

STUDY ON THE AUDIOVISUAL LEGAL FRAMEWORK IN LATIN AMERICA

PART 1: AUDIOVISUAL OTT BUSINESS MODELS IN LATIN AMERICA: RECENT TRENDS AND FUTURE EVOLUTION (UPDATED VERSION)

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Disclaimer

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ABSTRACT

This study analyzes the recent changes and future evolution of the different business models of audiovisual *Over-The-Top* (OTT) platforms. Recent trends on a worldwide and regional scale indicate a significant growth of these platforms, which have already reached a penetration of approximately 84% of Latin American fixed broadband households. Audiovisual OTT services do not follow a single business model. While they are all intended to meet the same audience need – entertainment -, differences exist in terms of their value proposition, the resources they employ to deliver it, their profit formula, and their operational processes. The OTT market structure is organized around the long tail principle, with an extremely large presence of services delivering content variety. Content is a critical portion of the value proposition of an audiovisual OTT, which has led to an increase in the product range. In this context, the production of “localized” content is being singled out as a competitive advantage for all platforms. This has led global players to increase their efforts to incorporate (and produce) local content. We expect audiovisual OTT services to continue their expansion in Latin America, with penetration levels reaching more than 90% of fixed broadband households by 2023. While paid OTT models will grow at a moderate pace, the most important increase will take place among the free advertising-based business models. That said, recent trends of global expansion of OTT players indicate an increase in the degree of competitive intensity and a pressure to fine tune business models to reduce costs. COVID-19 has massively accelerated the demand for audiovisual OTT services worldwide. From a consumer standpoint, the lockdown and social distancing restrictions imposed on individuals and businesses led consumers to accelerate subscriber growth.

¹ Studies available at: https://dacatalogue.wipo.int/projects/DA_1_3_4_10_11_16_25_35_01

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1. INTRODUCTION

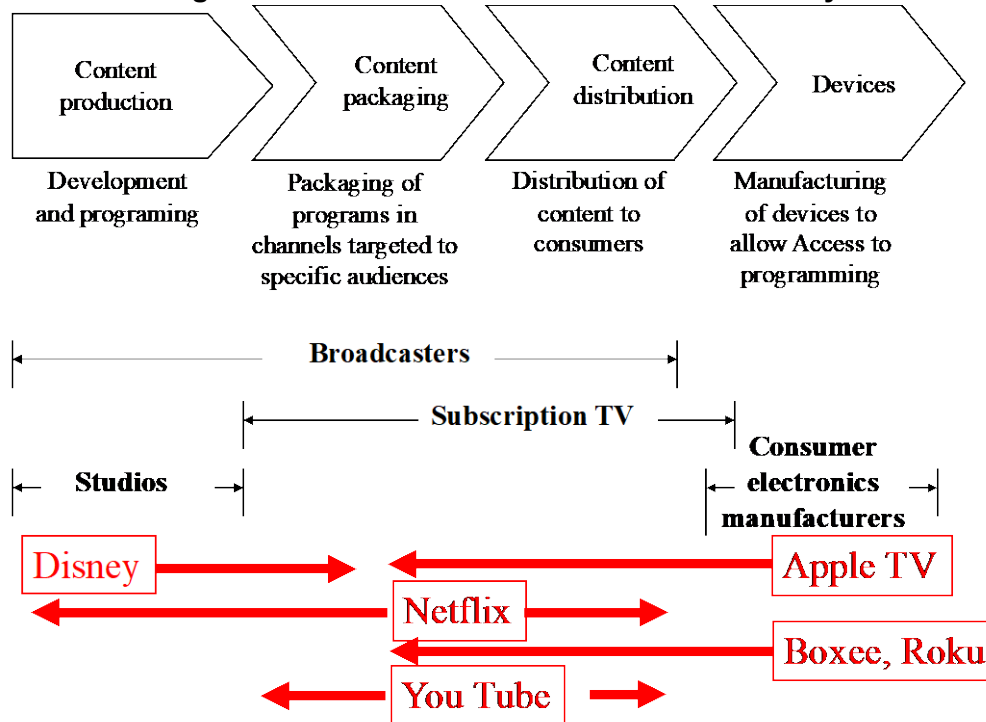
Important developments have taken place in the global audiovisual market in recent years, especially after the launch of *Over-The-Top* (OTT) services. In general terms, OTTs are defined as platforms and services, such as Google and Skype, that are distributed over the Internet. In the audiovisual sector, the concept applies to the distribution of content that is not dependent upon conventional channels such as over the air TV, cable television, or Direct to Home satellite. The launch of audiovisual OTT services started at the beginning of the 21st century once fixed broadband reached high levels of performance and adoption. With the increase in download speed of fixed broadband, video streaming services based on OTT platforms became increasingly popular, substituting for the physical distribution of digital videos. To a large degree, the introduction of video streaming services replicated similar prior disruptions in the audiovisual market (such as the introduction of cable TV and Direct to Home satellite distribution in the 80s, or VHS tapes in the 90s). With each wave of disruption, the increase in technological capacity to distribute more content triggered additional demand, yielding a virtuous competitive cycle benefitting consumers. Early OTT platforms, such as Netflix and Apple TV were the first to enter this segment, but they were promptly followed by new players from outside the audiovisual sector, such as Amazon and Walmart.

All cases of disruption in the audiovisual value chain resulted in vertical integration trends² between content production and distribution. Similarly, the entry of OTT platforms has resulted in a reconfiguration of the value chain, leading to a transformation of content production and distribution business models, combined with the emergence of different modes of vertical integration. In addition, technological advances have reduced barriers to entry. Content digitization has allowed for changes in video formats facilitating content production, while reducing economies of scale³. These changes have led sector players to move along the value chain to consolidate their competitive advantage (see Figure 1).

² Vertical integration is the combination, under the ownership of a single firm of two or more stages of production or distribution that are usually separate. The combination is achieved to either control processes, reduce costs, or improve efficiencies.

³ Economies of scale are unit cost advantages derived from increasing production volume.

Figure 1. Value chain of the audiovisual industry



Source: Author

Netflix initially entered the business of production to reduce its dependence upon license payments for distributing content. On the other hand, Disney forward integrated into distribution to capture content packaging rents and defend its production business. Consumer electronics manufacturers, such as Apple, backward integrated to occupy a space in content distribution to consolidate its dominance in device manufacturing.

By virtue of all these moves along the value chain, market positions have been evolving, with a significant encroachment of OTT services in the distribution and production stages of audiovisual content, combined with a decline in penetration of traditional subscription TV services.⁴ As of today, the center of gravity of the audiovisual sector has shifted to video streaming, where global players such as Netflix, Amazon Prime Video, Disney, and Warner Media are fighting for world leadership.⁵ These changes have triggered a virtuous circle, benefitting consumers from enhanced offers and variety of content, ease of access, improved quality of the user experience, and lower prices (Katz, 2019). Finally, these changes on the supply side have also combined with new video consumption patterns, such as “cord cutting” (i.e. cancelling subscription TV service), changes in viewing mode (“anywhere/anytime”, “binge watching⁶”) and the permanent search for original content as dominant behavioral pattern. On the supply side, the competitive intensity has increased resulting in a slowdown in subscriber growth of Netflix, the market leader. This recent trend will have some impact on the original business models, leading to some fine tuning to control costs.

Within this context of significant changes, the purpose of this study is to analyze the Latin American audiovisual sector, examining the different OTT business models. Our primary focus will be recent trends and characteristics of each model, while examining their importance within content production. The study is structured around five chapters. Chapter 2 describes the different business models within the audiovisual OTT sector. On this basis, Chapter 3 studies each model in terms of their value proposition, resources, operational processes, and profit formula. Chapter 4 analyzes the recent evolution with regards to offers and adoption of OTT services in Latin America, examining the market positioning by group of platforms. Chapter 5 assesses the impact

⁴ This substitution process is embryonic in some Latin American countries, although it is advanced in some developed economies. For example, in the United States the number of cord cutting households is estimated at 39.3 million in 2022, and is expected to reach 46.6 million (or 38% of 122.4 million TV households) in 2024.

⁵ Disney entered the audiovisual OTT segment in October 2019; in the first quarter of 2022 it reached 129.8 million subscribers.

⁶ The practice of watching multiple episodes of a television program in rapid succession, typically by video streaming.

of content strategies by business model, while chapter 6 presents a forward-looking view of market evolution.

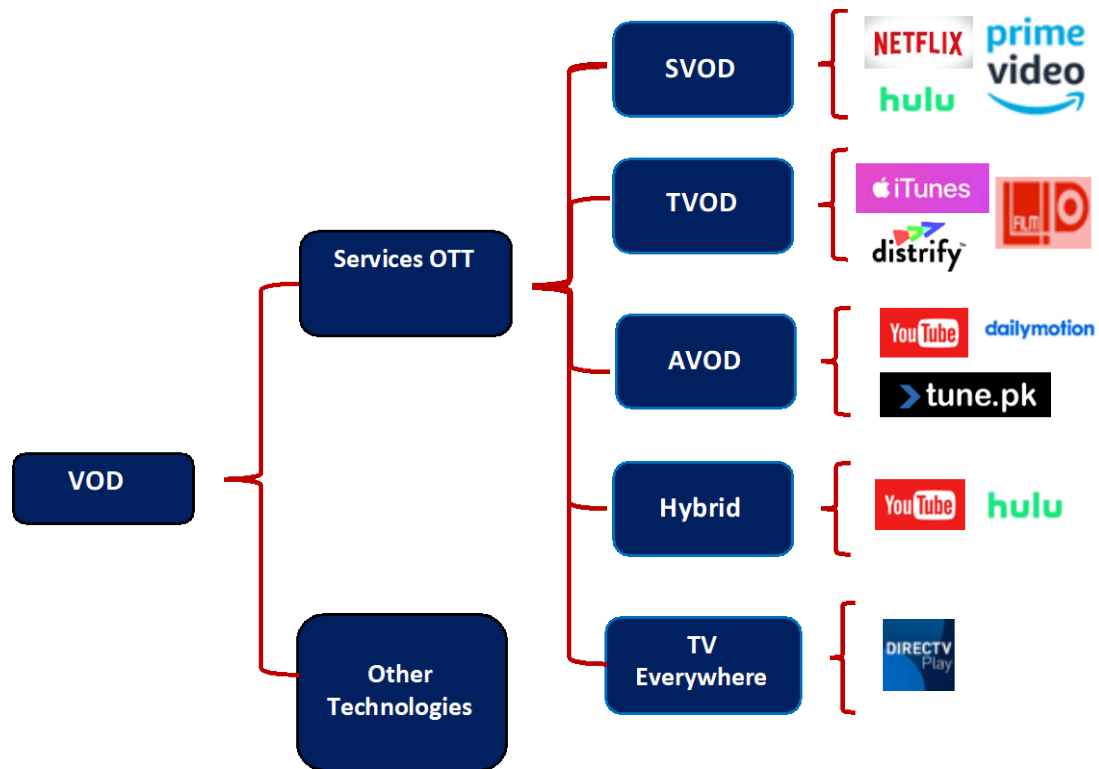
2. TYPES OF AUDIOVISUAL OTT PLATFORMS

The concepts Video on Demand (VOD) and audiovisual OTT are not synonyms. Even though both terms are sometimes used interchangeably, they mean different things. VOD, as opposed to free over the air TV (also called “linear” because its consumption is guided by a pre-established broadcasting timeline), refers to on-demand consumption of content, distributed through the Internet or other networking technologies such as cable TV or satellite. Under this umbrella, audiovisual OTT services, distributed over the Internet, represent a subset within the VOD universe. In turn, OTT services can be catalogued in five categories, following the business model prevalent in each one:

- SVOD (Subscription Video on Demand) describes the platforms supported by a revenue stream of a monthly subscription, which allows unlimited access to content (although some very specific movies or shows, might require an additional payment). The pre-eminent examples of this model are Netflix and Amazon Prime Video.
- TVOD (Transaction Video On demand) refers to a platform that does charge a one-time fee for purchasing specific content (for example, a movie, series, event, or documentaries). This model is close to the original video rental concept. Examples of TVOD include Apple’s iTunes, Distrify, o FilmO.
- AVOD (Advertisement Video of Demand). In this model, consumers access content for free, although they have to watch advertisement. As such, AVOD carries some similarities to the Over the Air TV model, although content can be visualized on demand. Advertisers benefit from this model in terms of the capability to broadcast targeted advertisements. Examples of this model include YouTube, Tune.pk, Dailymotion.
- Hybrid. This model represents a combination of any of the prior three. A potential example is a platform where the consumer pays a monthly subscription that allows access to a portion of content, while consumption of the whole library requires payment of an additional fee (for example, in the case of simultaneous broadcast of sports events as is the case for YouTube Live). Another hybrid example is Hulu, which requires a monthly subscription with advertising and a higher amount in case the consumer wants to totally exclude advertisement.
- TV Everywhere. This model originated in the response of traditional pay TV operators (cable TV and *Direct* to Home satellite) to the competitive OTT threat. As its name indicates, the service provides access of all pay TV programming by a suite of internet-connected devices (PC, tablets, etc.).

Each model, with some relevant illustrative examples, are presented in Figure 2. It should be mentioned, however, that, while certain firms operate via single business model (e.g., Netflix, for the time being), many players expand their market presence through more than one. For example, Hulu offers the possibility of accessing content through a monthly subscription (similarly to the SVOD) or through a hybrid model. In Latin America, Claro offers SVOD service through its Claro Video service, while providing TV Everywhere services through Claro Play.

Figure 2. Audiovisual OTT business models

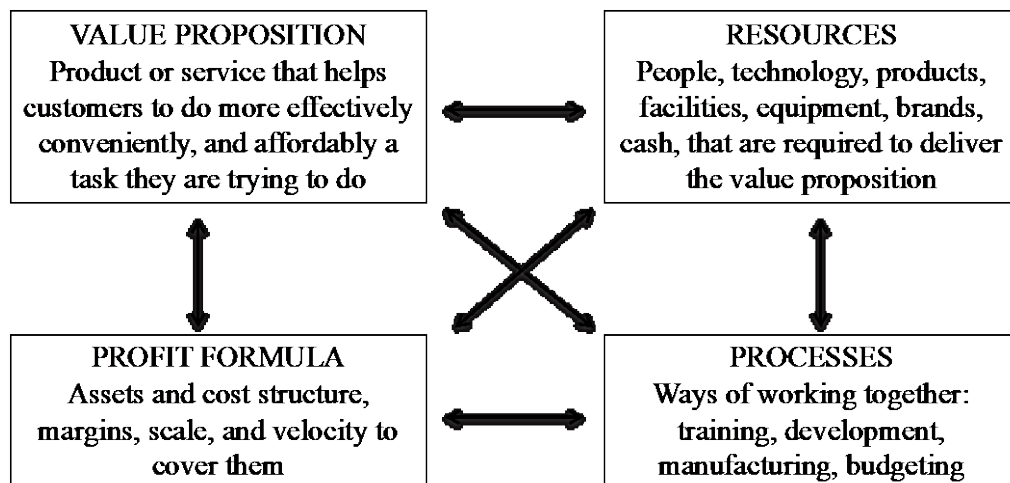


Source: Compiled by the author

3. AUDIOVISUAL OTT BUSINESS MODELS

The following analysis of the audiovisual OTT business models is based on a framework that goes beyond the description of its monetization model. This analytical framework includes four modules: the service value proposition to the customer, the resources required to deliver value, its profit formula, and the processes deployed to deliver service. Figure 3 depicts the four modules upon which the analysis will be conducted, highlighting the interrelationships among them.

Figure 3. Scheme used to analyze business models



Source: Christensen y Johnson (2009)

According to this analytical framework, the study of a business model is not only conducted on each of the four dimensions, but also in terms of the interrelationships among them:

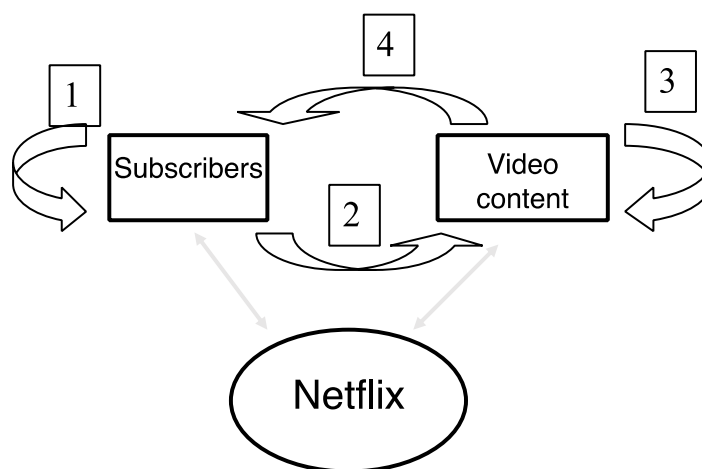
- Is the model aligned with the vision it is attempting to fulfill?

- Is the model self-sustainable? What is the internal consistency among the four dimensions of the model (i.e., is the value proposition consistent with the profit formula?)
- Can the model defend from challenges in terms of imitation, substitution, hold-up (from suppliers, customers or other parties leveraging their bargaining power) or organizational complacency?

3.1. Value proposition

The value proposition of an audiovisual OTT platform can be analyzed within the classical framework of a two-sided market⁷. According to this concept, these platforms link consumers with heterogeneous needs and tastes with a catalog of audiovisual content (see figure 4).

Figure 4. Bilateral structure of an audiovisual OTT platform



Source: Author

Based on the bilateral concept, the value proposition of an audiovisual OTT platform is based on content variety with multiple network effects⁸. Accordingly, the value of these type of platforms is based on the quantity and value of their offers. The main network effects are indirect (that is to say, those that link both platform “sides”). For example, the higher the variety of content and the more responsive that is to the needs of consumers, the larger is the possibility of growing the subscriber base (effect 4). Along those lines, variety and personalization are two key variables in leveraging indirect network effects in audiovisual OTT platforms. On the other hand, the larger the audience (paid subscribers or not), the more important is the capacity to monetize the increase in content variety (effect 2). Beyond indirect network effects, an audiovisual OTT can also benefit from direct effects. The larger the number of content offers, the higher the platform attractiveness is (effect 3). Effect 1 is probably the least important one, although there also could be value for an individual subscriber in the number of subscribers using the platform because this gives him or her the option of sharing opinions and experiences with a larger audience. In addition, a higher subscriber base could yield a better capability for the platform operator to understand needs and tastes, with the derived value of better targeting offers (see below the use of a recommendation

⁷ A two-sided platform provides intermediation between two distinct user groups, that provide each other with network benefits. For basic references on two-sided platforms, see Rochet et al. (2003), y Eisenman et al. (2006).

⁸ A network effect is defined as a function that determines that the value of a service to a user depends on the number of other service users. Value is defined as the willingness to pay for network participation. Network effects of a platform are stronger when (i) Users demand novelty from repeated transactions because consuming identical goods would be boring: the larger the variety, the higher the value (e.g., Netflix), (ii) Users require wide geographic coverage: the larger the network, the higher the value (e.g., ATMs), (iii) Participants in a matching network have idiosyncratic needs and offers and need to maximize the likelihood of matching (e.g., eBay). Network effects can be categorized as “direct” (affecting one side of the platform, or “Indirect” which operate between both sides.

system). Thus, direct, and indirect network effects are critical components of the audiovisual OTT value proposition.

Content represents the principal “side” driving the value of an audiovisual OTT platform. In general terms, content includes primarily films and series, although it can also comprise sports events and documentaries, among others. When it comes to content, audiovisual OTT platforms can segment between generalists and specialists, the latter focused in one specific content type⁹. The generalist platform leverages variety network effects, while the specialist platform creates value around “depth” on a particular content type (for example, Fubo focuses on sports events, The Criterion Channel specializes in art films, Britbox and AcornTV focus on British productions, and part of Disney+ specializes in child programming).

Intense competition exists among the generalist platforms to secure the best and latest content, or to negotiate their exclusivity, to increase their value proposition. In fact, recent research indicates that original content represents a critical variable for an audiovisual OTT platform to capture more subscribers.¹⁰ In the case of SVOD, intense competition and low switching costs stimulates providers to continuously develop new content and provide new pricing schemes. In the case of TVOD, while they are the first to launch some of the content, they are also obliged to provide pricing incentives to promote customer loyalty.

Another aspect relevant to the content value proposition is linked to the need to include local programming as a lever of competitive advantage. In general terms, the entry of a challenger in a two-sided market must be based in an improvement of functionality: better characteristics, and/or improved technical features. In the audiovisual market, however, the range of options for a new entrant to build competitive advantage is wider. First, since this is a market where competitive advantage is driven by variety, an entry strategy does not necessarily have to be based exclusively on improved technology. Second, given that consumer needs and tastes are not homogeneous (given that the typical user demands a complement more oriented to linguistic idiosyncrasies and local tastes), a different strategy could be focused on building a deeper offer of local content.

Beyond content, other technical characteristics of the offer are important within the value proposition. One of them is the ability to download content to be able to use it offline. Netflix, Amazon Prime Video, and some TVOD platforms offer this feature. Another service characteristic is the ability to download content for unlimited, rather than limited, use. AVOD platforms, except for YouTube in certain countries, do not offer this possibility. Another technical capability that is not common to all providers is “content buffering”, which refers to the capability of downloading certain amount of data before starting to play the content (a feature which is very suited to low quality broadband networks).

Finally, another relevant characteristic of these type of platforms is the content recommendation algorithms. A recommendation system is based on an algorithm that predicts content likely to be attractive to users based on their prior selections and consumption patterns (type of device used, hour and duration of the video, genre, director, and actors). Recommendations are then personalized, in addition to the way they are displayed (photos, trailers). This becomes a competitive advantage for global platforms that have the resources to develop and refine them constantly. This is one of the features that Netflix built on from its beginnings in the physical DVDs rental business. In addition to providing the ability to improve the customer experience, a derived benefit of recommendation algorithms is cost optimization, leveraging the benefits of managing the content “long tail”¹¹. The information compiled in a recommendation system is also used to guide decisions guiding future productions, and talent (actors, directors) to be acquired¹².

⁹ For example, Conectate.gov.ar is a public site that only offers Argentine films.

¹⁰ See Prince, J. and Greenstein, S. (2018). Does original content help streaming services attract more subscribers?” *Harvard Business Review* (April 24).

¹¹ The content long tail includes not only the high demand titles but also a long list of lesser known films requested by segments of the audience. This is critical in managing catalogs in audiovisual OTT services.

¹² See Raimond, Y., and Basilico, J. (2017). *Deep Learning for recommender Systems*. Presentation to the Re-Work Deep Learning Summit San Francisco. January 25.

Recommendation systems, with varying levels of sophistication, are a key value proposition component of all OTT platforms. For example, YouTube developed a recommendation algorithm, based on past user patterns, which guides the sequence of videos suggested in the home page as well as in the notifications to users of new content¹³.

To sum up, beyond the generic characteristics of the value proposition – content variety, local content, better video-streaming technology, and recommendations – each business model displays certain characteristic specific to their value proposition. These features are directly related to their target market (see Table 1).

Table 1. Characteristics that are Specific to the Business Model Value proposition

Business Model	Differentiated Functionality	Target Audience
SVOD	<ul style="list-style-type: none"> • Unlimited use of content • Ability to download and view offline (Netflix, Amazon Prime) • Possibility of sharing accounts or multiple user profiles (Netflix) 	<ul style="list-style-type: none"> • Intensive users • <i>Cord cutters</i> and <i>Cord Nevers</i> • Loyal customers, cemented around exclusivity
TVOD	<ul style="list-style-type: none"> • Only pay for what is viewed • Larger library • Tend to have the latest releases • The ability to download content with unlimited use is possible at a higher price 	<ul style="list-style-type: none"> • Public searching for latest releases • Audience that searches for specific, non-ontine content
AVOD	<ul style="list-style-type: none"> • Advertising • Mass reach with no restrictions • Smaller catalog • Less consumer help 	<ul style="list-style-type: none"> • Broad reach • Ability to reach less upscale audience
TV Everywhere	<ul style="list-style-type: none"> • Service that complements subscription TV • Smaller catalog 	<ul style="list-style-type: none"> • Potential <i>cord cutters</i>

Source: compiled by the author

3.2. Resources

The assessment of resources for each audiovisual OTT platform focuses on its technological infrastructure, the production facilities to deliver its value proposition, and its headcount.

Access and content hosting infrastructure

The infrastructure deployed by audiovisual OTT platforms differs by business model. The large SVOD (Netflix, Amazon Prime Video, and Hulu) do not host their content in their own in-house data centers but rely on third-party hosting storage supplied by players such as Amazon Web Service (AWS). In the case of Netflix and Hulu, this choice is driven by a strategy focused on limiting fixed costs and concentrate on content distribution, the key lever of competitive advantage. In addition, at least in the case of Netflix, its decision to migrate to AWS was the result of a failure that took place in its own data centers in 2008, which resulted in an interruption of service. In addition, the decision to outsource content hosting gives Netflix the additional benefit of scalability, allowing the operator to acquire space driven by the growth of library and user base¹⁴. One of the benefits AWS provides Netflix is the ability to monitor in real time the performance and flow of the network among over 100,000 servers.¹⁵

¹³ See Covington, P, Admas, J. and Sargin, E. (2016). *Deep Neural Networks for YouTube Recommendations*. Proceedings of the 10th ACM Conference on Recommender Systems, ACM, New York, NY.

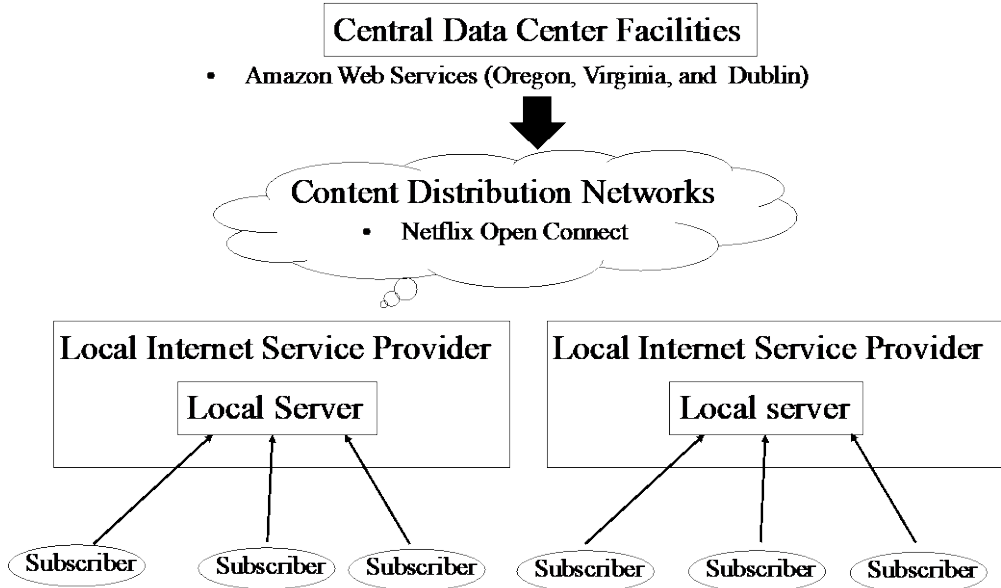
¹⁴ Macauley, T. (2018). "Ten years on: how Netflix completed a historic cloud migration with AWS". *Computerworld*, September 10.

¹⁵ AWS (2017). *Netflix and Amazon Kinesis Data Streams Case study*.

While Netflix relies on AWS capacity for content hosting, global service delivery is handled by wholly owned servers deployed in the facilities of Internet Service Providers (ISP) around the world. This distributed approach is driven by the need to reduce international transit costs and improve user experience. If all content were to be centralized in the United States, the data transfer costs for each session would be extremely high, while the latency in data download would deteriorate the viewing experience. As a result, Netflix installs servers (called Open Connect Appliance) in the data center of each local ISP in countries where service is offered. Each server only stores the local catalog, which is more limited than the one hosted in the United States. The server is updated daily between 12AM and 12 PM using Netflix own network: its proprietary Content Delivery Network¹⁶. The volume of content to be updated is pre-determined by the catalog targeted for each country, which is defined based on the analysis that Netflix conducts on the content preferred by local users. Netflix pays for the acquisition and maintenance cost of the server, while the local ISP pays for the international transit cost for the daily refreshment, energy, and the rack cost at the data center.

Netflix deploy as many servers as ISPs offer its service in each country. When a user located overseas requests access to a given content, it establishes a session with the control servers located in the United States, which in turn, route the request to the server that is closest to the user¹⁷. Figure 5 presents Netflix storage and transport infrastructure.

Figure 5. Netflix Storage and Transport Infrastructure



Source: Author

AVDO, such as YouTube, have a different infrastructure model. YouTube stores its content in nine Google wholly owned data centers located in the United States, two in Asia (Taiwan and Singapore), five in Europe (Ireland, Netherlands, Denmark, Finland and Belgium) and one in Latin America (Chile). In those countries, where Google does not have a data center, YouTube, as in the case of Netflix, deploys servers in the ISP facility. However, server refreshment in this case is more dynamic than that of Netflix (it is conducted depending on daily demand patterns).

Content production infrastructure

The tendency to grow internationally, combined with the need to develop local content, has been driving large audiovisual OTTs to expand their production facilities. For example, Netflix owns three studios outside the United States and leases production facilities in several other countries (see table 2).

¹⁶ Contrary to outsourcing hosting, Netflix Content Distribution Network is proprietary and operated in-house.
¹⁷ Amaral, F. (2012). *Netflix Open Connect Network*. PTT Forum (December).

Table 2. Netflix: International Deployment (2022)

	Offices	Production Studios
Europe	<ul style="list-style-type: none"> • United Kingdom: London • Germany: Berlin • Netherlands: Amsterdam (Regional HQ) • Spain: Madrid • France: Paris • Italy: Rome • Turkey: Istanbul • Sweden: Stockholm • Denmark: Copenhagen • Poland: Warsaw 	<ul style="list-style-type: none"> • United Kingdom: Surrey • Spain: Madrid
Asia Pacific	<ul style="list-style-type: none"> • Japan: Tokyo • Singapore (Regional HQ) • Australia: Sydney • India: Mumbai • Korea: Seoul • Thailand: Bangkok • Taiwan: Hsinchu City • Philippines: Manila 	
North America	<ul style="list-style-type: none"> • United States (Los Gatos, New York, Salt Lake City, Los Angeles, Washington DC, Toronto) 	<ul style="list-style-type: none"> • United States: Los Angeles, Brooklyn, Albuquerque • Canada: Toronto, British Columbia
Latin America	<ul style="list-style-type: none"> • Brazil: Sao Paulo • Mexico: México City • Argentina: Buenos Aires • Bogota: Colombia 	<ul style="list-style-type: none"> • Mexico: Studio long term lease

Sources: Netflix website; Clarke, S. “A look at Netflix’s ever-increasing physical footprint in international territories”, *Variety*; Roxborough, S. (2019). “Netflix global real estate grab: How the streamer is expanding from London to Singapore” *The Hollywood Reporter* (August 12).

Amazon Studios is also following the trend towards regionalization of production to meet local needs. In June 2019, the Company announced the opening of a regional office in Rio de Janeiro (Brazil), to manage the distribution of all the outsourced Brazilian productions. Amazon Studios’ other Latin American presence includes offices in Mexico City, Bogota, and Sao Paulo. In a similar approach to that of global players, large local providers are also building additional capacity to compete. Globo in Brazil recently announced the construction of a new production facility in Rio de Janeiro.¹⁸

The content production infrastructure is required to sustain a high volume of productions. Between 2016 and 2020, Netflix produced 133 films, more than three times that of Disney, Hollywood’s dominant studio.¹⁹

Labor Force

Another resource required to deliver the value proposition of audiovisual OTTs is the labor force. In their struggle for competitive dominance, global players have been growing their international staff, particularly in content production. The demand for local talent is so important that it is

¹⁸ Ariens, C. (2019). “This TV network built a massive \$50 Million Studio mostly to take on Netflix”, *Adweek*.

¹⁹ Watson, R.T. (2021). “In a Netflix world, movie studios make more movies than ever. Is that a good thing?” *Wall Street Journal* (June 16).

stretching thin the ability of international locations to support new production²⁰. In this domain, considering the level of vertical integration that has been affecting the industry, it is difficult to precisely estimate the size of their headcount affected only to OTT services. For example, the Globo Group in Brazil reports 15,000 employees distributed across 12 subsidiaries, although it is difficult to estimate what percent of them are OTT related. On the other hand, in the case of global OTT platforms, YouTube accounts for 1,121 employees, Hulu 2,900, and Netflix 11,300.²¹ From this headcount, Netflix deploys 400 workers in Singapore, 800 in Amsterdam, and 120 in London, among others.²²

3.3. Profit formula

As anticipated above, each audiovisual OTT business model differs in terms of its profit formula. The following analysis is based on public information or estimates. Examples of those operators that are close to the “pure play” concept have been selected to capture the differences in financial profiles. As an example, Netflix represents a clear example of SVOD, while YouTube is, in its majority, an AVOD. Hulu, on the other hand, represents a blend between AVOD and SVOD, and therefore, does not allow a clear economic understanding of its business.

Subscription VOD

While Netflix remains the prototypical SVOD model, numerous platforms today charge a monthly subscription for unlimited access to video content. The monthly fee for SVODs ranges between US\$ 4.99 and US\$ 14.99, reflecting not only different value propositions but also sector competitive intensity and subscriber affordability. For example, while Netflix charges a fixed fee in the United States (\$9.99 for Basic vs. \$19.99 for Premium), Amazon Prime Video offers the service for free to all users of its e-commerce platform that pay a monthly fee to join (US\$ 14.99), although access to certain films or series require an additional transaction payment²³. Disney+, Disney’s SVOD launched in October of 2019, offers access to all their studio contents and other original productions for US\$ 8.00 per month or US\$ 14.00 if bundled with Hulu and ESPN+. The monthly subscription to Apple TV+, Apple’s SVOD, is US\$ 4.99, although the first year is free if the subscriber had bought Apple products (e.g., iPhone, iPad, or other). Price competition for the monthly subscription fee, coupled with the pressure to invest in original content to capture and retain the user base, remains the key pressure of the subscription business model. This will be clearly understood when the economic structure of Netflix is analyzed in detail.

As mentioned above, Netflix revenues are based upon the number of subscribers paying a monthly fee, ranging in this case between US\$ 9.99 and US\$ 19.99. The most economic offer does not offer high-definition programs, while the most expensive one includes delivery of 4K definition content plus the ability of access the platform from four devices. In certain countries, the subscription is charged in local currency, which is impacted by exchange rate fluctuations. For example, in Argentina the basic plan costs AR\$ 379 while the Premium service is charged at AR\$ 939 (before an additional tax of 30%).²⁴ At the official exchange rate, this equates to between US\$ 3.26 y US\$ 8.09.

Annual income statements that give a first glimpse at the business profitability are reported for three businesses: domestic streaming, international streaming, and domestic DVD rental (the original Netflix business) (see disaggregated results by segment in table 3). Since Netflix reported segment profitability until 2019, some evidence can be drawn from the first period. Between 2019 and 2021, results are only reported in terms of revenues.

²⁰ See Solot, S. (2019). *Attracting inward investment*. Presentation to Brazilian Film & TV Industry: Increasing Economic Leverage Seminar, Los Angeles, November 21.

²¹ See Owl.com. In the case of Netflix, its 2021 annual report presents 8,600 employees in the United States and Canada, 1,400 in Europe, Middle East and Africa, 400 in Latin America, and 900 in Asia.

²² Roxborough, S. (2019) “Netflix Global real estate grab: how the streamer is expanding from London to Singapore”, *The Hollywood Reporter* (August 12).

²³ Outside the United States, Amazon Prime Video Access requires a monthly fee. In Argentina, for example, the monthly subscription is AR\$ 319 (o US\$ 2.75 at the official exchange rate).

²⁴ Cergarabedian, C. (2022). “Cuánto sale Netflix en Argentina: precios y planes abril de 2022”, *iprofesional* (Abril, 1)

Table 3. Netflix: Income Statement (by segment)
(in US\$ thousand, with the exception of monthly revenue per subscriber)

	2016	2017	2018	2019	2020 (*)	2021 (*)	CAGR (**)
1. Domestic streaming							
Revenues	\$ 5,077,307	\$ 6,153,025	\$ 7,646,647	\$ 9,243,005	\$ 11,455,396	\$ 12,972,100	20.64 %
Cost of revenues	\$ 2,951,973	\$ 3,470,859	\$ 4,038,394	\$ 4,867,343	---	---	18.14%
Marketing	\$ 412,928	\$ 603,746	\$ 1,025,351	\$ 1,063,042	---	---	37.05%
Contribution	\$ 1,712,406	\$ 2,078,420	\$ 2,582,902	\$ 3,312,620	---	---	24.60%
Margin (%)	34%	34%	34%	35.68%	---	---	1.62%
Monthly revenue per subscriber	\$ 9.21	\$ 10.18	\$ 11.40	\$ 12.57	\$ 13.32	\$ 14.56	9.59%
2. International streaming							
Revenues	\$ 3,211,095	\$ 5,089,191	\$ 7,782,105	\$ 10,616,225	\$ 13,301,279	\$ 16,543,396	38.80%
Cost of revenues	\$ 3,042,747	\$ 4,359,616	\$ 5,776,047	\$ 7,449,663	---	---	34.78%
Marketing	\$ 684,591	\$ 832,535	\$ 1,344,118	\$ 1,589,420	---	---	32.41%
Contribution	(516,243)	(102,960)	\$ 661,940	\$ 1,577,142	---	---	245.10%
Margin (%)	(16%)	(2%)	9%	14.9%	---	---	197.65%
Monthly revenue per subscriber	\$ 7.81	\$ 8.66	\$ 9.43	\$ 9.26	\$ 9.10	\$ 9.64	4.30%
3. DVD rental							
revenues	\$ 542,267	\$ 450,497	\$ 365,589	\$ 297,217	\$ 239,381	\$182,348	-19.58%
Cost of revenues	\$ 262,742	\$ 202,525	\$ 153,097	\$ 123,207	---	---	-22.31%
Contribution	\$ 279,525	\$ 247,972	\$ 212,492	\$ 174,010	---	---	-14.61%
Margin (%)	52 %	55 %	58%	58.5%	---	---	4.00%
Monthly revenue per subscriber	\$10.22	\$ 10.17	\$ 10.19	---	---	---	---

(*) Since 2020, Netflix combines United States and North America streaming

(**) For the series that end in 2019, the CAGR is calculated between 2016 and 2019

Source: Netflix Annual Report

As indicated in the income statement, the international streaming business represents the core segment in terms of revenue growth (CAGR: 38.80%), having already surpassed that of the domestic US business in 2019. However, while the profitability of the international business has improved, the margins continue to be lower than the domestic streaming business (14.9% versus 35.68% in 2019). This is confirmed by the comparison of monthly revenue per subscriber in 2021: the revenue per international subscriber is lower than the domestic one (\$9.64 versus \$ 14.56), coupled with higher cost of revenues (at least as reported in 2019). This item includes amortization of content production, license payments for content acquired to other producers, and expenses incurred to serve the subscriber base (e.g., information technology). The analysis of results between 2016 and 2019 of the domestic and international streaming segments indicates that revenues are growing faster than cost of revenues (in domestic streaming 22.10% versus 18.14% and in international streaming 48.97% versus 34.78%). This indicates that the streaming business depicts a level of operational scalability (that is to say, economies of scale in content production and acquisition exist). The same occurs with marketing costs internationally. They include promotion of original titles, and payments to Netflix partners (commission paid to cable TV and telecommunications operators so their customers can access Netflix in their platforms). These results depict the essence of Netflix strategy: invest in content to grow internationally and leverage the scale economies of production. The importance of content can be also emphasized when operating expenses are disaggregated by cost item (see table 4).

Table 4. Netflix: Cost Structure (2016-2021)
(in US\$ thousand, unless indicated)

	2016	2017	2018	2019	2020	2021	CAGR
Subscribers	89,090,000	110,664,000	139,259,000	152,984,000	189,083,000	210,784,000	18.80%
Operating expenses	\$8,450,876	\$10,854,034	\$14,189,115	\$17,552,193	\$20,410,767	\$23,503,335	22.70%
Cost of revenues	\$6,257,462	\$8,033,000	\$9,967,538	\$12,440,213	\$15,276,319	\$ 17,332,683	22.60%
Cost of revenues (%)	74.05%	74.01%	70.25%	70.88%	74.84%	73.75%	-0.08%
Content amortization	---	\$6,197,817	\$7,532,088	\$9,216,247	\$10,806,912	\$12,230,367	
Content amortization (%)	---	57.10%	53.08%	52.51%	52.95%	52.04%	
Technology & development	\$1,548,232	\$953,710	\$1,221,814	\$1,545,149	\$1,829,600	\$ 2,273,885	7.99%
Technology (%)	18.32%	8.79%	8.61%	8.80%	8.96%	9.67%	-11.99%
Marketing	\$1,097,519	\$1,436,281	\$2,369,469	\$2,652,462	\$2,228,362	\$2,545,146	18.32%
Marketing (%)	12.99%	13.23%	16.70%	15.11%	10.92%	10.83%	-3.57%
G&A	89,090,000	110,664,000	139,259,000	152,984,000	189,083,000	210,784,000	18.80%
G&A (%)	\$8,450,876	\$10,854,034	\$14,189,115	\$17,552,193	\$20,410,767	\$23,503,335	22.70%

Source: compiled by the author based on data contained in Annual Reports

The data in table 4 is illustrative of Netflix strategy and the characteristics of the SVOD business model. As indicated, the cost of revenues, which, as mentioned above, includes content development and acquisition, remain fairly constant (between 74.05% and 73.75% of total operating expenses). That said, this percentage does not reflect the increase in content costs over the years. Furthermore, the absolute value masks true investment: analysts estimate that Netflix invested US\$ 13.9 billion in 2019, US\$ 11.8 in 2020, and US\$ 17.0 billion in 2021.^{25,26} According to a recent presentation²⁷, Netflix amortizes the investment in content development between four and ten years, which is why the total investment is not totally reflected in the annual cost of revenues. This amortization methodology has been criticized by some equity research analysts because they argue that it overestimates the useful life of audiovisual content²⁸.

In sum, notwithstanding the accounting approaches, Netflix is facing an environment where the costs linked to content development are becoming extremely high. As an example, “The Irishman” movie, produced by Netflix cost US\$ 159 million. Regarding the cost of series, “The Big bang Theory” cost US\$ 4 million by episode (US\$ 100 by season), while “Game of Thrones” required an investment of US\$ 15 million per episode (US\$ 150 million per season); both products were developed by Warner Bros.

Beyond content development and acquisition costs, advertising remains an important cost item. The larger the number of original productions, the higher the promotional costs. In 2018, Netflix marketing costs, which include advertising, increased 65% from 2017, reaching US\$ 2.37 million, while in 2019 they amounted to US\$ 2.67 million, reaching US\$ 2.55 million in 2021. In comparison, the other cost items are much smaller: information technology and development costs represent 9.67% of total 2021 expenses

When it comes to the overall profitability, Netflix generated a net income of US\$ 5,116,288 billion in 2021. However, when it comes to cashflow, the results are negative (US\$ -158 thousand in 2021). This is driven by the need to continuously invest in original content development. To support this requirement, the company has been borrowing funds (in 2020, the balance sheet registered US\$ 15.8 billion in long term debt, while in 2021, that amount increased to US\$ 14.7 billion)²⁹.

²⁵ *Variety*, January 18, 2019

²⁶ Amazon Prime Video also invests in developing content, although the Company does not report what portion of its US\$ 7 billion assigned to content in 2019 are allocated to original programming (Roettgers, J. (2019). “Amazon spent \$1.7 billion on content in Q1, but original video investments still unknown”, *Variety*, April 26..

²⁷ Netflix (2020). *Overview of Content Accounting*. January.

²⁸ Following amortization standard FAS 63 recommended by the Financial Accounting Standard Board, the time of amortization of an audiovisual content has to reflect the time that the content will remain in use.

²⁹ “For the year ahead, Wall Street analysts forecast this to increase 25% to around \$15 billion on a gross cash basis..

By leveraging its business model, Netflix is targeting an accelerated expansion of its worldwide subscriber base (210.8 million subscribers in 2021)³⁰, particularly in a context of strong competition (especially from Amazon Prime Video and Disney+). This aggressive strategy has led some analysts to question the sustainability of the business model. For example, only in the four-month period (January to April 2018), Netflix developed 33 original movies, each generating an average of 9 million visualizations and revenues of US\$ 52.3 million.

The sustainability of the SVOD model needs to be considered in the context of the overall business portfolio of each competitor. The questions raised for Netflix are relevant for a “pure play” operator (i.e., its only business is the SVOD). With regards to Amazon Prime Video, the sustainability issue should be addressed differently since the SVOD business is not a standalone venture but contributes to the company core business (in other words, it consolidates Amazon’s relationship with retail clients). Similarly, for Apple, Apple+ is a replication of the iTunes strategy, where distribution helps cementing market share and sales in consumer electronics. Finally, for Disney, Disney+ represents an additional strategy to monetize its archive of 7,500 TV episodes and 500 films, that leverages its brand equity and share of the film industry.

Transaction VOD

The Transaction VOD model allows a consumer to register in a digital platform with a credit card and download digital audiovisual content for a one-time fee. In some cases, the platform limits the number of times or the time over which the downloaded content can be seen. The typical examples of this model are Amazon.Com and Apple iTunes.

iTunes offers the capability of downloading films and series through streaming, in addition to watching certain TV channels and SVOD platforms, such as Netflix, HBO Now, Hulu y Showtime (which require an additional subscription). This platform is not offered globally. For example, in Latin America, iTunes can only be accessed for streaming films in Chile, Mexico, Colombia, Argentina, Costa Rica, Nicaragua, Panamá, Paraguay, Republica Dominicana, Perú, Ecuador, El Salvador, Bolivia, Brasil, Guatemala, Venezuela and Honduras. Similarly, the access to other OTT platforms via Apple TV is only possible in Brazil (Amazon Prime, Claro Video, Globo Play, HBO Go, Classix) and Mexico (Amazon Prime, Blim, Claro Video, HBO Go)³¹. Originally, Apple OTT revenues were generated from selling of devices (Apple TV 4K: 32 GB version for US\$197 or 64 GB version for US\$ 199; Apple TV HD: US\$ 149), and payment for renting or purchasing of a film or series season ranging between US\$ 3.99 or US\$ 13.99 respectively.

In November 2019, Apple launched an SVOD model. The Apple TV+ platform offers access to original content produced by the company. This product is offered through a monthly subscription of US\$4.99³². This price point indicates not only Apple’s intent to compete with Netflix and Hulu, but also raises the question of sustainability of the SVOD model in a context of intensifying competition. Apple has not communicated so far, the number of subscribers gained³³, although certain analysts predict that by 2025, it could reach 136 million. That said, considering that Apple offers free first year service to those Apple TV+ subscribers that purchase an Apple product, revenues will only grow moderately, and the overall business could also negatively impact the company's results³⁴.

Advertising VOD

³⁰ The relevance of original content is backed by survey results that indicate that 37% of new Netflix subscribers have selected the platform because of its proprietary content.

³¹ Apple (2020). Availability of supported apps in the Apple TV app.

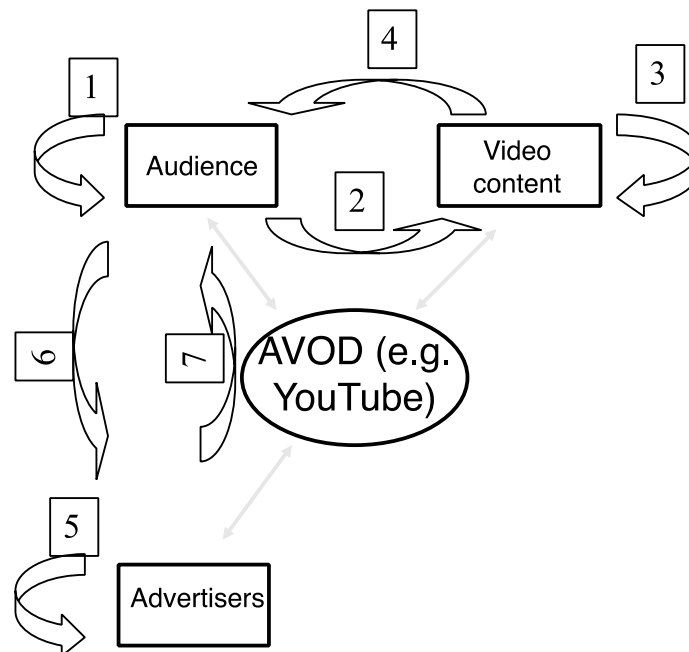
³² This fee is waived for a year if the subscriber purchased an Apple product, such as an iPhone..

³³ Spangler, T. (2020). “Apple TV Plus had “immaterial” revenue in launch quarter Amid one-year free deal”, *Variety* (January 20)

³⁴ Sheetz, M. and Melloy, J. (2019). “Goldman Sachs just dramatically cut its outlook for Apple, predicts 26% downside”. *CNBC* (September 13).

The profit formula of the AVOD model is based on a modification of the original two-sided platform presented in the cases of SVOD and TVOD. In this case, the platform adds a third “side” (advertisers), which subsidizes users access to audiovisual content (see figure 6).

Figure 6. Multi-sided structure of an AVOD platform



Source: Author

According to this model, the advertiser pays for accessing the platform, with additional network effects are defined. The most important new effect is the indirect (7), based on which the advertising value of the platform is a function of the number of individuals that access it (in other words, the “audience”). It should be mentioned that indirect network effect (6) is not as important since the audience accesses the platform in search for audiovisual content, not to search for advertisements (although in the case of YouTube, users also access the platform to upload user generated content). Accordingly, AVOD platforms can be further segmented in terms of those that allow users to upload user generated content, and those that offer access to only content generated by studios or channels. In the first group, YouTube represents the dominant player, although the platform has recently launched a subscription model (YouTube TV). Within the second group we place Vudu (owned by Walmart), Fubo (focused primarily in soccer content) and the ad model of Hulu Plus (which offers access to films and series).

As mentioned above, YouTube’s profit formula is based on revenues generated by advertising and subscription of its YouTube TV business. Advertising revenues are generated from three models: (i) the sale of sponsored ads, with revenues paid as a function of “clicks”, (ii) the sale of embedded ads, where the commercial is included before a YouTube video (or between videos if it is short enough), with revenues paid by the number of impressions, and (iii) banners located in YouTube landing page. In addition, YouTube offers a membership service to advertisers, which allows them to offer products and discounts to subscribers paying a monthly fee of US\$ 4.99. Finally, YouTube charges a commission if a consumer lands on an affiliated enterprise page.

Regarding the subscription business, excluding the access to music, YouTube Premium offers video streaming without advertising and access to YouTube originals for a monthly fee of US\$ 11.99, although this amount varies by country. For example, in Argentina the price is AR\$ 119 (which equates to US\$ 1.83 at the official exchange rate). Finally, YouTube TV is only offered in the United States, allowing subscribers access to broadcast channels such as ABC, NBC, FOX, ESPN and Disney, among others, for a total of 70 channels. A monthly fee of US\$ 49.99, allows the creation of up to six accounts.

Alphabet, Google's parent company, reported YouTube ad revenues for the first time in its 2020 Annual report. In terms of advertising, YouTube has generated US\$ 8.15 billion in 2017, US\$ 11.16 billion in 2018, US\$ 15.14 billion in 2019, US\$ 1.77 billion in 2020, and US\$ 28.84 billion in 2021³⁵. However, it is not possible to quantify YouTube subscription revenues since those are consolidated with the Google Play app store and Gmail products, under the category of "Google Other Revenues"³⁶. Some reports estimate that YouTube has 20 million paying Premium subscribers (which includes music) and 2 million YouTube TV.

While it is difficult to estimate YouTube's business profitability, there are indications that by 2015, when YouTube was generating US\$ 4 billion in revenues, its profitability was nil.³⁷ The reasons provided at the time was high infrastructure costs, difficulty in migrating customers from a free to a subscription-based model, and the low rate of sales generation of advertising in a user generated platform.³⁸ That said, analysts estimate that, despite the huge content acquisition and infrastructure costs as well as 4,000 employees, YouTube probably is profitable by 2021.

A final issue relates to the future viability of AVOD models based on user generated content, such as YouTube. It is reported that advertisers are prone to limit their spend in such platforms because it is difficult for them to control for negative brand effects of questionable content or ad placement in non-suitable contexts (for example, advertising for life insurance products close to teenager content). This type of concerns appears to be driving a gradual shift of advertisers from user generated AVOD platforms to studio and channel-produced content platforms.

TV Everywhere

The profit formula of this last model is based on the fact that this is a free service linked to the fee paid by a paid TV subscriber. Along those lines, the content offer is much more restricted since it is limited to conventional VOD offerings.

3.4. Processes

The operational processes of an audiovisual OTT platform include primarily, the management of hosting and access infrastructure, content production, and customer care.

As discussed in prior sections, content storage infrastructure is either subcontracted to a third party for SVOD platforms (Netflix, Amazon or Hulu) or internalized for AVOD services (YouTube). On the other hand, all large global operators tend to manage the access infrastructure in-house. A generalized trend exists toward investment in internal development of original content (Amazon, Netflix, Apple) or use of already developed content (Disney and Hulu).

Customer care processes vary between global and local players and the business model they respond to. For example, SVOD services, such as Netflix, offer telephone and chat support between 9:00 AM and 3:00 PM. Claro Video also offers telephone and chat virtual support. Apple offers telephone support with local numbers in Brazil and Mexico. AVOD platforms segment care support by paying and non-paying subscribers: basic users are supported through a virtual helpdesk, while premium subscribers receive personalized service.

4. OFFER AND PENETRATION OF AUDIOVISUAL OTT PLATFORMS IN LATIN AMERICA

As mentioned in the introduction, the offer of audiovisual OTT services in Latin America has been increasing significantly driven by the improvement of fixed broadband quality, which allowed the

³⁵ Spangler, T. (2020). "Alphabet reports YouTube Ad revenue for first time, video service generated \$ 15.1 billion in 2019", *Variety* (February 3). Alphabet Annual Reports.

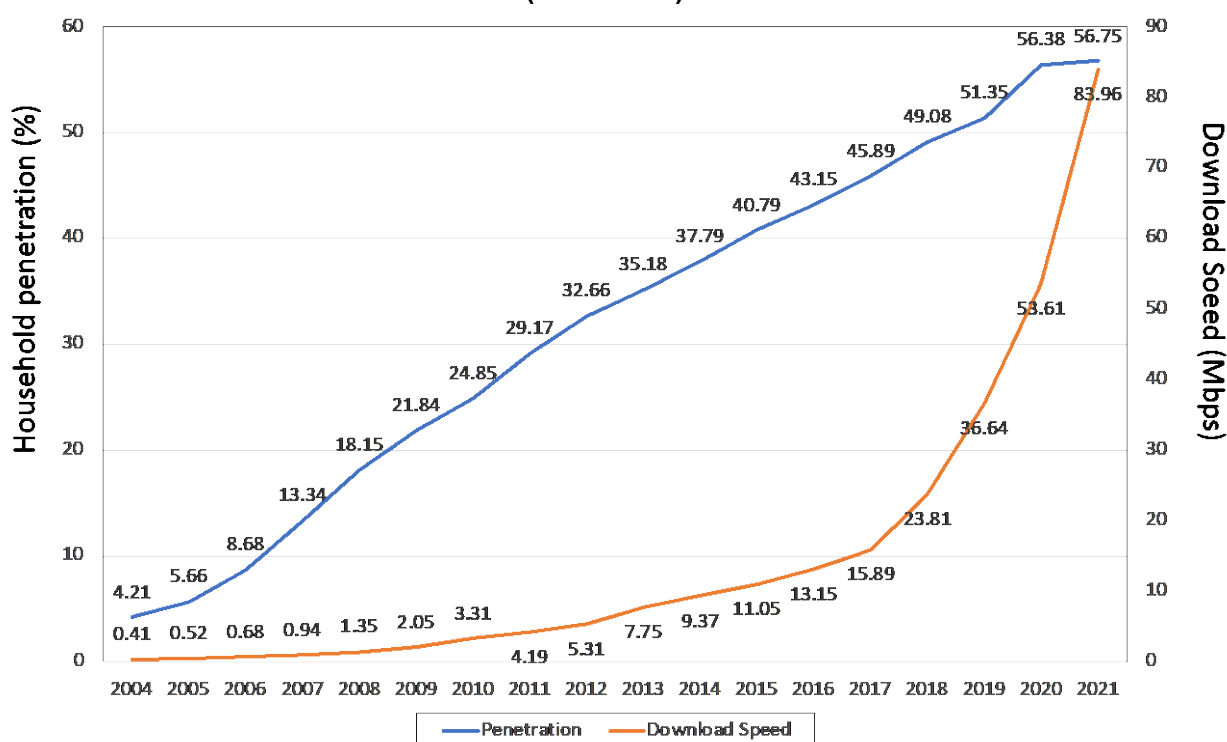
³⁶US \$ 10,914 million en 2017, US\$ 14,063 million in 2018, and US\$ 17,014 million in 2019.

³⁷ Sherman, E. (2015). "Four reasons YouTube still doesn't make a profit", *Moneywatch* (May 27).

³⁸ Wakabayashi, D. (2019). "YouTube is a big business. Just how big is anyone's guess", *New York Times* (July 24)

services to become a serious competitor (and substitute) to traditional pay TV services. Between 2004 and 2021, fixed broadband household penetration increased from 4.21% to 56.75%, while the average download speed grew from 0.41 Mbps to 83.96 Mbps (see Graphic 1).

Graphic 1. Latin America: Fixed broadband household penetration and download speed (2004-2021)



Source; analysis by the author based on information from the International Telecommunication Union, AKAMAI, and Ookla/Speedtest

The increase in fixed broadband adoption and download penetration speed that took place after 2010 was the trigger of the launch of audiovisual OTT platforms in the region. This diffusion process was spearheaded by three simultaneous trends: the entry of global platforms such as Netflix, the launch of regional services such as Claro Video and Globoplay, as well as the development of national “specialists”, focused on local content. Table 5 depicts the evolution in the number of platforms in the six countries under study, which increased from 39 in 2013 to 160 in 2018,

Table 5. Latin America: Evolution of Audiovisual OTT platforms – By geographic reach

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Global platforms	3	3	4	6	7	7	9	9	11
Regional platforms	14	24	40	55	64	91	93	93	94
Local platforms									
Argentina	7	16	17	21	23	18	18	18	19
Brazil	13	16	22	23	26	29	30	31	32
Costa Rica	0	0	1	2	3	4	7	9	10
Ecuador	0	2	2	2	3	1	4	4	4
Peru	2	2	3	3	4	2	4	5	5
Uruguay	0	4	9	8	8	8	9	9	9
Total	39	67	98	120	138	160	174	178	184

Source: Compiled from Katz (2019) and local sites.

A strong growth took place among global and regional platforms: iTunes, Netflix, Amazon Prime, Crackle, HBO Go, YouTube Premium, and Studio+, are some of the global platforms, while Claro Video, DirecTV VOD, and Blim are regional in scope. In addition, an increase in local offers

occurred especially in countries with large market potential like Brazil, Mexico, and Argentina. In the case of Brazil, the launch of local platforms (reaching 29 in 2018) was partly due to the linguistic specificity.

The platform statistics by business model (Table 6) indicate the preeminence of SVOD and AVOD models over the TVOD. On the other hand, the increase in TV Everywhere confirms the strength of the traditional pay TV players' reaction to the OTT market encroachment.

Table 6. Latin America: Audiovisual OTT Platforms (by business model) (2021)

	SVOD		TVOD		AVOD		TV Everywhere	
	N	Examples	N	Examples	N	Examples	N	Examples
Argentina	31	<ul style="list-style-type: none"> • Amazon • Claro Video • Netflix • Twitch 	5	<ul style="list-style-type: none"> • Cablevision VOD • DirecTV VOD 	26	<ul style="list-style-type: none"> • Cineteca Nacional • La Nacion+ 	32	<ul style="list-style-type: none"> • ESPN Play • Movistar Play
Brazil	35	<ul style="list-style-type: none"> • Globo Play • Esporte interativo 	10	<ul style="list-style-type: none"> • Oi TV • VIVO VOD 	19	<ul style="list-style-type: none"> • CINE.AR • TV Palmeiras Play 	28	<ul style="list-style-type: none"> • Globosat Play • Oi Play
Costa Rica	30	<ul style="list-style-type: none"> • Netflix • Amazon Prime 	3	<ul style="list-style-type: none"> • Tigo OneTV • Movistar OnDemand 	10	<ul style="list-style-type: none"> • YouTube 	21	<ul style="list-style-type: none"> • Cabletica Play • Telecable Play
Ecuador	30	<ul style="list-style-type: none"> • Netflix • Amazon Prime 	3	<ul style="list-style-type: none"> • Claro Play 	10	<ul style="list-style-type: none"> • YouTube 	24	<ul style="list-style-type: none"> • CNT Play • Go!TV Play
Peru	33	<ul style="list-style-type: none"> • Acorn TV • America TV GO • TVN Play 	4	<ul style="list-style-type: none"> • YouTube movies 	22	<ul style="list-style-type: none"> • Las Estrellas • Mooviemex 	27	<ul style="list-style-type: none"> • Claro Play • MTV
Uruguay	33	<ul style="list-style-type: none"> • Blim • Mubi • Filmotech 	3	<ul style="list-style-type: none"> • iTunes 	22	<ul style="list-style-type: none"> • Canal Once • TV Publica 	29	<ul style="list-style-type: none"> • Uplay
Total	192		28		109		161	

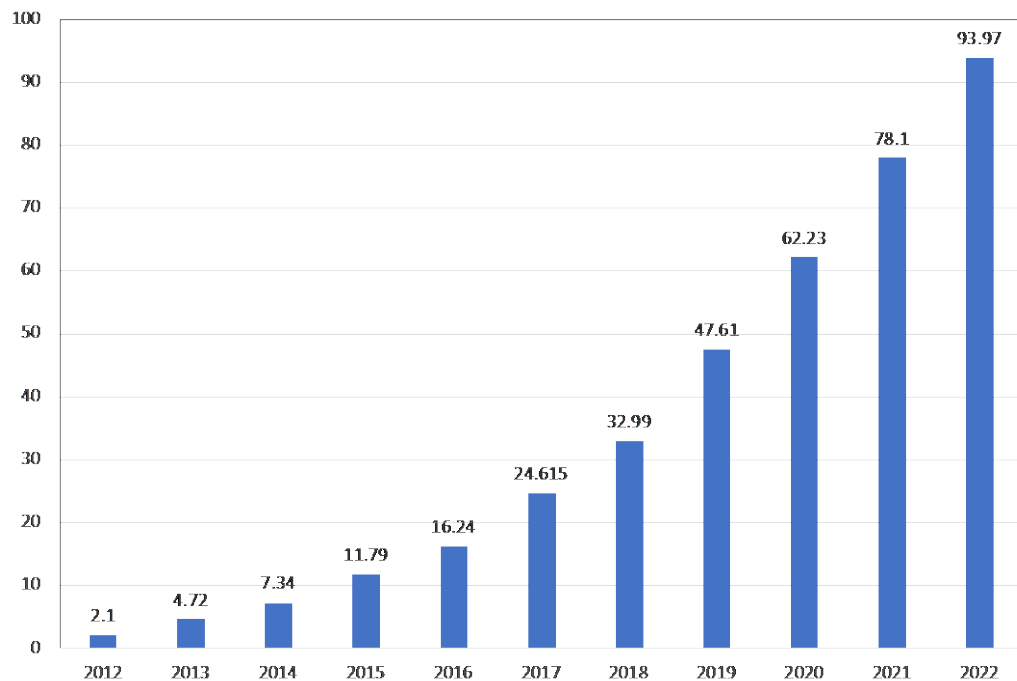
Note: the difference with statistics reported in Table 5 is because global and regional platforms are included in each country. Within AVDO category, all free platforms are included, in addition those that are not supported by advertising.

Source: Compilation of local sites

As indicated in Table 6, SVOD remains the dominant model in all the countries under study. Beyond this type, AVOD and TV Everywhere are at parity. Finally, the offer of TVOD platforms is considerably lower than the other models.

In parallel with the growth of services, audiovisual OTT platforms have undergone a substantial growth in penetration in the last decade. While the total number of subscribers in the region is estimated at 93.67 million, it is difficult to quantify the aggregate household penetration since a single household might be purchasing more than one service, and one subscription might be used by several households (see Graphic 2).

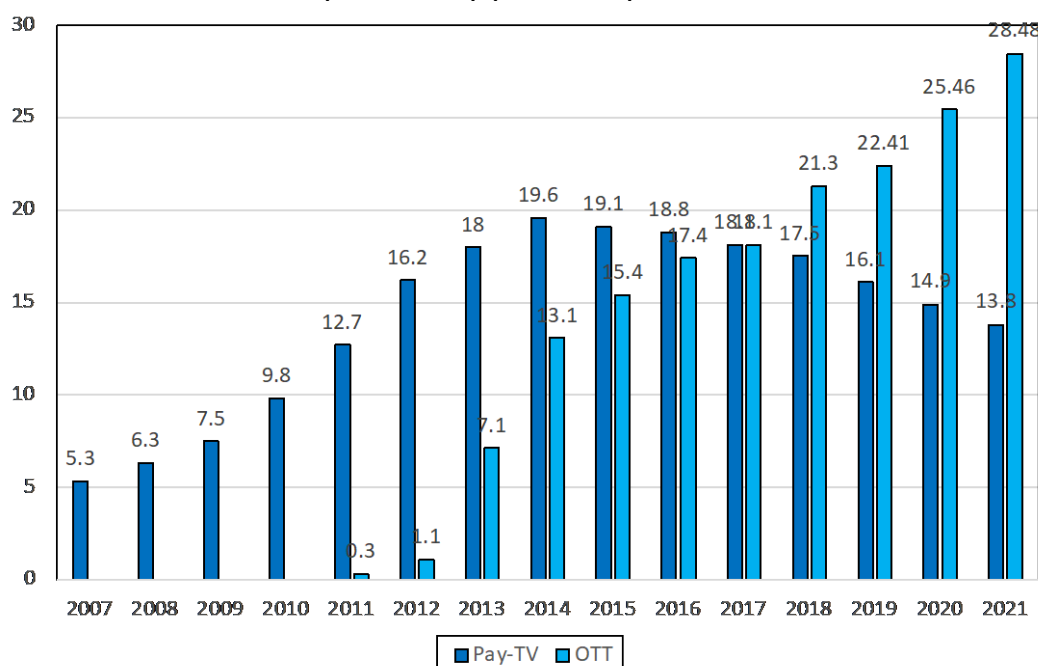
Graphic 2. Latin America: Number of Audiovisual OTT subscribers



Source: Statista

Statistics for Brazil allow a more precise estimation of aggregate demand, broken down by business model, which also provides a perspective on the ongoing OTT vs. pay TV subscription taking place in the region. The total number of OTT subscribers in 2021 in Brazil reached 28.48 million (or 78.4% of the 36.3 million households with fixed broadband service). The time series of OTT households compared to pay TV subscriptions since 2011 depicts an accelerated process of technological substitution and a change in purchasing pattern of audiovisual content (see graphic 3).

Graphic 3. Brazil: Audiovisual OTT subscribers vs. Pay Television subscribers (2007-2021) (in million)



Note: OTT Statistics between 2010 and 2015 are estimated.

Sources: Anatel; Ancine; Katz (2019).

Market analysts estimate that as of 2020 16% of fixed broadband households have disconnected their pay TV service. While the motive reported for disconnection is cost, the purchasing behavior displayed afterward indicates intense acquisition of OTT content (this might indicate that product substitution could be the primary driver).

The acceleration of disconnection of pay tv service is partly driven by the proliferation of audiovisual OTT offers. An analysis of market share by platform indicates that the Latin American market is becoming very competitive (see Table 7).

Table 7. Latin America: Audiovisual OTT market share (2021)

	Netflix	Amazon	Disney+	HBO Go/Max	Claro Video	M Play	Apple TV+	Other
Argentina (Q1)	28%	25%	13%	11%	6%	5%	5%	7%
Bolivia (Q3)	25%	19%	17%	10%	--	--	4%	25% (1)
Brazil (Q1)	33%	27%	6%	7%	5%	--	--	22% (2)
Chile (Q4)	24%	21%	15%	11%	--	2%	5%	22% (3)
Colombia (Q3)	24%	20%	15%	14%	3%	2%	4%	18% (4)
Costa Rica (Q4)	25%	19%	17%	12%	--	--	6%	21% (5)
Mexico (Q3)	29%	17%	14%	11%	11%	--	--	18% (6)
Peru (Q1)	27%	24%	10%	12%	8%	9%	--	10%

(1) Paramount + (4%), Star+ (owned by Disney) (2%), Other (19%)

(2) Globoplay (8%), Telecine (7%), Other (7%)

(3) Star+ (owned by Disney) (7%), Paramount+ (6%), Other (9%)

(4) Paramount+ (5%), Star+ (owned by Disney) (4%), Other (9%)

(5) Star+ (owned by Disney) (5%), Paramount+ (6%), Other (9%)

(6) Paramount+ (6%), Star+ (owned by Disney) (2%), Other (10%)

Source: Just Watch

As indicated in table 7, Netflix remains the dominant player, although Amazon, Disney+ and HBO Max are leading competitors. In terms of local OTT, Globoplay, Telecine (owned by Globo), and Claro Video are important competitors in Brazil and Mexico respectively.

Beyond the fragmentation of supply, market structure indicates a clear strategy of vertical integration, where players active at a particular stage of the audiovisual value chain tend to enter the OTT segment for strategic purposes (diversification, monetization of assets, defense of extant value chain positions, exploiting economies of scale and scope). This is clearly depicted in Table 8, which presents the owners of most important OTT platforms by business model.

Table 8. Owners of OTT platforms (2022)

Business model	Platform	Owner	Core Business	Country
SVOD	Netflix	Netflix	Content production and distribution	USA
	Claro Video	América Móvil	Telecommunications – content distribution	Mexico
	Globo Play	Globo	Broadcasting	Brazil
	Amazon Prime Video	Amazon	Content production and distribution	USA
	Disney+	Walt Disney Co	Entertainment	USA
	Paramount+	Paramount Global	Content production and distribution	USA
	Star+	Walt Disney Co	Entertainment	USA
	Apple TV+	Apple	Consumer electronics, computing, content distribution	USA
	Movistar Play	Telefonica	Telecommunications – content distribution	Spain
	HBO Max	Warner Media - Discovery	Content production and distribution	USA
	Twitch	Amazon	Content production and distribution	USA
	Cartoon Network	Warner Media	Content production – Pay TV	USA
	Esporte Interativo	Warner Media	Content production – Pay TV	USA
	Playkids.tv	Play Kids INC	Content development - Equipment	Brazil
Sony Crackle	Sony Pictures	Equipment	USA	
TVOD	Telecine On	Globo	Broadcasting	Brazil
	PlayStation Store	Sony Pictures	Equipment	USA
	SKY Play APP	ATT	Telecommunications – Pay TV	USA
	Now VOD	América Movil	Telecommunications – Pay TV	Mexico
	Oi TV	Oi	Telecommunications – Pay TV	Brazil
	Cinépolis Klic	Cinépolis	Content distribution	Mexico
	Google Play Movies	Google	Digital advertising	USA
	VIVO VOD	Telefónica	Telecommunications – Pay TV	Spain
	Microsoft Movies & TV	Microsoft Corp.	Equipment	USA
	iTunes Movies	Apple	Equipment	USA
AVOD	YouTube	Google	Digital advertising	USA
	SBT	CDT da Anhanguera	Content production and distribution	Brazil
	TV Azteca	Grupo Salinas	Content production and distribution	Mexico
	Las Estrellas	Grupo Televisa	Broadcasting	Mexico
	Canal Once	Instituto Politécnico Nacional	Research and education	Mexico
	Televisa Deportes	Grupo Televisa	Broadcasting	Mexico
	TV Pública	Radio y Televisión Argentina	Content production and distribution	Argentina
	Caracol TV	Caracol Televisión	Broadcasting	Colombia
	Imagen Televisión	Grupo Imagen	Content production and distribution	México
	Todo Noticias	Grupo Clarín	Content production and distribution	Argentina
TV Everywhere	Telecine Play	Globo	Broadcasting	Brazil
	FOX Sports Play	Fox	Broadcasting	USA
	HBO Go	Warner Media	Content production – Pay TV	USA
	Premiere Play	Globo	Broadcasting	Brazil
	Movistar Play	Telefónica	Telecommunications – Pay TV	Spain
	Totalplay GO	Grupo Salinas	Content production and distribution	Mexico
	Globosat Play	Globo	Broadcasting	Brazil
	Izzi GO	Grupo Televisa	Broadcasting	Mexico
FOX APP	Fox	Broadcasting	USA	

	Cartoon Network GO	Warner Media	Content production – Pay TV	USA
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Source: Corporate websites

5. BUSINESS MODELS OF AUDIOVISUAL OTT PLATFORMS IN LATIN AMERICA

Chapter 4 presented an analysis of audiovisual OTT platform trends in Latin America. This chapter focuses on the implications of different business models for the growth of the sector and the strategy of content development. The starting point is the analysis of business models of global players presented in chapter 3, upon which the Latin American implications are drawn.

5.1. Revenues and profitability

Total 2021 revenues of audiovisual OTT platforms in Latin America are estimated at US\$ 9.0 billion (see table 9).

Table 9. Latin America: América Latina: Revenue trends per business model (million US\$)

	2017	2018	2019	2020	2021	CAGR
SVOD						
Netflix	\$ 1,643	\$ 2,238	\$ 2,795	\$3,157	\$3,577	21.47%
Other	\$ 1,214	\$ 1,653	\$ 2,066	\$2,582	\$3,227	27.69%
Subtotal	\$ 2,856	\$ 3,891	\$ 4,861	\$5,739	\$6,804	24.24%
TVOD	\$ 90	\$ 103	\$ 115	\$128	\$143	12.34%
AVOD	\$ 797	\$ 1,045	\$ 1,308	\$1,637	\$2,049	26.63%
Total	\$3,743	\$5,039	\$6,284	\$7,505	\$8,997	24.51%

Sources: Netflix Annual Report y Business Bureau (SVOD) y PwC (AVOD y TVOD). The statistics for non-Netflix data includes the following countries: Argentina, Brazil, Chile, Colombia, México, Perú. In the AVOD segment, it only includes revenues for commercials streamed before and after videos and excludes banners.

Table 9 presents the evolution of revenues by business model for the six largest Latin American economies (Argentina, Brazil, Chile, Colombia, México, Perú). As depicted, the most important source of revenues is garnered by SVOD businesses (which by 2021 exceeded US\$ 6,804 million). That said, AVOD revenues are growing at 26.6%, faster than that of SVOD sales, albeit from a much smaller base. Of note also, is the limited importance of TVOD platforms in terms of revenues (2% of total).

Subscription VOD

The dominant position of SVOD platforms can be ascertained in terms of the revenues of main players. However, it is important to establish the profit formula and its strategic implications. For this purpose, we rely on Netflix, which is the only provider that reports Latin America revenues (see table 10).

Table 10. Netflix: Revenues Latin America (2017-2021)

	2017	2018	2019	2020	2021
Revenues (US\$ '000)	\$ 1,642,616	\$ 2,237,697	\$ 2,795,434	\$ 3,157	\$ 3,577
Subscribers	19,717,000	26,077,000	31,417,000	37,537,000	39,961,000
Revenues per subscriber (US\$)	\$ 8.09	\$ 8.19	\$ 8.21	\$ 7.45	\$ 7.73

Source: Netflix Annual Report

The difference in revenues per Latin American subscriber and that of the United States (US\$ 14.56) and the international average (US\$ 9.64), both presented in Chapter 3, confirms the impact of monthly subscription fee across geographies. For example, Table 11 presents the subscription price for each country in the region, as well as its dollar value based at the corresponding exchange rate in April 2022. The difference in monthly subscription across countries indicates how the platform adapts its pricing to each market affordability conditions.

Table 11. Netflix: Monthly Subscription (April 2022)

	Price (in local currency)			Price (in US\$)		
	Basic	Standard	Premium	Basic	Standard	Premium
United States	US\$ 9.99	US\$ 15.49	US\$ 19.99	US\$ 9.99	US\$ 15.49	US\$ 19.99
Argentina	AR\$ 379	AR\$ 639	AR\$ 939	US\$ 3.10	US\$ 4.98	US\$ 7.01
Brazil	R\$ 25.90	R\$ 39.90	R\$ 55.90	US\$ 5.20	US\$ 8.03	US\$ 11.2
Chile	5,940 CLP	8,320 CLP	10,700 CLP	US\$ 6.95	US\$ 9.73	US\$ 12.5
Colombia	16,900 COP	26,900 COP	38,900 COP	US\$ 4.06	US\$ 6.46	US\$ 9.34
Costa Rica	CRC 5,223	CRC 7,554	CRC 8,135	US\$ 8.99	US\$ 12.99	US\$ 13.99
Ecuador	US\$ 7.99	US\$ 10.99	US\$ 13.99	US\$ 7.99	US\$ 10.99	US\$ 13.99
El Salvador				US\$ 7.99	US\$ 10.99	US\$ 13.99
Guatemala				US\$ 7.99	US\$ 10.99	US\$ 13.99
Mexico	\$ 139 MXN	\$ 219 MXN	\$ 299 MXN	US\$ 6.90	US\$ 10.87	US\$ 14.84
Nicaragua				US\$ 7.99	US\$ 10.99	US\$ 13.99
Panama	US\$ 8.99	\$ 12.99	\$ 15.99	US\$ 8.99	US\$ 12.99	US\$ 15.99
Paraguay				US\$ 8.29	US\$ 11.49	US\$ 14.69
Peru	PEN 24.9	PEN 34.9	PEN 44.9	US\$ 7.13	US\$ 9.99	US\$ 12.86
Dominican R.				US\$ 7.99	US\$ 10.99	US\$ 13.99
Uruguay	UYU 294	UYU 424	UYU 522	US\$ 8.99	US\$ 12.99	US\$ 15.99
Venezuela				US\$ 7.99	US\$ 10.99	US\$ 13.99

Source: Netflix site

The cost structure linked to the Netflix service delivery in Latin America is more difficult to quantify since the operator does not report a geographically segmented income statement. However, a potential approach to the profitability of the Latin American business entails applying the unit costs by subscriber within the international segment (reported by Netflix until 2019) to Latin America (see Table 12).

Table 12. Netflix: Profitability estimation for Latin American business (US\$ '000)

	2017	2018	2019	2020	2021
Subscribers	19,717,000	26,077,000	31,417,000	37,537,000	39,961,000
1. Revenues	\$ 1,642,616	\$ 2,237,697	\$ 2,795,434	\$ 3,156,727	\$ 3,576,976
2. Expenses					
International operating expenses					
Cost of revenues	\$ 4,359,616	\$ 5,776,047	\$ 7,449,663	---	---
Marketing	\$ 832,535	\$ 1,344,118	\$ 1,589,420	---	---
Total expenses	\$ 5,192,151	\$ 7,120,165	\$ 9,039,083	---	---
International subscribers	57,834,000	80,773,000	106,407,000	---	---
Expenses per international subscriber	\$ 89.78	\$ 88.15	\$ 85.24	\$ 80.00 (E)	\$ 77.00 (E)
Latin American expenses	\$1,770,129	\$2,298,696	\$2,677,985	\$ 3,002,960	\$ 3,076,997
3. Contribution	(\$127,513)	(\$60,999)	\$117,557	\$ 153,767	\$ 499,979.00

Sources: Netflix Annual Report; estimates by author

According to Table 12, the subscriber base reported by Netflix for Latin America grew from 19,717,000 in 2017 to 39,961,000 in 2021. This growth has triggered a significant increase in revenues, reaching \$ 3.58 billion. We calculate expenses by relying on the data provided by Netflix for the international streaming business until 2019, which evolves from US\$ 89.78 in 2017 to US\$ 85.24 in 2019 and extrapolating it through 2021. Multiplying the unit cost by the subscriber base for the region would allow us to conclude that 2019 is the first year the business turns

positive (margin: 4.21%). Based on the profitability analysis completed in Chapter 3, further margin improvement can only be driven by an increase in its subscriber base (which pits Netflix against global, regional, and local competitors) and cost controls (which is also difficult to achieve considering that an increase in subscribership is linked to delivery of original content). For example, Netflix has invested US\$ 200 million in Mexico and US\$ 350 million in Brazil, all in 2020.³⁹ In 2021, the Mexican production budget of Netflix hovers around US\$ 300 million.⁴⁰ In sum, the estimation of the profit formula for the Latin American SVOD business confirms some of the issues highlighted at the aggregate level.

Advertising VOD

The audiovisual OTT business model based on advertising is the second most important in the Latin American region. Advertising VOD revenues are primarily generated from mobile devices. While digital advertising spending is still dominated by fixed devices (e.g., PCs), the portion attributed to mobile services had already reached 80% in 2019 (compared to 21% five years earlier) (Table 13).

Table 13. Latin America: Revenues from AVOD (in US\$ '000'000)

	2015	2016	2017	2018	2019	2020	2021	2022	CAGR
Argentina	\$ 0.57	\$ 0.87	\$ 1.25	\$ 1.69	\$ 2.20	\$ 2.49	\$ 3.00	\$ 3.52	29.70%
Brazil	\$ 22.97	\$ 35.61	\$ 52.75	\$ 75.06	\$ 103.47	\$ 130.48	\$ 172.71	\$ 214.64	37.61%
Chile	\$ 1.34	\$ 2.15	\$ 3.30	\$ 5.50	\$ 7.70	\$ 9.67	\$ 12.75	\$15.94	42.44%
Colombia	\$ 3.21	\$ 4.92	\$ 7.13	\$ 9.80	\$ 12.48	\$ 14.25	\$ 16.76	\$ 19.04	28.96%
Mexico	\$ 7.68	\$ 12.59	\$ 19.21	\$ 26.90	\$ 36.51	\$ 44.41	\$ 56.33	\$ 67.95	36.54%
Peru	\$ 0.16	\$ 0.22	\$ 0.29	\$ 0.38	\$ 0.48	\$ 0.54	\$ 0.63	\$ 0.72	23.97%
Total	\$ 35.93	\$ 56.36	\$ 83.93	\$ 119.33	\$ 162.84	\$ 201.84	\$ 262.18	\$ 321.81	36.78%

Source: PwC. *Global Entertainment and Media Outlook 2020-2024*.

As in the case of the analysis in chapter 3, it is difficult to draw any conclusions with regard of the profitability of the AVOD business case in Latin America.

5.2. The relevance of local content to build competitive advantage

Given the competitive dynamics in the audiovisual OTT segment and examining the value proposition analyzed in chapter 3, it is critical to examine the importance of local content as a fundamental competitive business lever. Audiovisual content, the main component of the OTT value proposition, can be categorized around films and series, although events, documentaries, and sports should also be considered. Table 12 presents the content offer by OTT business model in Brazil. Except for TV Everywhere platforms, films represent the highest percentage of units (although a series comprises several episodes).

³⁹ Source: S&P Global

⁴⁰<https://www.lainformacion.com/mercados-y-bolsas/netflix-hbo-gigantes-streaming-mercado-espanol/2860184/>

Table 14. Brazil: Content by business model (2019)

Business model	Total			Average (by platform)		
	Films	Series and events	Live	Films	Series and events	Live
SVOD	12,853	3,797	56	756	223	3
TVOD	27,913	2,710	0	3,489	339	0
AVOD	1,319	590	13	66	30	1
Hybrid	37,613	8,223	253	1,017	222	7
TV Everywhere	1,195	1,326	39	92	102	3

Note: The AVOD category includes all free platforms, included all non-advertising supported
Source: Katz (2019)

When compared across models, hybrid platforms offer the largest range of products, although when averaged by platform, TVOD has the highest number of series and events.

In the context of increased variety, the need to develop local content is leading global players to emphasize the “localization” of catalogs⁴¹. Platform competition with regards to audiovisual content is built around catalog variety and title localization. The international expansion of global platforms demonstrated that catalog breadth was not the only factor driving market positioning. A recent IBOPE survey conducted in Brazil indicates that local content is a relevant criterion for 56% of OTT users in Brazil to select a platform.

This finding was analyzed by this author in the competitive dynamics that pitted Claro Video against Netflix in the Mexican market in 2015-6 (Katz et al., 2017). The Mexican experience (in addition to the difficulties faced in the attempts to enter the Indian market⁴²) were very helpful, allowing Netflix to fine tune its local content production strategy. Netflix is prioritizing the Latin American and Asian regions for development of national content based on local languages. By October 2018, Netflix was offering local content in most of the countries in Latin America. The catalogs in Brazil, Argentina, and Mexico presented the highest percentage of local content, which is logical given the importance of these markets.

According to Baladron y Rivero (2019), content development in Latin America begun in Mexico around 2015 (*Club de Cuervos*) and Brasil in 2016 (3%). Later, under agreement with US studios, Netflix produced “El Chapo” (with Univision) and a biography of Luis Miguel (with Telemundo). Another noticeable initiative is the production of *Narcos* in Colombia. Plans for 2020 include the production of “La Casa de Papel” and “Diablero” in Mexico.

Netflix “localization” strategy of content has also been implemented by other audiovisual OTT platforms. Table 13 summarizes the importance of local content of key OTT players in Brazil. As expected, Globo Play is the platform with the largest percentage of its catalog being local. Its position is followed by telecommunications carriers that operate OTT platforms (Claro, Telefónica y Oi). On the other hand, the global SVOD platforms such as Netflix and Amazon Prime Video depict a lower percent of local content (see table 15).

⁴¹ Netflix has commissioned 11 Brazilian Originals to date, including a second series of sci-fi series 3%, 1950s-set “Coisa Mais Linda”, supernatural thrillers “Espectros” and The One, and 1990s-set thriller “The Faction”. Amazon Prime, which launched in Brazil in 2016, made its first foray into original local content by commissioning “Diablo Guardian”.

⁴² Netflix has 24.2% market share in the Indian OTT market (Sources: ComScore: *Video-streaming in India*; McDonald (2018). *The OTT hotlist*; Soni, S. (2018) *How is Netflix performing in India?*)

Table 15. Brazil. OTT Local Production (June 2019)

	Films			Series		
	Total titles	National titles	Percent of catalog	Total titles	National titles	Percent of catalog
Netflix	2,757	88	3.2%	1,188	39	3.3%
Amazon Prime Video	2,750	17	0.6%	513	2	0.4%
Globo Play	272	83	30.5%	314	232	73.9%
Claro Video	2,696	63	2.3%	189	62	32.8%
HBO GO	590	5	0.8%	128	13	10.2%
Vivo Play	4,310	469	10.9%	614	244	39.7%
Oi Play	3,930	358	9.1%	1,388	408	29.4%

Source: Katz (2019)

Beyond content localization, another relevant trend to be identified entails the gradual shift of ad spend from traditional media to AVOD OTT (see table 16).

Table 16. Latin America: Ad spend by media (in million US\$)

Ad channels	2015	2016	2017	2018	2019	2020	2021
Wired internet	2,005	2,113	2,463	2,586	2,912	2,832	2,959
Non-video digital	3,466	1,768	2,534	3,191	3,924	3,884	4,218
Online video	36	56	84	119	163	202	262
Total digital ad spend	5,507	3,937	5,081	5,897	6,998	6,918	7,440
Broadcasting TV	7,905	8,200	8,500	8,673	9,038	9,418	9,815
Print media	2,933	2,931	2,841	2,654	2,491	2,338	2,194
Total non-digital ad spend	10,838	11,131	11,341	11,327	11,529	11,756	12,009
Total Ad spend	16,345	15,068	16,422	17,224	18,527	18,674	19,449
Percent digital	33.69%	26.13%	30.94%	34.24%	37.77%	37.04%	38.25%
Percent non-digital	66.31%	73.87%	69.06%	65.76%	62.23%	62.96%	61.75%

Source: Sample of countries includes Argentina, Brazil, Chile, Colombia, México, and Perú.

Source: PwC. Global Entertainment and Media Outlook 2020-2024.

As indicated in Table 14, print advertising has been the medium most affected by the shift to digital. While TV broadcasting ad spend has declined as percent of total spending, the total spending in absolute value has increased. While AVOD platforms still represent a small portion of total spend, they have been growing significantly in absolute terms over the past seven years.

6. IMPACT OF COVID 19 ON THE LATIN AMERICAN AUDIOVISUAL OTT BUSINESS

COVID-19 has massively accelerated the demand for audiovisual OTT services worldwide. From a consumer standpoint, the lockdown and social distancing restrictions imposed on individuals and businesses led consumers to accelerate subscriber growth. In 2020, global online video subscriptions grew by 26% compared to 2019, reaching 1.1 billion. In the middle of the lockdown, US consumers in streaming-capable homes spent 25% of their TV time watching audiovisual OTT content. Despite the decline in stringency measures, streaming consumption remained significantly higher than before the pandemic, indicating that the pandemic-induced shift will remain as a new normal.⁴³

This increase is the combined effect of two trends.

- Several legacy media companies have invested heavily in their own streaming services, leading to the launch or expansion of platforms such as Disney+, Apple TV+, and HBO Max, and an inordinate amount of new content becoming available online.

⁴³ Nielsen (2020). *The impact of COVID-19 on Video Streaming and local news consumption* (September 10).

- Audiovisual OTT service providers have also benefitted from the fact that theatrical release windows have been greatly reduced (in some cases by only a few weeks) and or eliminated, meaning that some high-profile content is going directly to streaming.

On the negative side, COVID has affected content development, putting some limit on the availability of new productions. As an example, the pandemic has brought disruptions, restrictions or increased costs associated with development, production, post-production, marketing, and distribution of original programming. Such production pauses have caused, at least temporarily to delay content releases and restricted new content available to customers. While most production did resume, the impact affected some platforms and/or third-party content developers. Latin America has not been absent from these trends. First and foremost, the region was the most affected economically. While the pandemic affected also other regions, the GDP contraction in Latin America was the highest (-7%), reaching even higher levels in Argentina (-9.9%), Bolivia (-8.8%) and Panama (-18.0%) (see table 17).

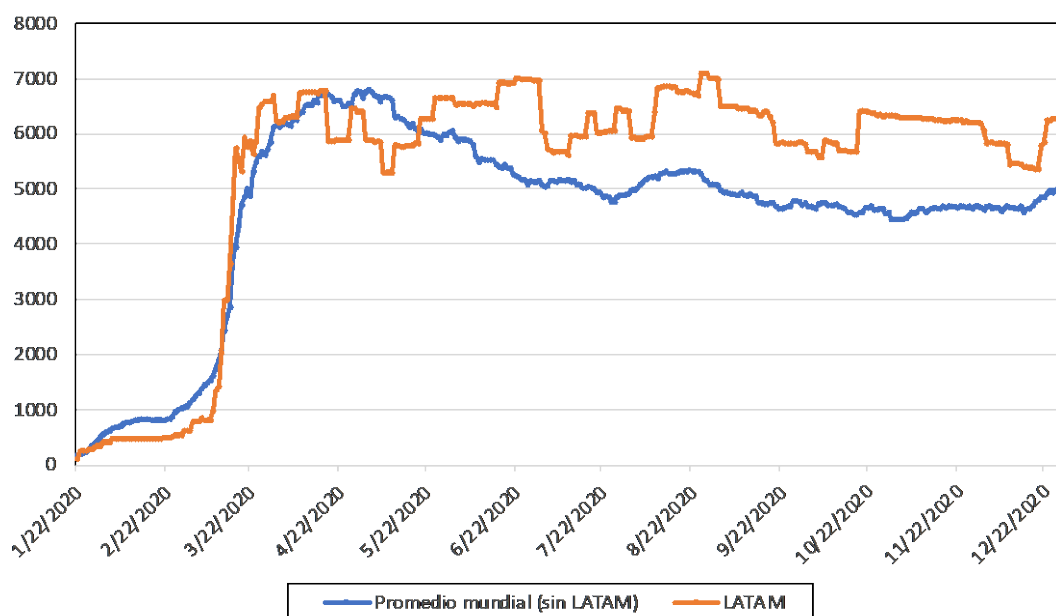
Table 17. Regional GDP growth rate

Region	2018	2019	2020	2021	2022
United States	2.9%	2.3%	-3.4%	6.0%	5.2%
Eurozone	1.9%	1.2%	-6.3%	5.0%	4.3%
Asia (emerging)	6.4%	5.5%	-0.8%	7.2%	6.3%
Europa (emerging)	3.1%	2.1%	-2.0%	6.0%	3.6%
Latin America and the Caribbean	1.0%	0.1%	-7.0%	6.3%	3.0%
Argentina	-2.6%	-2.1%	-9.9%	7.5%	2.5%
Bolivia	4.2%	2.2%	-8.8%	5.0%	4.0%
Brazil	1.8%	1.4%	-4.1%	5.2%	1.5%
Chile	3.7%	1.0%	-5.9%	11.0%	2.5%
Colombia	2.6%	3.3%	-6.8%	7.6%	3.8%
Costa Rica	2.6%	2.3%	-4.1%	3.9%	3.5%
Ecuador	1.3%	0.0%	-7.8%	2.8%	3.5%
El Salvador	2.4%	2.6%	-7.9%	9.0%	3.5%
Guatemala	3.3%	3.9%	-1.5%	5.5%	4.5%
Honduras	3.9%	2.7%	-9.0%	4.9%	4.4%
México	2.2%	-0.2%	-8.3%	6.3%	4.0%
Nicaragua	-3.4%	-3.7%	-2.0%	5.0%	3.5%
Panamá	3.6%	3.0%	-18.0%	12.0%	5.0%
Paraguay	3.2%	-0.4%	-0.6%	4.5%	3.8%
Perú	4.0%	2.2%	-11.0%	10.0%	4.6%
Uruguay	0.5%	0.4%	-5.9%	3.1%	3.2%
Middle East and Central Asia	1.9%	1.2%	-2.8%	4.1%	4.1%
Sub-Saharan Africa	3.2%	3.1%	-1.7%	3.7%	3.8%

Source: International Monetary Fund

The region has also significantly affected the daily routines of the population. The Stringency Index, published by Our World in Data, which measures the closure of economic activity in response to the pandemic, including school closings, work stoppages, and social distancing restrictions, indicates that the region was more affected than others (see graphic 4).

Graphic 4. Stringency Index: Latin America versus the World average



Source: Our World in Data

Due to social restrictions and lockdowns daily TV consumption increased across the region (see table 18).

Table 18. Latin America: Change in daily TV consumption (Between April 6 and April 12, 2020)

Country	Growth rate vs. the same period in 2019
Peru	57 %
Colombia	40 %
Chile	31 %
Mexico	21 %
Brazil	19 %
Argentina	7 %

Source: Statista

Global OTT platforms like Netflix and Amazon Prime grew their subscriber base significantly, although demand was also stimulated by the launch of Disney+, HBO Max, Paramount+, and Discovery+. The growing competition is not only by the entry of global players but also the aggressive moves by regional platforms such as Claro Video, Blim TV and Globoplay. By the end of 2021, Latin American audiovisual OTT subscribers reached 78.1 million subscribers, a 36% growth from 2019, while pay-TV via cable or satellite subscribers have stabilized at 57 million.⁴⁴

By the end of 2020, there were 235 platforms offering OTT services in the region. Of this, Netflix controlled 19% share, followed by Amazon Live (8%), Claro Video (6%), Google Play (3%), and HBO Go (3%).⁴⁵ The pandemic has not slowed down the production of global platforms and deployment of presence in Latin America.

Starting in the last quarter of 2021 the rate of subscriber growth has slowed down. This subscription slowdown is less the result of a massive change in viewing patterns (most

⁴⁴ Pimentel, J. (2021). "Streaming giants battle for Latin America". *Latin America Business Stories*.

⁴⁵ Source: Business Bureau.

consumers polled indicate that viewing time has changed to a new normal), but a reduction in the number of subscriptions (see table 19).

Table 19. Latin America: Number of platforms subscribed per household

	2020	2021
One platform	22%	30%
Two platforms	33%	29%
Three platforms	32%	19%
More than three platforms	- - -	12%

Source: *Latin Americans become more choosy and reduce streaming subscriptions* (November 13, 2021)

The main reason for reducing the number of subscriptions is limited affordability, caused by the economic recession. While on average 57% of surveyed consumers mentioned rising subscription prices, the numbers range between 65% in Argentina to 55% in Chile and Mexico. As anticipated in the study of consumption drivers, platform selection is driven by content availability.⁴⁶

The reduction in the number of platforms combined with increasing competition from substitute services has resulted in an important slowdown in the growth of Netflix subscribers⁴⁷ (see table 20).

Table 20. Netflix: Latin America quarterly subscriber growth

	Average paying Subscribers (000)	Q-t-Q growth rate
1Q2019	26,812	
2Q2019	27,719	3.38%
3Q2019	28,635	3.30%
4Q2019	30,399	6.16%
1Q2020	32,868	8.12%
2Q2020	35,193	7.07%
3Q2020	36,196	2.85%
4Q2020	36,931	2.03%
1Q2021	37,716	2.13%
2Q2021	38,276	1.48%
3Q2021	38,823	1.43%
4Q2021	39,475	1.68%
1Q2022	39,786	0.78%

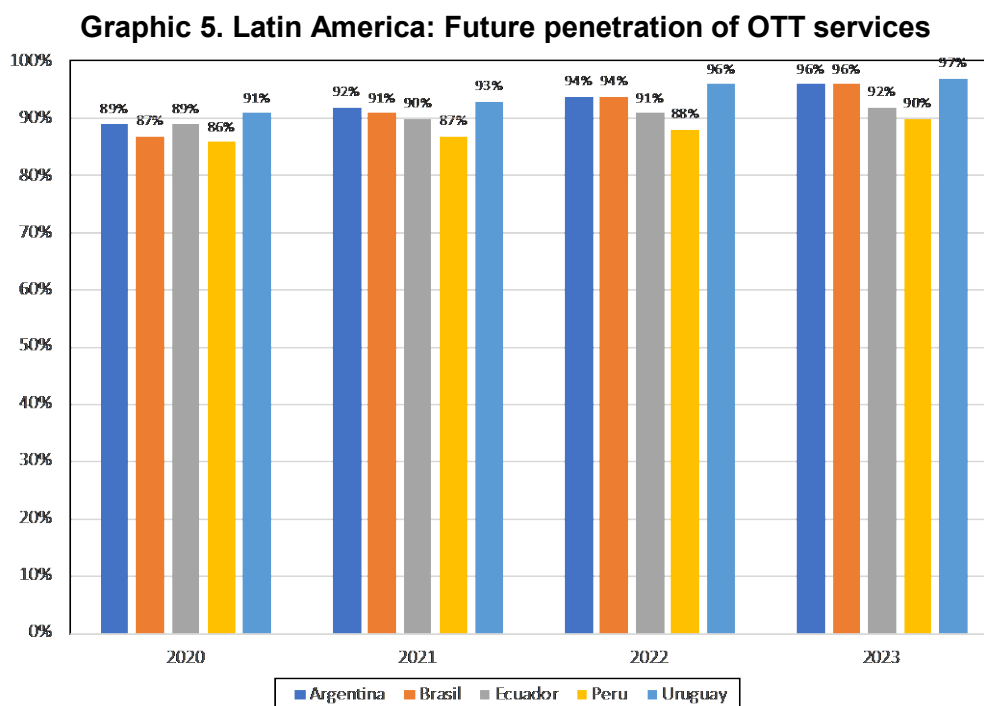
Source: *Netflix Quarterly Reports*

⁴⁶ Sherlock Communications (2021).

⁴⁷ Richwine, L. (2022). "Gloomy Netflix forecast erases much of stock's pandemic gains". *Reuters* (January 21).

6. FUTURE EVOLUTION OF AUDIOVISUAL OTT IN LATIN AMERICA

Audiovisual OTT platforms in Latin America will continue growing in terms of penetration over the future years (Graphic 5).



Source: calculated based on data from Business Bureau and International Telecommunications Union

In all countries, audiovisual OTT penetration will reach 90% of fixed broadband households by 2023, with the highest penetration to be achieved in Argentina and Uruguay, around 97%. The growth in penetration will be propelled by the young cohorts, who are the most intensive Internet video users, with the highest probability of becoming “cord nevers” (meaning users that would have never been traditional pay TV subscribers).

In parallel, cord-cutting will accelerate. For example, traditional pay TV subscribership in Brazil and Ecuador has been declining since 2016, with OTT penetration already exceeding pay TV. In other countries, cord cutting is not proceeding so far with the same intensity, although by 2023 OTT subscribership is expected to exceed pay TV driven by larger demand of “cord nevers” (especially in Colombia and Uruguay). In other countries, such as Argentina and Peru, despite growth in OTT platforms, pay TV subscribers will still remain dominant.

In terms of future business model development, while all platforms will continue to grow, the rate of adoption will vary. SVOD and TVOD will continue growing at a moderate pace, while AVOD and TV Everywhere will increase more rapidly. That said, total penetration by business model will remain like the one of today: SVOD platforms will continue being the most popular, followed by AVOD and TV Everywhere with similar penetration levels. SVOD platforms would have reached a maturity level, where marginal growth will tend to decline year after year, reaching total penetration of 74%. On the other hand, AVOD platforms will continue growing in a homogeneous pattern across geographies until reaching an overall penetration of 50% by 2023. Growth of TVOD and TV Everywhere will be more uneven, with varying levels of penetration by country based on popularity.

Revenues of SVOD platforms are expected to continue increasing at 9.5% per annum through 2023, driven by growth in Brazil and Peru of approximately 10%. The rate of revenue growth will be higher, though in the case of AVOD, which will be increasingly capturing larger shares of ad

spending. As a result, AVOD will capture a larger share of overall audiovisual OTT revenues. While SVOD will continue to be the dominant platform in terms of revenues, its share by 2023 will have declined by 10 percentage points from 2018.

7. CONCLUSIONS

This study has presented the recent evolution and future trends of the different business models of audiovisual OTT platforms. The analysis raised some questions about the overall sustainability of a fragmented offer of standalone businesses, where market leadership is driven by investment in content production. That being said, recent trends indicate a very dynamic sector that is gradually substituting traditional pay TV. With an ever-increasing offer of OTT platforms in Latin America, overall penetration of fixed broadband households has reached 84%.

A view by business model indicates a dominance of SVOD platforms, followed by AVOD and TV Everywhere. The TVOD model is less popular in the region, displaying the lowest adoption level of the countries analyzed. While all models are positioned a value proposition focus on delivering entertainment, differences exist in terms of type of content offered, the characteristics of each platform, their feature functionality, and their approach to customer care. Regarding resources utilized, they appear to differ not by type of business model but the level of globalization of the platform.

All in all, content remains the key feature of the value proposition. Within this domain, a worldwide trend towards “localization” of content indicates this to be the key competitive imperative of the value proposition. This drives the positioning of local players and the need to localize content by global players. This has an impact on the profit formula. In the case of SVOD, the dominant model in the region, the need to continuously invest in content development to further subscriber growth has led some analysts to raise questions about the long term viability of “pure play” SVODs in an increasingly competitive sector. While AVOD are capitalizing in the secular shift to digital advertising, brand concerns about platforms accepting user generated content, might drive the ad spend shift to conventional channel content AVOD platforms.

We expect that OTT platforms will continue to expand in Latin America. It is estimated by 2023 90% of fixed broadband households will have at least one audiovisual OTT subscription, with Colombia and Uruguay reaching 98% penetration. While all business models will continue to expand in the near future, SVOD and TVOD platforms will depict a moderate growth, while AVOD and TV Everywhere will increase their reach at a faster pace. In terms of revenues, AVOD platforms will grow the fastest.

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