

# Policy and Politics Dictate the Growth of the European SVOD Market

*By Hannah Goodwin and John Vanderhoef*

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Local streaming services in Europe have been around for over seven years and have proliferated quite successfully in their respective national markets. However, audience frustration leaves the door open for a larger international company, like Netflix or Amazon, to standardize the market and usurp the regional consumer base.

In December of 2011, for instance, Netflix [announced](#) its expansion into the UK and Ireland, calling attention to the rapidly growing VOD streaming market in Europe. While the move was a risky one for Netflix, which in 2011 was not yet turning profits from its other international endeavors in Canada and Latin America, the expansion underscored the company's commitment to the European marketplace. In addition to its current services in the UK, Netherlands, and Scandinavia, Netflix is currently [focused](#) on setting up services in Germany and France. Similarly, Amazon also has slowly expanded its presence in Europe, despite some struggles to grow its overall subscriber base. So too has Sweden's [Voddler](#). The service

currently operates in six European territories, including Spain and Italy.

With some [estimates](#) putting the value of the EU market at \$1.1 billion by 2017, these companies are positioning themselves to reap the benefits of market growth. Nevertheless, they face formidable competition from over 700 local VOD companies sprouting up throughout the region over the past five years. How this transnational battle plays out will contribute to the ongoing evolution of the global digital media ecosystem.

**Here are four reasons why the European Union is a place to watch for streaming video:**

- 1) Audience demand for quality streaming services is high.
- 2) Frustrated EU audiences turn to unauthorized content.
- 3) Major VOD players from the US have to wrestle with a marketplace fragmented by national policy and licensing issues.
- 4) Some EU services may emerge as strong transnational competitors to their US counterparts.

**1) Audience demand for quality streaming services is high.**

Many companies offer VOD streaming services in different territories, but audiences have communicated dissatisfaction with local providers and are eager to get access to international companies that offer quality, quantity, and convenience. Right now Western Europe roughly [accounts](#) for 11 percent of the worldwide over-the-top SVOD market, consisting of 7 million subscribers and generating annual revenues of \$575 million, all of which conveys a clear desire for streaming video content in

the region.

Prior to Amazon's 2011 [acquisition](#) of LoveFilm and the ensuing



[expansion](#) of its

VOD

services in Germany, the German cinephile blogosphere was abuzz with complaints about Germany's lack of a reasonably priced, sufficiently stocked, legal VOD system. Many talked of pirating the films they wanted to see, while [others](#) provided "how-tos" on finagling proxy servers to stream the otherwise inaccessible US version of Netflix. Other bloggers [lamented](#) the amount of time it was taking Netflix to expand into Germany, a move that the company is now making.

While domestic German streaming services have cropped up and developed a significant subscriber base, many Germans are not content with their offerings. Germany's biggest online VOD provider, [Video Buster](#), offers few HD films and has been [accused](#) of suffering from glitches and having an "extremely limited selection." These frustrated sentiments have been [echoed](#) throughout the EU. Other western European countries, like the [UK, France, and Spain](#), have also failed to establish dominant online VOD companies, leaving the door open for the expansion of American-owned companies like Amazon and Netflix, or the growth of a comparable EU-wide service like

Voddlер.

## 2) Frustrated EU audiences turn to unauthorized content.

Another indication of consumer demand for a quality streaming video service is the high level of piracy in the region. The popular peer-to-peer file-sharing system BitTorrent took up [17.4 percent](#) of all bandwidth consumption in Europe in 2013. This is just 10 percent less than Netflix's bandwidth consumption in the US and almost double what US BitTorrent usage accounted for (9.2 percent) across the same period. Accordingly, Europeans' reliance on unauthorized services may make Netflix's expansion into Europe more difficult, since those who have become accustomed to torrent sites might be reluctant to start paying for content.



Netflix's anticipated 2012 expansion into Spain was put on hold, perhaps because the Spanish market is particularly challenging for paid services. The Spanish government's especially lax approach towards policing piracy has effectively [created](#) "an Internet-wide safe harbor for infringing activities." In 2011, movie theaters in Spain sold only 100 million tickets, while four times as many movies were illegally [downloaded](#).

Ironically, Scandinavian-based Voddlер expanded its cloud-

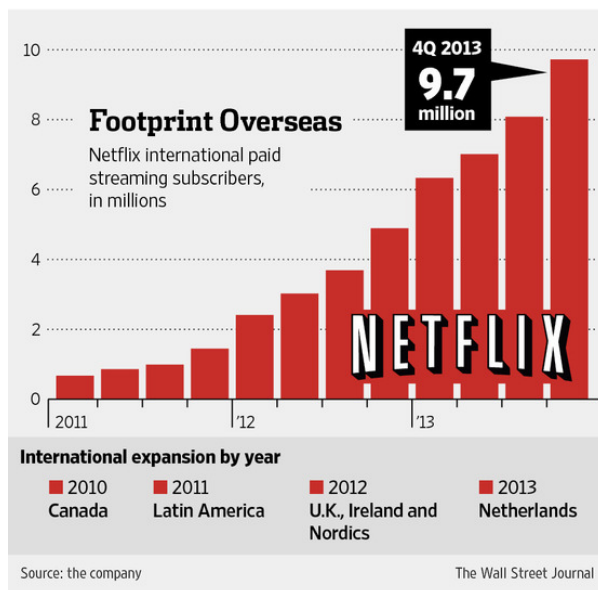
based streaming service to Spain in April 2012 for just this reason. According to Voddler VP of Communication Anders Sjoman, the company wanted to try out its service in a country with a high piracy rate because it indicated that viewing behaviors already had transitioned to online video and thus individuals might be more easily persuaded to pay for a convenient service (link to MIP interview). Netflix is [aware](#) of the difficulties piracy presents, but like Voddler, it might benefit from framing such behavior as an opportunity rather than a challenge. In fact, torrent traffic tends to [drop](#) in countries where Netflix operates, suggesting unauthorized access is at least partially driven by unsatisfied demand.

### **3) Major VOD players from the US have to wrestle with a marketplace fragmented by national policy and licensing issues.**

With over 700 competing services, one significant question concerning streaming VOD in the region is who will dominate the market: local nation-based companies or larger, international services? A 2010 European Union [report](#) of the VOD market recognizes the immense obstacles that the EU's diversity presents for VOD companies. For international services like Netflix and Amazon, one central barrier to European expansion is EU media policy, which is designed to protect Europe from perceived US media imperialism, and foster national media industries within the EU.

The central directive that gives EU nation-based providers a leg up on foreign competition is [Television Without Frontiers](#). First applied solely to television, TWF was updated in 2007 to include

provisions for VOD streaming. A key part of this updated directive was the institution of a policy insuring that any transnational VOD provider originating in Europe would “have to comply only with the legal provisions in force in the country in which they are established,” allowing for an easy flow of content across borders. Conversely, any non-European provider must work within the laws of each EU country in which it offers its services. This is a huge barrier to any US provider, as evidenced by Netflix’s slow, country-by country expansion. As [one analyst](#) puts it, “You do one set of deals in the US, you can reach 300 million people. The European Union has 300 million people, but you have to do like 27 sets of deals.”



Non-European VOD providers also have to pay licensing fees in each individual country, dramatically raising the cost of content. This is because US studios demand different amounts for each market, depending on population, economic standing, and media consumption habits. Given the small populations of EU countries relative to that of the United States (an average of 18.5 million versus more than 300 million), the licensing fees will

be higher relative to the customer base in each market. In addition to being more expensive, crossing borders in the EU requires working with the existing rights holders in each EU country, a complicated process that cannot easily be streamlined. For instance, each market has a collecting society that monitors and collects local fees for music licenses on film and television product. Working with different rights holders and different licensing deals means that content cannot be uniform across borders. The market will necessarily be fragmented, with different availability, terms, and regulations for the same service in different countries.

The issue of translation is also significant in a region where films will often be viewed across language barriers. Not only must VOD providers make films available in all of the EU's languages; they also must negotiate disparate film translation preferences. Although some people may like dubs using their local language, others prefer the original audio with subtitles instead. This issue is more than just a personal one for a VOD industry that faces strong, divisive [opinions](#) on translation of foreign films. For a company like Netflix, whose entire business model is based on personalization, problems like these risk hurting their branding and image.

Regardless of these substantial obstacles, the EU remains an extremely [attractive](#) market for American SVOD firms. By 2011, [94.4 percent](#) of EU residents had DSL access, and many of those [residents](#) used their broadband connections to watch television programs online. Across the entire European Union, the percentage of bandwidth usage taken up by paid VOD is

currently considerably lower than US figures, suggesting that there is room for growth. While VOD companies will have to wrestle with copyright and licensing issues and the reality of widespread piracy, their reception so far suggests a potentially profitable future.

#### **4) Some EU services may emerge as strong transnational competitors to their US counterparts.**

Even while Netflix and Amazon are experiencing a degree of success in their respective European markets, some major EU companies are also making significant strides. For instance, despite possessing a relatively large and content-hungry audience, the market in the UK presents perhaps the toughest [competition](#) for American firms. This is mainly because the British company [Sky Movies](#) has exclusive first pay window rights for films from all six of Hollywood's major studios. Amazon secures exclusive rights to some American [content](#), but the company has [struggled](#) to maintain its 2 million subscribers spread across the UK and Germany. Doing slightly better, Netflix has so far [garnered](#) almost 2 million subscribers in the UK alone on the strength of its licensed content (*Breaking Bad*) and original series (*House of Cards*). Netflix's low price (£5.99 per month) makes it possible for Brits to subscribe to the service in addition to another SVOD service, taking advantage of its compatibility with multiple platforms and different selection of titles to [complement](#) other VOD content. Nonetheless, in a bit of posturing, Sky Movies head Ian Lewis has [said](#) he does not even see Netflix or Amazon as competition to Sky in the UK, since Sky was established first and is so much more developed.



Yet despite Sky's penchant for grabbing the majority of exclusivity deals, the service has shown very little movement toward international expansion outside of Sky Italia, which operates independently of BSkyB.



In France, Vivendi's Canal+ leads the VOD market through its [Canalplay Infinity](#) service, but the corporation also has set its sights on surrounding EU markets with a much larger initiative. In January 2013 Vivendi launched a SVOD service in Germany called [WATCHEVER](#), offering a selection of local, European, and International movies and TV programs. Vivendi has said they want to [expand](#) "WATCHEVER" to other EU countries, with the goal of creating "the Netflix of Europe."

Despite Mediaset's Premium Play and Telecom Italia's [Cubovision](#) providing locally-based SVOD competition, Voddler [launched](#) in Italy in May 2013. With a presence in the Nordic countries, Spain, and Italy, Voddler has positioned itself as an early leader in the European SVOD space, providing Netflix, Amazon, and the nascent WATCHEVER with a formidable competitor.

However, due to the EU's fragmented policies, it may be that Europe will not see a dominant transnational service for some time, allowing companies on the national level, like Video

Buster, BSkyB or Telecom Italia, to continue to develop and increase their market share within their respective countries. Indeed, given the hurdles their U.S. counterparts face in attempting to expand seamlessly across national boundaries, European national companies are perhaps better positioned to secure transnational success because they can more easily navigate EU policies.