

## Comparing Digital Media Industries in South Korea and Australia: The Case of Netflix Take-Up

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The broader purpose of our research is to compare digital media business and policy in Australia and South Korea. Our assumption is that comparisons of this kind offer heuristic insights into the underlying dynamics of contemporary digital media industry change. We take the view that media industry transition can usefully analyze digital media transformations through a political-economic lens, together with more specific cultural frames for policy and regulation. We examine the industry and policy implications of over-the-top (OTT) media services in overseas markets by comparing Netflix in Australia and Korea. We also argue that contested policy agendas for broadband infrastructures, including emergent 5G mobile broadband, are critical to how OTT services such as Netflix build audiences. We argue that seminal media theorists Raymond Williams and Brian Winston can assist in comparatively analyzing technical innovation and take-up of products, services, and applications in the media sector. In terms of our methodology, we combine critical media studies approaches to industry change through data derived from industry interviews, trade articles, reports, and relevant “gray” and scholarly literature.

*Keywords: OTT video, SVOD, IPTV, social shaping of technology, regulation, policy, local content, Netflix*

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One of the most striking transformations in the media industry in recent times is the introduction of Internet-based OTT (“over the top”) video services. Since the advent of the Internet, audiences have witnessed the mass-scale distribution of video shifting from the traditional broadcasting terrestrial networks to Internet distribution platforms.

OTT video refers to video distribution services on demand and from any location through smart devices using the Internet, instead of conventional TV networks. Therefore, OTT video distribution is able to bypass existing pay TV operator networks like Internet protocol television (IPTV) and cable TV. OTT video providers can be categorized into several groups, based on their primary business model such as subscription-based video on demand (SVOD), ad-supported on-demand, user-generated content, transactional video on demand, linear OTT, TV Everywhere, cable/satellite/IPTV operators, and so on.

Arguably, the best-known global OTT video brand is Netflix. Netflix, an SVOD service player, began video streaming services in 2010, reaching more than 125 million subscribers worldwide in about seven years (Setoodeh, 2017). Netflix is in operation in more than 190 countries, and its traffic account for 35% of the total Internet traffic in North America. In 2018, it will spend \$US12–13 billion on content with its production of more than 80 feature films, exceeding any Hollywood studio (“Netflix Is Moving,” 2018). In terms of an innovative corporation, Netflix can be compared with the introduction of Apple’s iPhone, which was a key trigger for the mass popularity of smartphones. Netflix can also be thought of as belonging to the new transformational breed of megascale digital platforms, offering an intermediary space for consuming entertainment products (Srnicek, 2017).

Australia was one of the first countries in the Asia Pacific region for Netflix to do business with, and Netflix has had a very successful take-up in a short period of time. In contrast, Netflix’s market performance in South Korea (hereafter Korea) has been much less successful. The usage rate of Netflix in Korea is very low compared with other competitive services. Netflix is estimated at less than 0.5% of all OTT usage rates (Korean Communication Commission, 2018).

Korea and Australia share common ground in having strongly dominant terrestrial broadcasting markets. In other words, Korea and Australia both have a market structure in which the pay TV market has been difficult to grow (Ovum, 2015a; Ovum, 2015b).

In this article we ask, “Why, therefore, has the subscription growth of Netflix been so much higher in Australia than in Korea?” We examine the industry and policy implications of OTT media services in overseas markets by comparing Netflix in Australia and Korea. Related research questions we aim to address are as follows:

*RQ1: What is the Netflix strategy for global expansion?*

*RQ2: Why has Netflix had greater relative success in Australia than in Korea?*

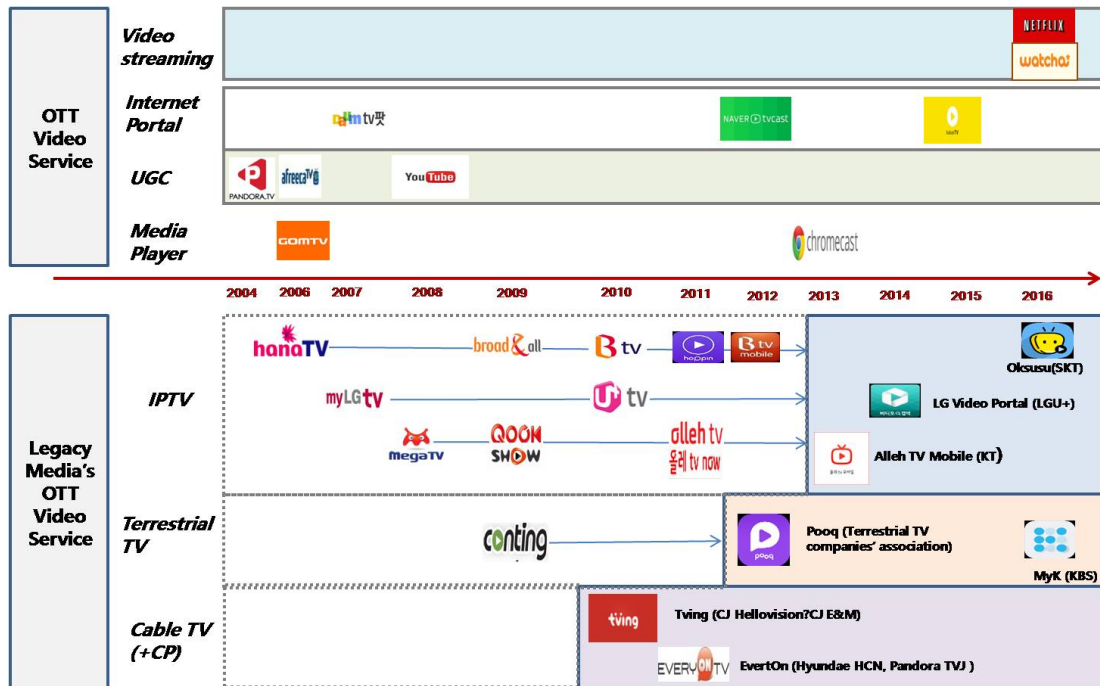
*RQ3: What are some of the implications we can draw for this kind of digital media transformation worldwide?*

This study compares and analyzes Netflix’s relative success and failure in Australia and Korea, respectively, and in so doing highlights strategic implications of OTT media services in overseas markets. Our methodology combines critical media studies approaches to industry change with both large and small data sets, including data derived through industry interviews, trade articles, reports, and other relevant “gray” and scholarly literature.

**A Brief Overview of the Audiovisual Markets in Korea and Australia**

Before we explore in greater detail the subscriber growth for Netflix in Korea and Australia, we will first provide a brief overview of the audiovisual distribution contexts in each country. Korea’s audiovisual market can be characterized as a mature, highly connected, and competitive one that has evolved to be dominated by several large incumbent players across telecommunications, and terrestrial broadcasting and cable providers in the OTT space.

OTT video services in Korea have been available since 2004, when Internet-based online video content services including Pandora TV, Gom TV, and Afreeca TV were launched (Figure 1).



Source: Data sources including newspapers, blogs, and the authors’ own research.

**Figure 1. Brief history of OTT video in Korea.**

Although Korea launched the first OTT video service earlier than other countries, OTT video services have not yet begun in a full-swing growth sense. This is mainly because it has been difficult for OTT video services to secure a critical mass of pay TV subscribers in an environment where cable TV and IPTV, the leading pay TV market players, provide Internet services and pay TV services simultaneously (NTVX, 2016). As a result, the competition between traditional pay TV and OTT has never reached more intense levels (Kim, Kim, & Nam, 2016).

In recent years, however, the OTT video market has begun to grow at a more rapid pace. According to the Korea Communications Commission's (2016) report on competition in the broadcasting market in 2016, the OTT video market size in 2016 was estimated to be worth approximately US\$278 billion, and it is expected to increase by 53.7% to US\$425 billion in 2017.

The growth of OTT video services in Korea can be explained by three principal reasons (Cher, 2017). First, the growth of OTT video services in Korea has been driven by the rapid adoption of smart devices such as smartphones and tablet PCs. Korea has one of the highest smartphone penetration rates in the world. According to Pew, 88% of the population owns a smartphone ("Spring 2015," 2015).

Second, video on demand (VOD) has become a part of daily viewing habits for Korean audiences. Watching videos on smart devices in Korea has become a common phenomenon, and online video watching has now overtaken traditional TV watching. Korean viewers are more likely to watch video on smart devices (55%) than on PCs (23%) or TV (22%). This change in viewing habits is linked to the growth of VOD and the proliferation of OTT video services ("Video Is Mobile," 2016).

Third, a less restrictive regulatory environment has contributed to the growth of OTT video services. In Korea, cable TV and IPTV are more heavily regulated than OTT TV. Although rigid regulations are imposed on cable television services—including "must carry" rules, public channels, domestically made content, regulations for broadcasting content, and commercial ads—OTT services are not required to follow these regulations (Hsu, Liu, & Chen, 2016).

Australia's audiovisual market, on the other hand, has until as recently as 2015 been locked into a near monopoly subscription pay TV and VOD sector, dominated by a single provider, the News Corporation–Telstra jointly owned provider, Foxtel.<sup>2</sup> However, in the past few years, several SVOD OTT providers have entered the market. These include Stan, Quickflix, Presto, Fetch, Dendy Direct, Foxtel Go, and Foxtel Play, with Foxtel Now being the latest offering. Amazon Prime Video launched in Australia at the end of 2016.

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<sup>2</sup> News Corp and Telstra announced plans to restructure Foxtel from a 50/50 corporate structure to 65/35, giving the news company the right to appoint executive management, chairman, and majority of the board (Chau, 2018). The argument was that a merged company would be in a stronger financial position to invest in new technologies, hold its ground against streaming services like Netflix, and buy premium sports rights and content. These plans were not opposed by the national competition regulator, the ACCC.

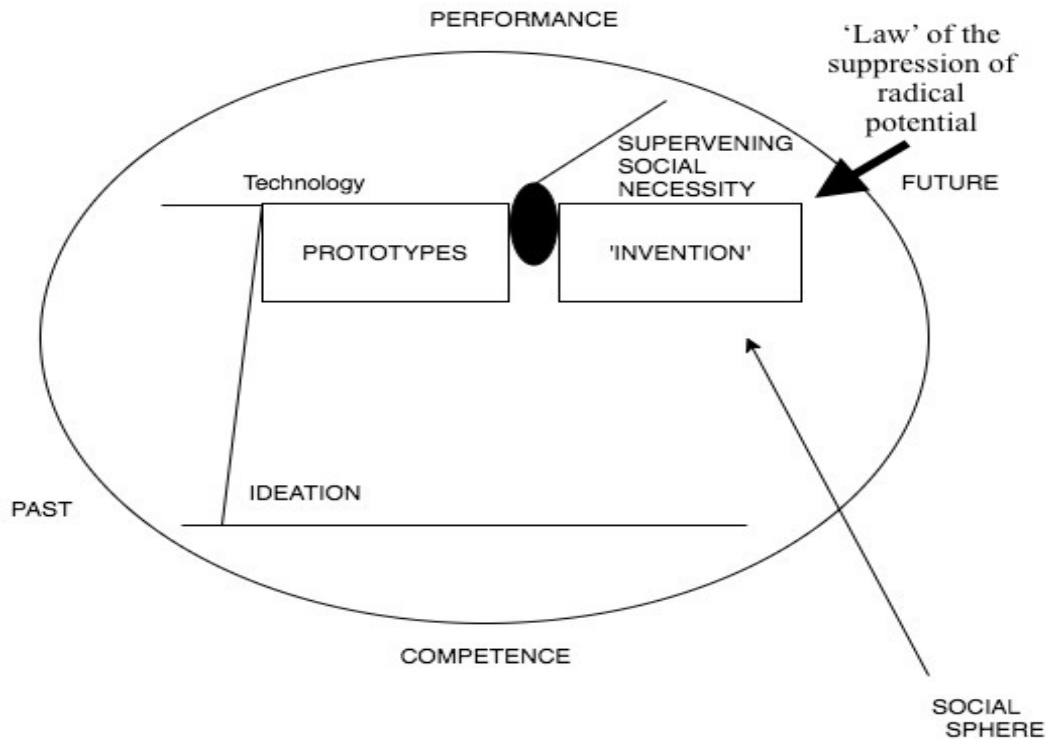
There are also “catch-up TV” free-to-air offerings from the public service media sector: iView, from the Australian Broadcasting Corporation (ABC); SBS On Demand; and from the other main free-to-air broadcasters, Seven Play, Tenplay, and Nine’s on-demand service, Nine Now. Netflix Australia launched on the Australian market in March 2015.

In terms of understanding the industrial context for SVOD in Australia, the rollout of the National Broadband Network (NBN) is a key factor. The NBN has become a central motif in the narrative of SVOD take-up in Australia in the sense that, even if only at a rhetorical level, it was initially put forward (by the Labor Party) as a “Rolls Royce” FTTP (fiber-to-the-premises) infrastructure capable of providing seamless 100-megabit-per-second consumer experiences to 90% of homes and workplaces, like the consumer movie experience advertised by Netflix. But the reality is that the promise of fast, cheap, reliable broadband infrastructure has actually turned out to be a very flawed, unsatisfactory experience for most people, with woefully low speeds and an exponential level of complaints about the NBN and the main service provider, Telstra, to the industry watchdog, the Telecommunications Industry Ombudsman (Power, 2017). Under the current, coalition government rollout model of multiple technologies and fiber to the node, the majority of people are still only getting the same functionality that was available pre-NBN, and in some cases, it remains worse functionally. The rollout of the NBN continues to be a political football being kicked between the labor opposition and the ruling conservative coalition.

### **Conceptualizing Industry Transition**

Media industry transition continues to be swept along in the turbulence of the much-vaunted global trends of media convergence, digitalization, Internetization, and deregulation. Few, if any, digital media sectors are exempt from these macroindustrial processes, and they can be seen as unremitting and ongoing. Yet it is also the case that national media markets are shaped by their own distinctive inflections of change and governance, directed by underlying political, economic, historical-cultural forces, and their expression in specific technical infrastructures (Flew, Isosifidis, & Steemers, 2016; Jin, 2017).

To guide our comparative analysis, we take our bearings from the work of Raymond Williams (1974) and Brian Winston (1998), who offer foundational critical media studies perspectives for research that seeks to comparatively analyze technical innovation or invention and take-up of products, services and applications in the media sector. Williams’ social shaping of technology approach is concerned with the socially located chain of decision making that focuses on the political economy of media productions as both technologies and cultural forms that are actively shaped by their context. Similarly, Winston, who analyzed the introduction of various media technologies, draws on Braudel, French historian of communications, who famously talked about “brakes” and “accelerators” being applied to technical progress (Figure 2).



**Figure 2. Winston's (1998) supervening necessity (accelerators) and the "law" of suppression radical potential (brakes).**

We consider that Winston's (1998) work adds a useful dose of social realism to debates about "digital disruption" and the "inevitability" of progress. He argued that "understanding the interaction of the positive effects of supervening necessity (accelerators) and the 'law' of suppression radical potential (brakes) is crucial to a proper overview of how communications technologies develop" (Winston, 1998, p. 11). For us, this is a useful perspective for explaining the different rate and characteristics in relation to the rollout of a service such as Netflix.

Winston's (1998) theory is a flexible account of how constraints operate to slow the rate of diffusion so that the social fabric in general can absorb "the new machine," and essential formations such as business entities and other institutions can be protected and preserved. It shows there is continuity and struggle, and it can help explain why, for instance, a certain app, product, or service will work in one market, but not in another.

The other important body of literature that we have found useful is the so-called industry failure research (e.g., Draper, 2017), which explores "success" in industry innovation by studying why and when "failures" occur. Such cautionary tales provide valuable contextualized comparative data for industries, companies, products, services, and applications. As Draper (2017) notes, "Imagining the alternative reality

that might have resulted from the success of a failed product or industry forces us to dislodge the assumptions about the inevitability of our current technological environment” (p. 3).

Associated with this technological environment surrounding communication technology is the economic evolution that partners with how innovation “necessity” is located within the market. As Dopfer, Foster, and Potts (2004) rightly note, an economic system is not one of macro and micro alone, but a rule-based system of “meso units, where each meso consists of a rule and its population of actualizations” (p. 265). By following a rule-based meso unit system, we can understand a technology’s trajectory, which has often, in Silicon Valley contexts, been cast in terms of the “fail fast/fail often” mantra. Through an approach of failing fast, and therefore of succeeding faster, many technology and development companies have adopted this approach to align economic accelerators alongside cultural nuances (Keir, 2018). However, this Silicon Valley ideology often falls short as an uncritical approach, working more as a kind of justification for innovation, and especially enveloping cultural practices (Fuchs, 2016, p. 13).

To compare success and failure, we introduce the idea of relative success. Studying the “contested sites” of “failure” is equally as useful for researching an issue like the take-up of a new service like Netflix, as these instances can provide “an understanding into the particular social, political and economic conditions that made a project commercially untenable” (Draper, 2017, p. 3). To be clear, though, studying the case of Netflix between the countries is primarily about relative success and in no sense failure, even though the overall proportion of subscribers in Korea, or the take-up, is much less than in the Australian market. Our comparative research indicates that the variations in take-up of Netflix are precisely about “brakes” and obstacles (in Korea) and the contextual conditions or “accelerators” that have propelled the rapid growth of subscribers (in Australia). Draper (2017) has compared the take-up of Netflix in Korea with its adoption in the U.S. and Japan, and so there is a growing body of quite specific comparative research that can allow media researchers to cross-compare the prevailing conditions in multiple markets.

### **Netflix in Korea and Australia**

#### ***Korea’s OTT Video Market and Netflix***

It is widely recognized that Korea has a highly developed networked infrastructure, both wired and wireless (Jin, 2017; Park & Lee, 2008; Spry & Dwyer, 2017). A number of these providers (e.g., Tving, EveryOn TV, POOQ) have now transitioned from conventional mainstream broadcast sectors to consolidate frequently bundled offerings in the OTT sector. Internet companies such as Alphabet’s YouTube and Internet portals Naver and Kakao-Daum and TV set manufacturers like Samsung and LG also compete with “pure” IPTV companies (e.g., Olleh TV, BTV, U HDTV) to provide OTT offerings (Park, 2017). As Park notes, “Unlike the U.S. in which OTT was popularized by third parties like Netflix, resulting in an upheaval of the traditional paradigms of pay TV markets, South Korean OTT has emerged as extensions of established pay TV services” (p. 21). It was against this backdrop that Netflix entered the Korean market in January 2016.

With the launch of Netflix in January 2016, Korea’s OTT video market has entered a new phase and is now facing strong competition. Broadcasting companies, mobile network operators, large-scale Internet portal companies, global OTTs, and startup companies are jumping into the market. As mentioned earlier, since 2009

the OTT video market in Korea has been dominated by major OTT video players such as POOQ (terrestrial broadcasters' content platform), Tving (CJ HelloVision), EveryOn TV (Hyundai HCN), Oksusu (SK Broadband), Olleh TV Mobile (KT), and U + HDTV (LG U Plus). In addition to these incumbent players, WATCHA, a Korean company offering movie recommendation services, launched a video streaming service called WATCHA PLAY and entered the SVOD competition. Amazon Video and YouTube Red started their services in Korea in December 2016 (NTVX, 2016).

When it comes to the SVOD, Korea is not a mature market like the U.S. Before the introduction of Netflix in Korea, there was no service like Netflix. The most similar service to Netflix was the VOD services provided by pay TV operators. Nevertheless, SVOD is now an important revenue source for media companies. Although SVOD revenue in Korea is currently estimated at just US\$130 million, that's expected to increase to more than \$271 million by 2021 ("A Case Study," 2016). A recent survey indicates that SVOD subscribers are increasing, with 5% of respondents now using it (Korean Communications Commission, 2016). The proportion of SVOD subscribers among 25 to 34 years old was the highest at 9.51%. The average monthly expenditure is US\$5.8, and SVOD using smartphones sit at approximately 90%.

Perhaps counterintuitively, for our comparison of an anglophone and a nonanglophone SVOD market, language barriers are not the most significant factor in reducing Netflix take-up. Straubhaar argued, quite relevantly, in relation to the concept of "asymmetrical interdependence" that

audiences make an active choice to view international or regional or national television programs, a choice that favors the latter two when they are available based on a search for cultural relevance or proximity . . . and to select an increasing proportion of what is imported from the same region, language group, and culture when such programming is available. (Staubhaar, 1991, p. 39)

In Korea, there is the language inconvenience in that Netflix programs require Korean subtitles and their quality often varies, and obviously this can lessen viewers' experiences. Yet evidencing a significant counter trend, Korean viewers have historically been very accustomed and strongly attracted to watching Hollywood blockbuster movies with subtitles. Clearly, then, watching movies through subtitles has not been a major obstacle to these audiences. Indeed, for some Korean viewers, it is more common to prefer subtitles than dubbed movies to experience the nuance of the original language, and there are unique historical circumstances that provide an account for these practices (Choi, Straubhaar, & Tamborini, 1988).

So what conclusions can we draw about the OTT market in Korea, and what are the main factors that dampen take-up? In broad terms, there is a hostile market environment for OTT in South Korea as a result of price competitiveness and bundled production alternatives.

Before Netflix's entry into Korea, many industry experts expected that Netflix would have no significant impact on Korea's pay TV market. One of the reasons for this is price competitiveness. Netflix attracts viewers at a subscription rate of \$7.99 per month in the U.S., where cable TV rates can exceed \$80 per month.



In Korea, however, Netflix is not able to have the same competitive edge as it does in the U.S. because of the lower prices of Korea's pay TV services ("A Case Study," 2016). Korea's pay TV ARPU is at very low levels, compared with those of other countries. Korea has a monthly average pay TV ARPU of around US\$7, which is far lower than those of the U.S. (US\$87), Australia (US\$70), and Japan (US\$56; Moon, 2015).

As a result, Korean consumers are accustomed to low cost or free video services. Most of the video services are provided at very low prices or even free of charge. Mobile IPTV services are subsidized almost free of charge through bundled services ("A Case Study," 2016). Among domestic users of OTT video services, less than 5% of users pay fees every month, so there is a reluctance to pay for online video ("OTT Native," 2017). Therefore, it seems clear that Netflix has a business model that does not easily fit with Korea's pay TV market.

The second key issue concerns product packaging and, in particular, the bundling of products and services. Netflix has a leading advantage with its lower price compared with those of pay TV offerings. Yet the majority of Korean pay TV consumers are subscribers of bundled products with mobile phones and broadband Internet. Although Netflix "stands out" in 190 global markets, it is hard to compete as a single stand-alone product in Korea.

Domestic IPTV companies and cable operators provide mobile IPTV and VOD services as "additional services" for mobile phones or bundled products. In the case of IPTV, the price drops significantly if a contract discount is offered. The three mobile telcos offer free or low-cost video services. SK Telecom (Oksusu), KT (Olleh TV Mobile) and LG U Plus (U + HDTV) all offer free OTT content to subscribers with a fixed plan paying over a certain amount.

The growing competition for OTT services in Korea is another obstacle to Netflix. With low prices and local content, domestic OTT video companies have already established their positions in the market, which makes it very difficult for foreign OTT companies to compete. WATCHA PLAY, a Korean version of Netflix, launched a pay video streaming service to compete with Netflix. The service costs US\$4.07 per month, about a third cheaper than Netflix subscription fees. It provides more than 20,000 videos, and attracted more than 640,000 people within one year after launch. Average viewing time for WATCHA per person was 197 minutes, nearly 5 times that of Netflix (41 minutes). In addition, other global OTT services jumped into Korean markets shortly after the launch of Netflix. In December 2016, YouTube released YouTube Red in Korea, and Amazon launched its Prime Video service (Keum, 2016).

Lack of local content and real-time programming is another significant issue. In Korea, terrestrial TV programs are essential in the pay TV market. Korean people are very keen for local content, and a large number of Korean viewers subscribe to pay TV mainly to view terrestrial TV programs. Local content, then, is "killer content" for pay TV platforms with more than 80% of terrestrial TV viewing occurring through pay TV platform such as cable TV and IPTV. That is why, as a newcomer, OTT companies desperately need a stable provision of terrestrial TV programs (Yoo & Lee, 2014).

However, Netflix has found it difficult to obtain attractive content that can appeal to Korean viewers, and as our data show, consumers have numerous streaming options in Korea. The Netflix site offers only about 40 domestically produced programs/films. As a direct competitor, WATCHA PLAY has about 6,000 locally made

shows (4,500 movies and 1,500 dramas). SK Broadband's Oksusu provides 98 live channels, 8,257 domestic and international films, and 18 sports-related real-time streaming channels. In addition to the lack of local programming, there were no "Netflix originals" during the launch phase. Of the total 14,400 titles, only about 600 were available in Korea at the time our research was undertaken. Netflix's own well-known shows such as *House of Cards* and other popular shows like *The Walking Dead* were not available because of content licensing issues. According to Finder.com, as of 2017, 1,801 TV shows (dramas, reality shows, etc.) and 4,579 movies were available in the United States whereas there were only 152 TV shows (12.8% of the U.S.) and 507 movies (10.5% of the U.S.) in Korea ("Netflix International," 2017). In the case of MiD (American dramas<sup>3</sup>) and movies, domestic pay TV operators are already offering them at a monthly fee. If you pay \$US8 per month, you can see MiD and the latest movies ("OTT Native," 2017).

Another problem with Netflix take-up in Korea is that Netflix does not offer real-time streaming programs of terrestrial or cable broadcasters. Subscribers cannot watch terrestrial or cable real-time broadcasts on Netflix.

Netflix also has lack of partnerships with local companies. Netflix has partnered with local operators when entering the pay TV market outside the U.S. Not surprisingly, Netflix also tried to make partnerships in the Korean market to secure sufficient subscribers from the beginning (Cho, 2015).

Partnerships have been attempted in two ways: (1) three domestic IPTV operators (SK Telecom, KT, and LG U Plus), which would be responsible for transmission, and (2) companies that would supply content to Netflix (three terrestrial broadcasters, CJ E&M, etc.). However, it has not been easy for Netflix to have *any* alliance with domestic companies from the outset. After announcing its entry into Korea, Netflix was reported to have commenced negotiations with terrestrial broadcasters to secure local content in the SVOD market. But Korean terrestrial broadcasters reportedly refused to offer their content to Netflix in Korea ("A Case Study," 2016).

Netflix planned to carry its service over IPTV networks. There was hard bargaining, with it being reported that Netflix demanded to split the profit by 9 to 1, where 9 was for Netflix and 1 for domestic IPTV providers. By some accounts Netflix also asked IPTV providers to allow Netflix to use their IDCs (Internet data centers) free of charge, but this apparently was unacceptable for IPTV providers (Zeon, 2015).

Last but not least, regulatory and policy issues have been crucial in relation to take-up. Global OTT service providers can expand overseas with relative ease, as their business does not require licenses or its own network infrastructure in Korea. In this sense, Netflix has a relative advantage over domestic operators.

Yet Netflix has faced many regulatory hurdles. For instance, there have been some delays in offering its *House of Cards* series because of rights issues. In many cases, this has been associated with a slow classification process, which has exposed a misalignment between the content that is provided from Netflix and the local Korea classification system. Our research indicates that this classification misalignment has been a

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<sup>3</sup> The phrase "American dramas" is pronounced "Mi-gook drama" in the Korean language. So American dramas are colloquially called "MiD."

significant brake on its market take-up. In addition, Netflix's well-known shows such as *How to Get Away With Murder* and Season 2 of *Better Call Saul* could not be broadcast as early as their releases in the U.S. because the shows were submitted for age-appropriate ratings by Korea's ratings board. It has been reported that ratings committee delays in examining these shows has had a negative market impact ("In Asia," 2016).

Piracy is an ongoing problem in Korea. Although piracy is illegal, pirated media content is easily available in Korea, and consequently many people watch content online without paying. There are numerous websites called "DasiBogi" (meaning "watch again") or "MiD" (American dramas) that provide free streaming or downloads. Additionally, numerous Korean apps are designed simply to watch content for free.

It is common for Korean viewers to use VOD service by pay-per-view rather than by monthly subscription (Ahn, 2015). The fact that Korean consumers are familiar with "pay per click" is one of the factors that hinder Netflix's success. In Korea the proportion of subscription-based VOD is approximately 10% of the pay TV's VOD users ("A Case Study," 2016). In addition, the number of subscribers of OTT services such as POOQ and Tving in Korea is steadily increasing, while the portion of paid subscriptions is currently around one quarter of the market.

### ***Australia's OTT Video Market and Netflix***

The Australian SVOD market has become increasingly competitive in recent years, and the arrival of Netflix has accelerated this process. However, as noted above, the Netflix rollout has been closely bound to the fortunes of the national broadband rollout. Telstra, the dominant telco, lost its network wholesale monopoly with the establishment of NBN Co., and now Optus, Vodafone, and, latterly, TPG are closing in on its revenue. The Telstra fixed-line network was effectively renationalized with the establishment of NBN Co limited in 2009. Jock Given argues that mobile communications are marching rapidly on, referring to tech analyst company Akamai who note that in the first quarter of 2017:

Australians got faster average access speeds on mobile networks (15.7 mbps) than they did on fixed networks (11.1 mbps). . . . 5G plays to this moment. The technology is expected to be capable of delivering much, including higher speed broadband and increased data, that the NBN was supposed to bring. (Given, 2017, para. 26)

One very visible aspect of the NBN rollout that demonstrates why it has become controversial in Australia is the variable price of data access plans. One assessment at the time of launching noted:

TV fans looking at signing up to a subscription video on demand service such as Presto or Netflix need to consider the impact on the data limits of their existing Internet plan. The amount of data you use to download streamed video depends on the quality of the content. A standard definition 90 minute movie will be about 1GB and a standard definition 30 minute show about 350 MB. If you want to watch your 90-minute movie in high definition, that will be about 4.5GB. (Byrnes, 2015, para. 22)

Perhaps not surprisingly, we see that SVOD packages are structured around the resolution quality and price (see *Choice Magazine*, 2018, <https://www.choice.com.au/electronics-and-technology/home-entertainment/home-entertainment-networks/review-and-compare/movie-tv-streaming-services>).

Netflix Australia arrived on the Australian market in March 2015 with an event featuring Australian actors Yael Stone and Ben Mendelsohn despite having no plans at that stage to commission local drama. At launch there was only one local production in the catalogue: the teen offering, *Mako Mermaids*. At that time, Australians were keen to watch popular TV shows like *House of Cards*. Foxtel, jointly owned by News Corp and Telstra, on the other hand, are very supportive of local content. Netflix has since commissioned a small number of local productions, including *Glitch*, *Beat Bugs*, and *Legend of Monkey*; but the new show *Tidelands* will be Netflix's first official Australian series (Moran, 2017). The 10-episode series began production in Queensland in March 2018.

More recently, Netflix has commissioned a "Netflix original," *Glitch* (a supernatural drama), an ABC production, for Season 2, but rebranded for their platforms, and "binge consumption." Interestingly, there is no outward sign that this is an ABC production.

This move to commission and produce more local content can be interpreted as a response by Netflix to sharp criticism from the local industry since its Australian entry in 2015, for avoiding the domestic production quotas that free-to-air networks are required to meet. There is an ongoing debate led by the Australian Screen Producer's Association (SPAA) who call for the application of the rules that already apply to the broadcast sector, where 55% of all content needs to be locally produced. This question of local content and streaming providers is high on the agenda for an Australian Senate inquiry that is due to report in October 2018 ("Australian Content," 2017). A key consideration within this policy debate sees commercial operators such as Foxtel and Netflix lobbying for increased production liberalization, including tax offsets for local content. Foxtel in particular suggests that a range of "tax offsets [could] be made which would remove barriers for investment, innovation and job creation, including liberalizing eligibility, removing artificially high minimum spend requirements and increasing the rate of the Location Offset" ("Australian Content," 2017, p. 2). The other rules referred to in this debate are the potential application of recently proposed European Commission requirements for video streaming services, including Netflix, Amazon, and Apple, to meet at least a 20% quota of locally produced (i.e., European) works. In Europe this is connected with a push to create a digital single market within the European Union (Scott, 2016). Lack of access to the full U.S. Netflix catalog is a reason put forward to explain dissatisfaction and ongoing circumvention of geo blocking. A recent study notes, "In Film and TV, Australians pay the same as American consumers, but have limited access to titles. In our sample, only about 65% of movie titles and 75% of TV titles available in the U.S. could be accessed by Australians. . . . Nearly two thirds of films available to stream in the U.S. are not available to stream in Australia and more than half of the TV seasons available to stream in the U.S. are not available in Australia" (Suzor et al., 2017, p. 2).

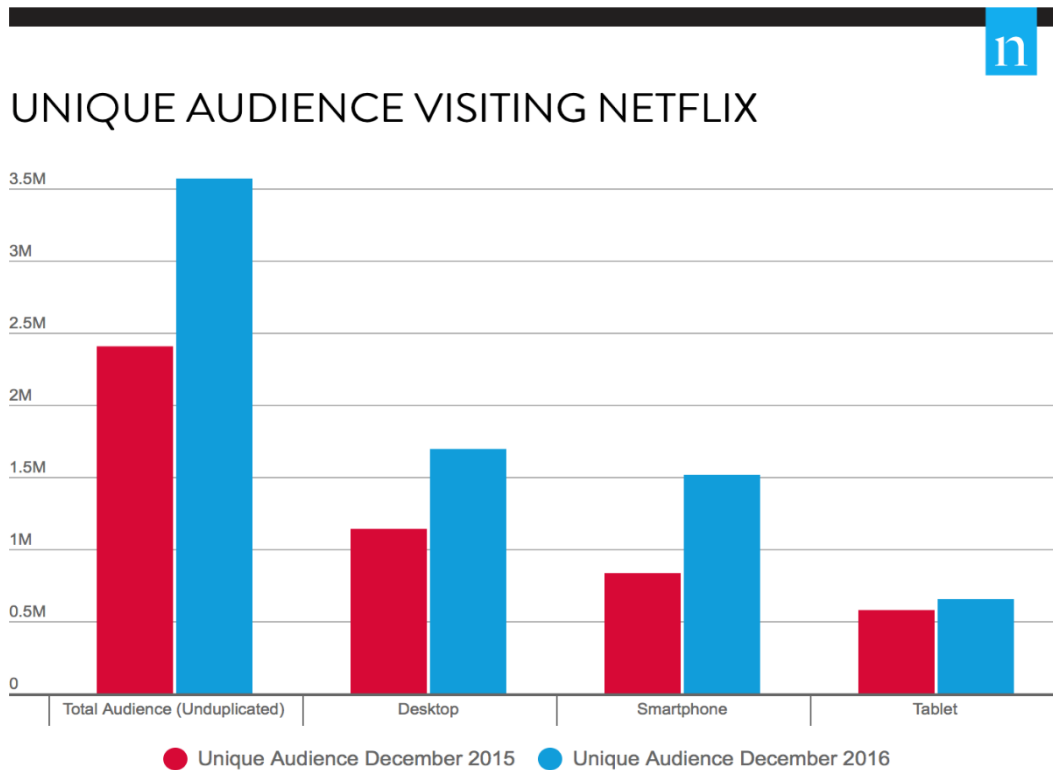
In contrast to the Korea market operation, the Australian Government has been somewhat more proactive in working alongside the SVOD giant to ensure its offering is as competitive as in its international markets. On June 10, 2016, Netflix submitted a review consultation to the Australian Communication and Media Authority (ACMA) highlighting a classification gap on SVOD content. The submission identified within

the *Classification Act* (1995), “a regulatory gap in the classification system arising from [its] approach means that subscription video on demand (SVOD) providers cannot use the same self-regulatory approaches to classification as broadcasters . . . or the computer games industry” (Korn, 2016, p. 1). Given that “Netflix is an active investor in television series and movies made in Australia” (Korn, 2017, p. 4), the ACMA wanted to act in a supportive way that has demonstrated innovative classification processes, developing in the coclassification model, which was suggested in the Final Report of the Australian Law Reform Commission. The ACMA has since created a classification tool for Netflix that embodies the framework of local classification yet enables the Netflix professionals to self-nominate how their content should be classified when it is reviewed by them. The result is content becoming available at a faster rate, and a tool that is to be rolled out across a number of other nations.

Netflix is available on many devices in Australia—including iOS, Android, Windows Store, Web browsers on PC and Mac, most smart TVs, Apple TV, Telstra TV, Xbox One, Xbox 360, PlayStation 4, PlayStation 3, and Wii U. Netflix is also offered via the Fetch TV box (as is an optional Korean package of five channels).

According to the Nielsen Consumer and Media View, there were 2.8 million Netflix subscribers in Australia of the 7.1 million Australians using streaming video services in late 2016. Nielsen noted (Figure 3):

Unique audiences visiting the Netflix website or app via a desktop/laptop, smartphone or tablet have increased by 48% when comparing Digital December 2016 ratings data to December the prior year. A majority of this year-on-year growth was driven by increased access via smartphones (+82%). (Perry, 2016 para. 1)



Source: Digital Ratings (Monthly) December 2015 vs. December 2016

**Figure 3. Unique audience visiting Netflix.**

In terms of the age of users:

Compared with population, Netflix users or subscribers are 89% more likely to be 18–24 years old. There is also a skew to young white-collar workers aged 25–39 years old. They come from affluent households, with the average household income of \$102,000, well over the national average of \$88,000 per year. And it appears the traditional date night of “Netflix and Chill” has been replaced by family night. Netflix users/subscribers are 22% more likely than the rest of the Australian population to have children. 1 in 2 Netflix users/subscribers have young children (under the age of 13) in the home. (Perry, 2017, para. 3)

Interestingly, the Nielsen data gives a figure much smaller than that from the Roy Morgan research group, which reported in December 2016 that Netflix’s audience had reached more than 5.75 million. Some note that there are two claims here—one at around 3 million and the other (Roy Morgan) at about 6 million (“Second Wind,” 2016).

**Table 1. Netflix in Korea and Australia, Compared.**

<b>Issue</b>	<b>Korea</b>	<b>Australia</b>
Pay TV market	Cheap content	Relatively expensive—becoming more competitive in SVOD market
Piracy	Ongoing problem	Ongoing problem/new laws
Service packaging	Bundling common	Limited bundling: Foxtel
Real-time broadcasting	No access through Netflix Lack of content	No access through Netflix (though possible through Foxtel, Fetch, or FTA services)
Video watching (streaming) through mobile	Increasing	Increasing
Partnership with locals	None or few	Netflix/some local content providers/coproductions
Revenue split	Demand high given the local practices	
Payment	Koreans familiar with “pay as you go (watch),” not monthly subscription	Monthly subscription—some offer one-off purchase (e.g., Foxtel or Fetch)
Language	Korean subtitles	English
Regulations (including taxation)	Tax evasion issue in progress	“Netflix” tax (10% GST from July 1, 2017). Local content debate (SPAA, ACMA)

### Conclusion

The research questions we sought to address in relation to Netflix’s strategies for global expansion, and the relative success in different markets have been clarified by our Australian and Korean comparison. Our comparative research has also revealed some interesting data for the global implications to be drawn for this kind of digital media transformation. Theories of social and cultural shaping together with analyses of the political and economic forces at play in national media markets have complemented our focus on specific market constraints, and industrial “accelerators.”

Our study has compared and analyzed Netflix’s relative success and failure in Australia and Korea, respectively, and in so doing it has highlighted key strategic implications of the rollout of OTT media services in overseas markets (Table 1).

While the power of incumbent providers has been a critical mitigating factor for market entry in both nations, this is particularly evident in South Korea, and can be easily shown to be directly related to the evolution of video distribution in Korea. Other more specific industrial features include the prevalence of bundled services; Internet provision with streamed content packages is very important in Korea, as is the Korean preference for pay-per-view purchasing. Netflix is considered a supplementary service in Korea. With no access to existing terrestrial/satellite content, this can sound the death knell for local audiences who have historically shown a preference for local TV dramas.

In Australia, the incumbent monopolist (Foxtel) dominated the subscription market in Australia before the arrival of Netflix. Since Australian audiences were deeply dissatisfied with monopolist's pricing pre-Netflix arrival, many have voted with their feet by churning to Netflix and other SVOD providers. A positive outcome for consumers has seen monthly subscription prices become more competitive.

The implementation of classification policies can also be seen as a key point of difference between these markets. A streamlined self-regulatory model, using a new tool, accounts for the faster classification process available in Australia. This has been one of the more significant factors emerging from this research, and clearly has been a contributing factor for the rapid take-up of Netflix in Australia. Netflix can provide almost simultaneous U.S. broadcast of material, enabled by the ACMA created classification tool. By shifting the workload back on to the Netflix employees, the content can be available to local audiences faster across a number of devices, resulting in faster take-up of the SVOD service.

Original local content is critically important in both countries, but arguably less so in Australia—although there is a strong industry push to apply local content quotas. While hit U.S. TV shows are a drawcard in both countries, the allure of large international audiences provided by Netflix is also a brand driver. Netflix is committed to working with local talent by making significant contributions to the production of material, certainly in the Australian case, which is similar to other countries such as Canada (Korn 2016, 2017). Aside from the application of potential local content rules as a result of pressure from the peak screen lobby group, a new 10% goods and services (GST) "Netflix tax" was applied from July 1, 2017. While these sorts of recouping exercises may provide small compensation for local markets, in the long term they may arguably hinder the potential investment in local production industries, and thus fail to be supported by local governments.

Overall, we are in broad agreement with Flew et al. (2016) and Jin (2017) that national media markets are shaped by their own distinctive inflections of industry change and governance, and these are configured by underlying political, economic, and historico-cultural forces and their articulation in localized technical infrastructures. Our comparative study has highlighted that it is the specific combination of these factors in national contexts, which can provide valuable insights for ongoing global digital media transition.

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