimized, there is still an enormous amount of work that needs to be done on the Netflix platform to make the service relevant and legally compliant in international markets. For example, content, interfaces, and artwork must be translated; content must be classified to conform to local laws; country-specific catalogs must be programmed and maintained; catalog categories must be tweaked for each country to highlight local content; payment systems must be adapted so that people can pay with local debit cards and through their mobile carriers; billing systems must be flexible enough to collect national and state-based sales taxes and repay them to tax authorities; and age-verification and PIN protection mechanisms must be introduced to comply with national laws. Taking this into consideration, over-the-top distribution does not erase the *need* for localization; it just

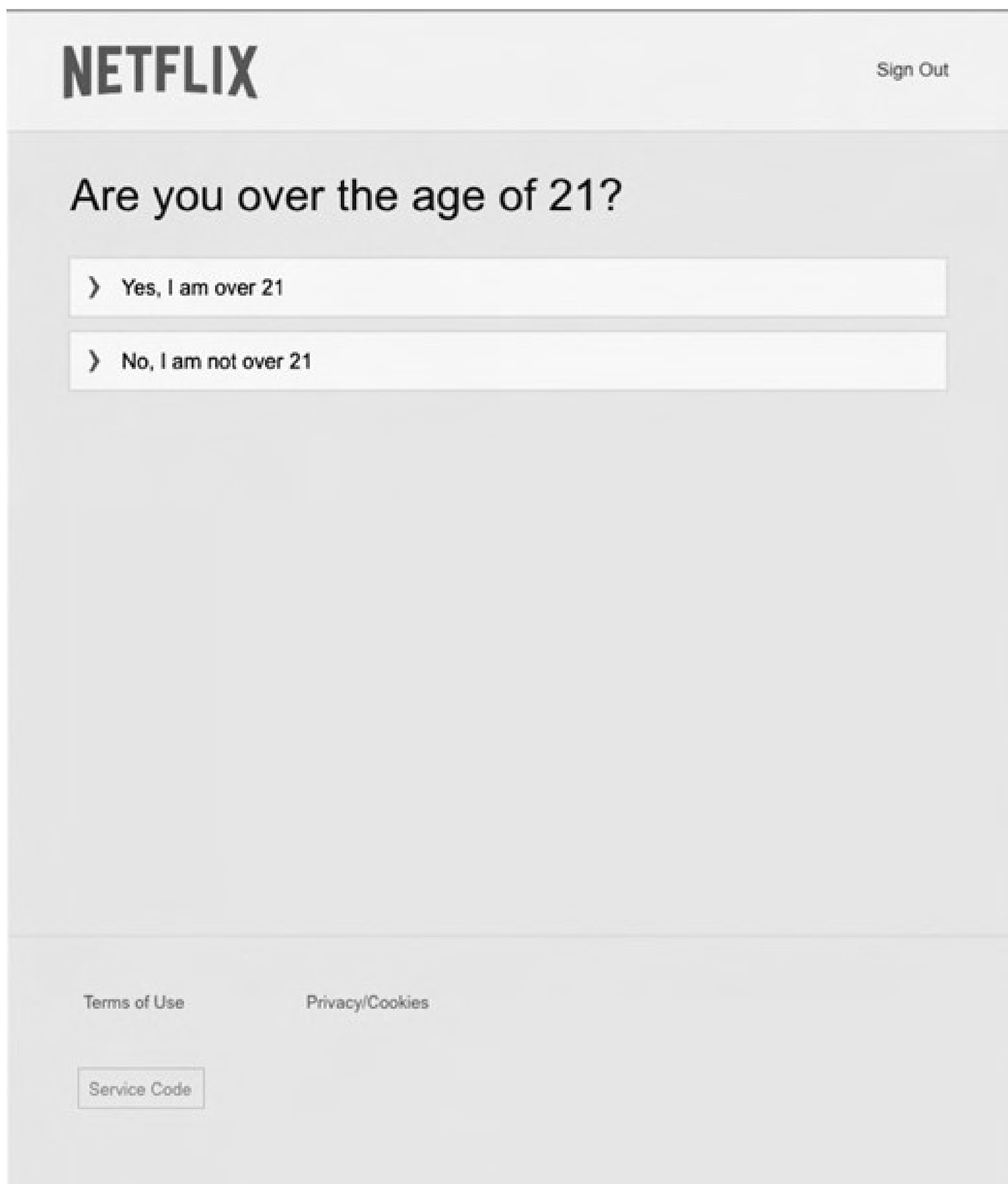

Figure 4.6. Adapting to local laws: Netflix Singapore features an age-verification system for R21+ content. Screenshot by Alexa Scarlata.

reorganizes this labor across new spaces. As an example, consider how Netflix manages the essential business of translation. Netflix's translation efforts are organized around its priority list of "official languages." Initially this was a small list, including English, Spanish, and Portuguese, in the early years when Netflix was available only in the Americas, but over time it has grown to more than 20 languages—Arabic, Chinese, Danish, Dutch,

Figure 4.7. Adapting to local tastes: Netflix Australia features a category for Australian movies, as is the case in various other Netflix territories. Screenshot by Alexa Scarlata.

English, Finnish, French, German, Greek, Hebrew, Italian, Japanese, Korean, Norwegian, Polish, Portuguese, Romanian, Spanish, Swedish, Thai, and Turkish. These are the languages that Netflix prioritizes for interface translation and subtitle availability. For licensed content, Netflix relies on the subtitles and audio files supplied by rights-holders, but for originals, the company must produce its own subtitles (and sometimes audio tracks) in these official languages.

Each Netflix original production requires a small army of translators. Two hundred translators were reportedly needed for subtitling one season of the Netflix original talk show *Chelsea* (Roettgers 2017). Netflix cannot do all this work in-house, so it uses a large network of freelancers and also subcontracts with firms in the United States, Poland, Spain, Australia, Mexico, England, and Sweden.[6] These companies form part of the GILT (globalization, internationalization, localization, and translation) sector, a relatively new industry that has been growing since the 1990s and now employs thousands of localization experts across the world who specialize in making websites and apps work effectively for an international user base.[7] These are the unsung foot soldiers of digital media globalization, the people who

know how to smooth out the frictions of culture and make services like Netflix work everywhere.

The number of variables to consider when translating for Netflix is enormous. Some licensed content has subtitles hardcoded into the video file. Older viewing devices are not always able to process non-Latin alphabets. Fonts must be carefully chosen, mindful of local connotations and visual aesthetics in different countries.[8] There are also issues on the supply side. Even when subtitles exist for licensed content, they are not necessarily made available in all Netflix territories (studios withhold the full range to discourage out-of-region access). This has prompted a workaround that is known to many Netflix users and seems to be tacitly endorsed by the company: one can trigger a secret menu in the desktop browser interface, then upload a subtitle file in DXFP format, and this will play on top of your chosen video.[9]

Interface translation has its own specific requirements. Arabic reads right to left, while Latin languages read left to right. The length and spacing of words changes from language to language, and thus the interface design may need to be adjusted to retain the standard look and feel. This requires some complex programming to build templates that can then be automatically filled with the correct text content. In addition to menu options, the display of content titles, ratings, and metadata may or may not change according to location. These illustrative examples from an evolving system give us a sense of the scale of backstage work required for Netflix to run effectively in multiple markets.

At the time of writing, Netflix's translation is still done by humans, though the company is keen to standardize this work as much as possible. In 2017, the company introduced

a new in-house system called Hermes, described as "the first online subtitling and translation test and indexing system by a major content creator" (Fetner and Sheehan 2017). Until it was shut down in 2018, apparently due to an overwhelming response from applicants, Hermes was Netflix's automated system for registration, testing, and accreditation of translators. Potential employees would create a profile on Hermes and then take a test to assess their skill in translating idiomatic English expressions ("made a killing," "hit the road") into their own language. Test results determined the amount and kind of work Netflix would then offer the translators through the platform. Hermes was just one of the many ways that Netflix, in classic Silicon Valley style, has been trying to engineer efficiency into the "cultural" business of translation.

How do we critically evaluate Netflix's translation efforts? There are at least two ways of thinking about this. On the one hand, we could criticize the unavailability of minor-language translated content, noting that Netflix, rather than being a truly global service, tends to cater exclusively to the major language groups—only 20-odd languages out of more than 6,500. From this point of view, Netflix falls short of its ambition to "delight viewers in 'their' language" (Netflix 2017a), because it has not invested enough in minor-language interface translation, subbing, and dubbing. A more charitable assessment would be that Netflix is now translating more content into more languages than almost any other media service has done or could do. Millions of hours of content are translated annually, and savvy users can add to the stock of subtitles by uploading their own. Seen from this perspective, Netflix may well be the most multilingual television service that has ever existed.

How successful have Netflix's localization efforts been? The answer to this question depends on where you ask it. In the sections that follow, we will consider how Netflix has fared in three important Asian markets: India, Japan, and China. I gratefully acknowledge the work of Thomas Baudinette, Wilfred Wang, and Ishita Tiwary, who assisted me with this research.

India

India, with a vast English-speaking middle class, is a prized market for multinationals. Internet penetration and smartphone use are rising rapidly among an overall population of 1.3 billion people. Satellite and cable systems are well established, with hundreds of available channels. Yet India's demography, regulations, and infrastructure pose many challenges for foreign media companies. Higher-speed internet connections are still largely restricted to urban elites, and their typical bandwidth speeds of 1–2 Mbps are too slow to use video streaming services reliably. Meanwhile, data caps of 40–50 gigabytes per month mean that even those subscribers with high-speed home connections are often wary of using up their precious gigabytes on data-hungry video applications.

India has no fewer than 14 official languages, including Bengali, Gujarati, and Punjabi, as well as the widely spoken Hindi. There is no single language that is understood by all citizens across this vast nation. Proficiency in English, the default language of business, advertising, and elite communication, is limited to around a third of the population. What's more, India's film industry, Bollywood, is an unassailable force: it is by far the most popular form of moving-image entertainment, with Hollywood coming

in a distant second. India has its own thriving star system, its own storytelling traditions, its own dream factory. There is no obvious *need* for foreign content, even though the market is certainly big enough to support a range of styles.

In India, Netflix has been licensing Hindi, Gujarati, and Punjabi shows, but at the time of writing its Indian content collection is still seen as poor compared to what is available on other services. Instead, Netflix is reliant on the pulling power of its original content among English-speaking elites. As a Netflix executive told the *Times of India* shortly after the local launch, "We are after a small base of English-speaking people, who travel abroad, are wealthy and want to watch the latest shows that are being launched in the US" (Sarkari 2016).

Netflix got off to a late start in India, arriving as part of the global switch-on in January 2016. By this time, the streaming market was already crowded. Rupert Murdoch's Star TV had its own streaming service, Hotstar. Other popular services included Eros Now (from the Bollywood studio Eros), Sony LIV, and DittoTV (from the cable and satellite provider Zee TV). There were also smaller services, such as Spuul (specializing in Hindi, Punjabi, Tamil, Malayalam, Telugu, and regional-language content), Hooq (with a big catalog of classic Indian TV shows), and Muvizz (specializing in independent movies). Amazon Prime Video was another competitor and was starting to invest significantly in local content. Amazon premiered its first Indian original series, the cricket-themed drama *Inside Edge*, in 2017, along with a series of stand-up performances from popular Indian comics. Hotstar had already released a number of original productions, including romances, talk shows, and several comedy series. For its part, Netflix

responded by commissioning several high-profile original series, including *Selection Day*, described as a "story of cricket and corruption" and based on a novel by Booker Prize winner Aravind Adiga; *Sacred Games*, an organized-crime drama also based on a best-selling novel; and the romantic comedy movie *Love per Square Foot*.

Censorship is a delicate issue in India. Movies must receive a certificate from the Central Board of Certification. Explicit sex and violence is typically censored, and Bollywood movies steer clear of this material entirely. On television, offensive terms (including common words like sex, hell, boob, and beef) are muted or cut from the subtitles, while sex scenes and nudity are taboo. A number of U.S. cable channels operating in India, including Comedy Central and Fashion TV, have recently been temporarily taken off the air by Indian regulators for violating these standards.

Digital media services are not regulated under the same law and thus occupy a grey area. Global TVOD services—including Google's Play Store and Apple's iTunes—have erred on the side of caution and only sell films that have received a CBC certificate (and thus only sell the censored cinema version if multiple versions exist). Apple Music blocks adult-rated music from its Indian service completely. In contrast, Netflix has stated that it will not be cutting its original content for the Indian market. Vice President Chris Jaffe went out of his way in January 2016 to reassure Indian subscribers that "nothing on the service is censored at this point" (Jaffe in Avari 2016). This signals an appeal to cosmopolitan Indian subscribers, who prefer uncensored content, despite the regulatory risk inherent in this approach.

In January 2017, a Netflix India employee, acting in an unofficial capacity, took to Reddit to promote the service to users.[10] The staffer then stuck around to field a series of questions from other users in what became an unofficial AMA (Ask Me Anything) session about Netflix's Indian service. The resulting conversation, while not necessarily representing the official Netflix line, provides an interesting insight into how Netflix is seen by tech-savvy middle-class Indians. Many users raised the issue of catalog discrepancies, with the Netflix staffer fielding numerous questions about missing titles. ("*Interstellar* is available in Cook Islands and Kiribati but not India. Can somebody explain plis? [*sic*]") The feedback was not all negative. A number of users wrote that they loved the content and the Netflix experience, especially the lack of censorship. One user wrote, "Thank you . . . Netflix, our Lord and Savior from censored butchered content."

Throughout the discussion, the issue of price kept rearing its head as a key source of irritation. User after user criticized Netflix for being so expensive compared to other digital media. "You have to 'Indianise' the price," wrote one user, "For example, Apple Music is R120 per month here as opposed to $10 in US."[11] As these comments suggest, pricing is a major challenge for Netflix—which maintains a more or less uniform global price point across all countries, with a few exceptions—especially in low-income markets. In India, the monthly cost for the Netflix basic package is presently 500 rupees (US$7.50) per month, in line with its price in most other countries. However, the Indian streaming services are much cheaper than this. Eros Now charges only 49 rupees (US$0.70) per month—a tenth of the Netflix price. Hotstar is free

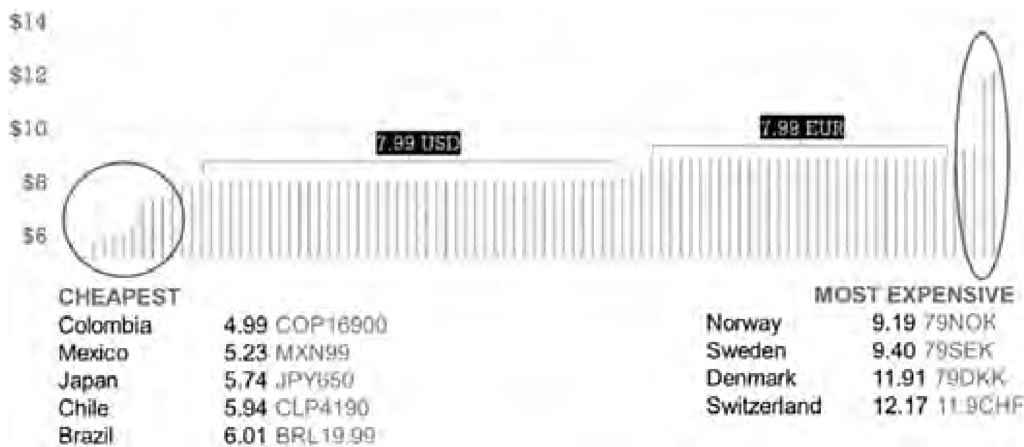

Figure 4.8. Global pricing for the Netflix basic plan, converted to U.S. dollars. Data source: UNOGS.com, September 18, 2017.

with advertisements, or 199 rupees per month for the premium SVOD service with new-release U.S. content and live cricket matches (this price is discounted to 133 rupees per month for upfront payments). Amazon Prime Video is also cheap, at 499 rupees per year (around 42 rupees per month).[12] This massive price gap places Netflix in a different market from its local competitors, making it strictly a premium service for Indian elites, expats, and well-to-do TV buffs. In a country where the lower classes do not have domestic internet access and share content through USB sticks and portable hard drives, paying 500 rupees per month for streaming media is a commitment not to be taken lightly—and not easily available to those without credit cards in any case.

International price setting is one of the most fascinating aspects of the global media economy—a seemingly technical process that actually reflects a whole set of embedded ideas about consumers, money, and value. Digital media services operating transnationally can choose to offer a uniform global price, eliminating the possibility of

arbitrage, or they may set a unique price point for each country that can be calibrated to local users' willingness and ability to pay, allowing the maximum value to be extracted from each market. Faced with this choice, Netflix—like most multinational subscription services—chose the former option. The obvious consequence of this choice is that Netflix is unaffordable for all but the most affluent Indians. The pricing strategy "makes it more expensive than many local competitors, and leaves piracy an attractive option" (Frater 2016). This, it seems, is a price Netflix is willing to pay to remain a premium product.

Japan

For a different but equally instructive case, we can look to Japan—a wealthy, media-saturated market that has pioneered many forms of digital distribution. Netflix's Japanese service launched in September 2015 as part of the company's limited Asia-Pacific expansion, comprising Japan, Australia, and New Zealand. Initial launch pricing was 650 yen (US$5.50) for the basic package, rising to 1450 yen for the Premium multiscreen HD package. This put Japan at the cheap end of the global scale, which seems surprising given the relative wealth of the Japanese market (it is one of a handful of countries where Netflix has set a low price point).[13] Given the ultracompetitive nature of the Japanese streaming market, this was a carefully considered choice for Netflix.

Japan was already awash with digital media services, and had been for years prior to Netflix's launch. Given long commuting times in Tokyo and other major cities, Japanese consumers have long had a deep familiarity with mobile television and interactive services. Telcos and en-

tertainment providers in Japan have developed clever ways of getting content to consumers, including subscription, ad-supported, and transactional models, often combined in one platform. Popular services included NicoNico, a popular YouTube-like site; Gyao!, an AVOD service part owned by Yahoo; Hikari TV, J.Com On Demand, and dTV (all distribution platforms linked to major telcos and cable providers); and streaming-service offshoots of media retailers (DMM.com, Rakuten Showtime). In the SVOD space, there was Avex, Amazon Prime Video, and Hulu Japan. The latter is a former subsidiary of the U.S.-based streaming service Hulu that was purchased by Nippon TV in 2014 and now runs independently from its American namesake, offering HBO content exclusively and a wide range of *anime* and Korean, Taiwanese, and Japanese dramas.

Netflix did not fill a clear market gap in Japan, where consumers are strongly inclined toward their own national shows. As Rob Cain (2015) noted in *Forbes*, this posed a problem for Netflix in Japan because "the billions of dollars that Netflix has invested in Hollywood movies and TV series, and in original programs like *Orange is the New Black*, *Unbreakable Kimmy Schmidt* and *Wet Hot American Summer* will have negligible value there." Instead, Cain predicted that Netflix "will have to spend (and probably overspend) for programming rights to Japanese language content that it will be unable to amortize anywhere else in the world." This proved correct. When Netflix launched in Japan, the company boasted that it had 40% Japanese content in its catalog (Shaw 2015), which was a lot higher than in many other Netflix territories—but it still was not enough for Japanese audiences. The local content deficit was compounded by the fact that Amazon Prime video had a much larger collection of Japanese content in its

library, making Netflix seem uncompetitive and out of touch.[14]

This led some commentators to use the term *kurofune* (black boats) when reporting on Netflix's launch in Japan (as in *kurofune no nettofurikkusu*—Netflix of the black boats).[15] *Kurofune* is a historical reference to the gunboat diplomacy of Commodore Matthew Perry, who ended two centuries of Japanese isolationism by forcibly "opening up" Japan's markets to foreign trade in the 1850s. Used in this context, the term evoked the perceived threat of mass-scale importation of low-quality American content into Japan. While not a mainstream view in the Japanese media, the use of the *kurofune* discourse—including by some right-wing commentators—gives a sense of the political context surrounding Netflix and other foreign media services entering the Japanese market.

Netflix was especially criticized for its measly collection of *anime*, which is a must-have for any streaming service in Japan. To be fair to Netflix, this *anime* deficit was not entirely the company's fault. Netflix found it very difficult to license high-quality *anime*, reflecting its wider problem of securing rights to popular Japanese content. The major Japanese TV networks already had most of the rights locked up—Nippon TV had teamed up with Hulu, Hikari TV had a deal with Asahi Media Group, DMM partnered with Toyko Broadcasting Service (TBS), and so on. Netflix, with few options, eventually inked a deal with the remaining commercial broadcaster, Fuji Television, and now serves as the exclusive online distributor of Fuji-produced content. But securing licensing rights to popular content remains an issue for Netflix in virtually all countries, and this became a key driver of Netflix's decision to start producing its own content rather than licensing from uncooperative suppliers.

Netflix began coproducing with Fuji in 2015, releasing the reality show *Terrace House* and the coming-of-age drama *Atelier* (set in a lingerie company). *Hibana*, a show about aspiring stand-up comics, soon followed. In 2017, Netflix upped the ante by announcing it would release 20 new *anime* series of its own, including a reboot of the well-known 1980s series *Saint Seiya: Knights of the Zodiac*. Even bigger news followed when Netflix announced it was developing a new animated family series based on the ultrafamous Rilakkuma (literally *relax-bear*) cartoon character, akin to Hello Kitty in its stature inside and outside Japan. These recent developments mark a significant shift in Netflix's Japan strategy. In addition to claiming that these new investments would help them compete in the market, Netflix executives have also been talking up Netflix's ability to help these quintessentially Japanese shows reach an international audience. "Just as there are fans of Hollywood in Japan, there are die-hard anime fans in France, Brazil, the U.S. and all over the world," stated Greg Peters, president of Netflix Japan (Peters in Jarnes 2016).[16] He added: "There's this tremendous potential in Japan; so many stories—the manga, the novels—and now we have the opportunity to unlock this potential in a way that hasn't been able to be done before."

It is too soon to tell whether these new production commitments will represent a turning point for Netflix in Japan. Based on current trends at the time of writing, it seems reasonable to think that Netflix will remain popular with Anglophiles, expats, and hardcore TV buffs but may struggle to win over the masses given the fierce competition from local incumbents. In this uniquely inward-facing media market, Netflix may have to resign itself to remaining a niche ser-

vice rather than a mass-market proposition—a solid outcome compared to the company's troubles in China.

China

China's scale cannot be ignored by any serious media company, and Netflix has long had its eye on the "world's biggest audience" (Curtin 2007) as a site for future expansion. Given the nature of Chinese media and its regulation, Netflix executives approached the market with caution and care. Rather than switching-on without permission as they did in most other countries, Netflix undertook a long engagement with Chinese regulatory agencies and local media companies, seeking a partnership arrangement that would let it operate legally in the PRC.

The early signs were not promising. By early 2016, many commentators were wondering whether Netflix would ever crack the Chinese market. In the global switch-on at CES, China was the only major country left off the new Netflix coverage map. (The other non-Netflix territories—Iran, North Korea, and Crimea—were affected by U.S. trade sanctions.) Hastings knowingly quipped during his CES launch speech that "the Netflix service has gone live in nearly every country of the world but China—where we also hope to be in the future," prompting laughter from the audience. But Netflix's China service was not to be. In October 2016, Netflix included the following passage in its third-quarter investor release:

> The regulatory environment for foreign digital content services in China has become challenging. We now plan to license content to existing online service providers in China rather than operate our own service in China in

> the near term. We expect revenue from this licensing will be modest. We still have a long term desire to serve the Chinese people directly, and hope to launch our service in China eventually. (Netflix 2016, 4)

These sentences spelled the end of its plan to launch a Netflix China service. Soon after, Netflix announced a partnership with the streaming site iQiyi (owned by the search giant Baidu), which would become the official home of Netflix original content in China. Netflix had clearly decided there was no possibility of running its own platform for the Chinese market. It was not the only American company to come to this conclusion. Earlier in 2016, Uber had sold its China operation to rival ride-hailing company Didi Chuxing.

To understand why Netflix failed to enter China, we need to know something of the country's famously complex and opaque internet regulations. State control over digital platforms falls under the jurisdiction of at least three regulatory bodies, the Cyberspace Administration of China, the Ministry of Culture, and the Cyberspace Affairs Council of China, each of which issues its own decisions. Approval from all three regulators is needed for a service to operate safely in China. Further regulatory risk was added by the fact that the official rules made no semantic distinction between subscription streaming services and live streaming services (i.e., amateur webcam channels)—the latter being a particularly sensitive area for the Chinese government, which was cracking down on "anti-social" online activities. Professional video streaming services risked being tarred with the same brush as the live streamers.

Even if Netflix had been able to enter the Chinese market, it would have found it difficult to attract more than a

niche audience. As in India, cost was an issue: the standard Netflix global price of $7.99 USD/EUR was around four times what Chinese services such as iQiyi and Leshi were charging. Without lowering its price point, Netflix would have been out of reach of most consumers. Another challenge was the highly competitive nature of China's streaming ecology. Powerful incumbents—including video streaming platforms run by Baidu, Alibaba, and Tencent, the all-powerful "BAT" triumvirate that dominates China's tech economy—left little room for Netflix to make an impression. These platforms also have a distinctive style that Netflix could not easily compete with. Unlike Western portals, Chinese video services are multipurpose platforms that integrate free ad-supported video alongside many other services, including dating, shopping, real estate, and transport. Netflix's pure-play SVOD model would have been quite unfamiliar to most Chinese (and possibly somewhat boring). Netflix would also have inevitably faced the same local-content problem it encountered in other markets.

In any case, Netflix never got a chance to try its hand in China. The regulatory hurdles that blocked its entry remind us that global media is a domain of national policy as well as of commercial strategy. In this sense, the China case stands as a reminder that "the state remains the primary site of governance with the capacity to make decisions, assign resources and enforce laws within territorially defined societies, and they do so in the context of a global order that—in spite of multiple forms of supranational institutional and organizational innovation—remains primarily defined around a system of states" (Flew, Iosifidis, and Steemers 2016, 7).

Reading across these three case studies—India, Japan, and China—we can appreciate how difficult and messy

the internationalization process is in practice for multiterritory digital services. Seen from this perspective, dynamics of demand in global television do not appear to have been fundamentally changed by digital distribution, in the sense that localization remains vital to explaining the success or failure of transnational television services. Netflix, despite its many powers, cannot easily overcome the locality of taste—it must *localize* itself if it wishes to compete on a global scale. Furthermore, it is by now apparent that global markets do not simply lust after Netflix in the same way that MTV thought the world might "want their MTV"—as a pure kind of obsession for a superior product. Instead, Netflix is in the more difficult position of needing to try and find its own niche within resilient and highly local taste formations wherever it goes.

In this sense, the story of Netflix is not entirely new; indeed, it closely resembles the history of transnational satellite channels expanding into Europe, Latin America, and Asia in the 1990s. The basic dynamics of taste and demand—what television audiences in different countries want from their television services—do not appear to have been fundamentally altered by digital distribution, confirming the home truths established by Chalaby and Straubhaar. Nonetheless, there are structural differences between an over-the-top television service like Netflix and the earlier broadcast and satellite TV companies. While Netflix faces the same market challenges as other transnational television companies, it has distinct ways of addressing them. Its long-distance localization model represents a Silicon Valley engineering response to a much older, and thoroughly cultural, business challenge—the stubborn locality of taste.

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Haters Back off!
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New Releases
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NARCOS
BEAUTY AND THE BEAST
NETFLIX
EL CHAPO
NETFLIX
YOU GET ME
BROOKLYN NINE-NINE

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ORANGE is the new BLACK
NETFLIX
PUNISHER
LUCIFER
Rick and Morty
NETFLIX
THE SINNER
PRISON BREAK