

# **CASE STUDY III: THE DEVELOPMENT OF A LOCAL OTT**

*prepared by Mr. Raul Katz*

Pilot Project on Copyright and the Distribution of Content in the Digital Environment  
Committee on Development and Intellectual Property  
World Intellectual Property Organization  
2021

### Disclaimer

This study was commissioned as part of the Pilot Project on Copyright and the Distribution of Content in the Digital Environment<sup>1</sup> of the WIPO Committee on Development and Intellectual Property (CDIP). This document is not intended to reflect the opinions of Member States or the WIPO Secretariat.

Recognizing the initial success of Netflix launch in the Mexican market, América Móvil launched the OTT platform of Claro Video in 2013, to be offered in Argentina, Brazil, Colombia, Chile, Dominican Republic, Ecuador, Perú, Costa Rica, El Salvador, Guatemala, Honduras, México, Nicaragua, Uruguay, and Panamá. By 2016, Claro Video is positioned as a challenger not only in terms of offering but also pricing. Claro Video's strategy was to position itself as the local market leader in terms of content and alliances with local producers (Castañares, 2016). At the same time, it was competing on content, Claro Video cut its subscription fee. As an example, in 2015, when Netflix increased its subscription from 99 to 100 pesos, Claro kept it at 69 pesos. In addition, Claro pursued its content strategy by offering also free Access to the 2016 Olympic Games in Rio de Janeiro (see table 1)

**Table 1. México: Netflix versus Claro (2016)**

	<b>Netflix</b>	<b>Claro Video</b>
Total catalog	8.589	3.729
Latin American content	281	634
International content	3.448	1.820
User interface	<ul style="list-style-type: none"> <li>• Genre guide</li> <li>• Movie description</li> <li>• User reviews</li> <li>• Recommendations</li> </ul>	<ul style="list-style-type: none"> <li>• Genre guide</li> <li>• Movie descriptions</li> <li>•</li> </ul>
Accessibility	Android, iOS, Windows Phone, Smart TV, videogame consoles (PS3, PS4, Wii, Wii U, Xbox 360, Xbox One, decoders, Chromecast)	Windows 8, iOS, Android, certain Smart TV, Apple TV
Price (México)	<ul style="list-style-type: none"> <li>• Basic: 99 Pesos (1 device SD)</li> <li>• Standard: 109 Pesos (2 devices HD)</li> <li>• Superior: 149 pesos (four devices, UHD)</li> </ul>	<ul style="list-style-type: none"> <li>• 69 Pesos (up to 5 devices)</li> <li>• Promotions: Infinitum (free service for 1 year)</li> </ul>

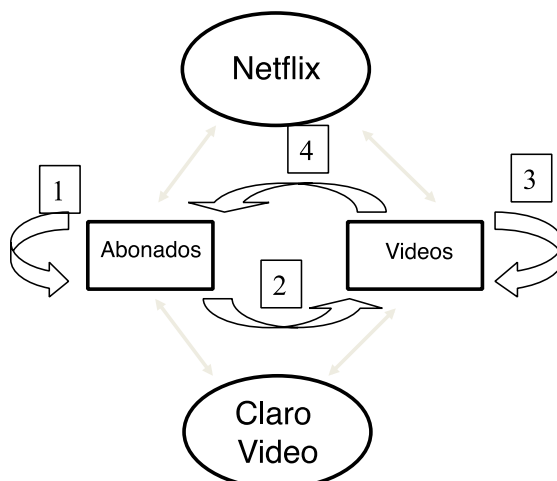
Sources: Dataxis, Netflix, Claro Video

Claro Video's strategy is a classic example of competition in a platform-based market. In general terms, market dominance in the digital services sector is driven by two types of competitive advantage: classic economies of scale and network effects. Economies of scale represent the economic advantage reached by firms as a result of their size, production volumes and dimension of operations. According to economies of scale, the unit cost of a product tends to diminish with an increase in the production volumes given that fixed costs can be distributed across a large number of units. Economies of scale result in barriers to entry to challengers because their inability to replicate similar costs and therefore built pricing flexibility. As shown in Chapter 3, programming costs represent in the case of Netflix 50% of operating expenses, at current amortization rules.

For Claro Video, the main lever to compete with Netflix in the Mexican market in 2016 is local content (see figure 1).

<sup>1</sup> Studies available at: [https://dacatalogue.wipo.int/projects/DA\\_1\\_3\\_4\\_10\\_11\\_16\\_25\\_35\\_01](https://dacatalogue.wipo.int/projects/DA_1_3_4_10_11_16_25_35_01)

**Figure 1. Netflix vs. Claro Video**



Source: Autor

In general, the entry of a challenger in a platform-based market is based on the offer of a product that represents an improvement in functionality: better features, and technology. However, the SVOD market offers more options in terms of product variety. In fact, Claro Video’s platform was less sophisticated than Netflix (as indicated in table 1). To overcome this disadvantage, Claro Video emphasizes local content. The analysis of the catalog of both competitors indicates that the global player has 281 films and shows of Latin American origin, while the Mexican player has 634, which implies twice the variety range.

The increase in content variety, and the adaptation to Latin American languages and tastes, combined with lower prices were the levers of initial success of Claro Video in the audiovisual ITT market. As a result, Netflix’ market share started to decline, while Claro Video’s increased. As an example, Netflix share in 2015 declined to 51.1% by the end of 2015, while Claro, the challenger, achieved parity.

**Table 2. México: OTT Market Structure**

	12/2014	6/2015	12/2015
Netflix	(64%)	2.235.000 (55.7%)	2.500.000 (51.1%)
Claro Video	(32%)	1.603.000 (39.7%)	2.300.000 (46.4%)
Other	(4%)	(4.6 %)	(2.5%)

Source: Next news

[End of document]