

A Case Study of How Netflix Adapts Its Development Strategy to the Media System in Canada

Zhengqing Yan*

School of Media and Communication, The University of Melbourne, Victoria Melbourne, 3010, Australia.

*Corresponding author e-mail: zhengqingy@student.unimelb.edu.au

Abstract. In recent years, streaming media services such as Netflix, Spotify, and YouTube have been widely used. Netflix, as a representative platform, is a powerful cultural force rising with the emergence of streaming media technology. Streaming media platforms abandon the linear mode of traditional TV and adopt the new mode of multi-channel interaction and digital production, continuing to contribute its unique advantages to high TV ratings. Netflix, headquartered in the United States, has started its global expansion and entered Canada, France, and other countries. In the process of its expansion, Netflix designed its unique global expansion strategy and obtained high-quality target consumers in various streaming media markets. This study will critically explore how Netflix adapts its development strategy to fit into Canadian media systems and policies. This study argues that in order to meet the requirements of the Canadian government, Netflix has made two prominent changes in its development strategy at the content level. First, Netflix has increased the production of local content in Canada and presented some original content in French. Secondly, Netflix is striving to improve its degree of globalization and breaking geographical restrictions to achieve subscribers' access to equivalent content around the world.

Keywords: Netflix; development strategy; media system; media policies; Canada.

1. Introduction

Streaming media services such as Netflix, Spotify, and YouTube have been widely used in recent years, and the controllability, selectivity, and convenience provided by these services make them indispensable for Internet users (Lamkhede & Das, 2019). Among them, Netflix, as a representative platform, is a powerful cultural force rising with the emergence of streaming media technology (Burroughs, 2019). Netflix has abandoned the linear model of traditional television and adopted a new model of multi-channel interaction and digital production, continuing to contribute its unique strength to high television ratings (Burroughs, 2019). Most streaming media services provide users with access to a large number of diverse content, which will lead to subscribers getting lost in content selection (Lamkhede & Das, 2019). Netflix uses algorithms to optimize its home page recommendations to select suitable content for users, ensuring that subscribers can find their favorite content more accurately (Burroughs, 2019). Therefore, the recommendation system has become the main driving force for the rapid development of Netflix (Lamkhede & Das, 2019). Netflix's projects not only meticulously target audience tastes but also precisely market through the dense cluster of modern pop culture (Barker & Wiatrowski, 2017). This is embodied in the fact that Netflix imbues its library with a permanent sense of personalized discovery and causes the long tail effect, giving rise to many small and scattered demands being equally stressed (Barker & Wiatrowski, 2017). As a result, Netflix's customized content has helped the platform to increase user engagement and become a unique streaming service provider. Headquartered in the United States, Netflix has started its global expansion, entering many countries such as Canada and France (Schnitzer, 2019; Wu & Zhou, 2021). In its expansion process, Netflix has devised its distinctive global expansion strategy and obtained high-quality target consumers in various streaming media markets (Wu & Zhou, 2021). This case study will critically explore how Netflix adapts its development strategy to the Canadian media system and policy.

2. Netflix's development strategy in the international context

Netflix has proved itself to be a truly global enterprise and a leader in the global Internet television industry (Onyusheva & Baker, 2021; Rataul et al., 2018). By 2020, it has operated in more than 190 countries, and more than half of its 1.83 million subscribers live outside the United States (Onyusheva & Baker, 2021). Netflix's development strategy in the international context is reflected in the following three aspects: content strategy, technology strategy, and investment strategy.

First of all, from the perspective of content strategy, Netflix's subscription video on demand services have weakened a national perspective (Lotz, 2021). Rather than trying to gather a nationwide audience and sell them to advertisers for profit, Netflix emphasizes targeting subscribers based on tastes and feelings, even if those tastes and feelings are often not popular enough to create a wave of popularity in a given country (Lotz, 2021). Attaching importance to small demands at the content level is conducive to the long tail effect (Barker & Wiatrowski, 2017). It should be noted that aggregating all the non-popular content can create a much larger market than the popular content market. Netflix is aware of the importance of unpopular content and has well integrated the emphasis on small demands and customized services into its content strategy.

As for its technology strategy, Netflix attaches great importance to the research and upgrade of its algorithm for a long time to obtain the benign development of the company in the global scope. Netflix's algorithm is positioned as a solution to the fragmentation and complexity of the media industry in the era of globalization, and the algorithm adopted by Netflix is believed to directly affect audience participation (Burroughs, 2019). Netflix and Facebook have entered into a partnership agreement whereby subscribers can see what their Facebook friends choose to watch on the Netflix platform (Burroughs, 2019). Algorithms take advantage of this information from social media platforms to bring better content selection and viewing experience to subscribers. It is remarkable that Netflix's algorithm also breaks down national borders, connects subscribers to their friends around the world, and makes it harder for subscribers to leave the platform.

In terms of investment strategy, the company's global expansion is strategic. By developing its global market, the aim is to help Netflix reach its target profits, which will enable the company to reinvest in its service as well as develop and license more content of high quality (Steel, 2015). Placing a high value on the investment in new content production has always been the core strategy of Netflix (Steel, 2015). Netflix is also investing heavily in data collection, information technology systems, and advanced analysis (Walker et al., 2017). The "proprietary data mining technologies and algorithms for customer and product matching" invested and developed by the company play a crucial role in its success (Walker et al., 2017, n.p.).

3. The media system in Canada

Before analyzing how Netflix combines Canadian policies and management to transform its global development strategy into a specific strategy in Canada, it is necessary to introduce the Canadian media system. In Canada, the media system is an indispensable tool for implementing national policies involving the creation and distribution of domestic content (Davis & Zboralska, 2017). With this system comes expectations for national cultural expression, cultural sovereignty, and democracy (Davis & Zboralska, 2017). The Canadian government has carried out strict management on wireless broadcasting, multi-channel satellite, cable television, telecom network, and digital television, standardizing the domestic broadcasting system by requiring the holder of a television distribution license (Schweizer et al., 2014). Streaming media services, the latest generation of TV, are also constrained by the Canadian media system, but some policies are outdated and need to be updated to meet the regulatory challenges brought by the streaming media platforms (Davis & Zboralska, 2017). The Canadian media system and its policies are inclined to mix economic and cultural objectives, and policymakers expect to achieve some degree of cultural sovereignty in the context of a relatively small national market (Davis & Zboralska, 2017). In a sense, The Canadian media system and policies are influenced by nationalism, protectionism, and central Canadian elites, with a tendency toward central Canadian

imperialism (Schnitzer, 2019). Canadian media policymakers hope that these policies and their media system can protect Canada from the expansion of the United States and enable Canada to maintain its cultural prosperity (Schnitzer, 2019).

4. How Netflix adapts its development strategy specifically in Canada

After Netflix entered Canada in 2010, its popularity among Canadian consumers gradually increased (Davis & Zboralska, 2017). In order to fit in with the existing Canadian media policies, the adjustments to the development strategy made by Netflix in the Canadian market mainly focus on the content level, and the adjustments of technology and investment level are also aiming to serve the content production and distribution.

After entering the Canadian market, the first change Netflix made in its development strategy based on the Canadian media system is to increase the production of local content in Canada. This adaption is in line with the Canadian government's cultural protectionism policies that aim at defending the country's cultural sovereignty and promoting the prosperity of Canadian culture (Schnitzer, 2019). This is also an important change that Netflix has to make to meet Canadian government regulations in the broader media system with the characteristics of central Canadian imperialism. The 1991 Broadcasting Act is the most representative of Canadian media policies and has far-reaching influence to this day (Davis & Zboralska, 2017; Schnitzer, 2019). The Broadcasting Act emphasizes that the Canadian broadcasting system should maintain, enrich and enhance Canadian culture and politics, displaying Canadian talents in entertainment activities and providing information and analysis about Canada and other countries from a Canadian perspective (Davis & Zboralska, 2017). The broadcasting system should encourage the development of Canadian expressions, reflect Canadian multiculturalism and use Canadian ideas and resources in program production (Davis & Zboralska, 2017). Based on the requirements of the Canadian media system and policies, Netflix and the Canadian government have also reached a cooperation intention, that is, the company will promote the nation-building of Canada by telling more Canadian stories (Schnitzer, 2019). Netflix will use part of the hundred million Canadian dollars it has invested in Canada to produce Canadian content, some of which will also be presented to viewers in French (Schnitzer, 2019). The change in Netflix's development strategy at the content level is not to merge resources with other potential competitors, but to shift to original content production (Davis, 2021). Netflix is intended to put resources into producing original Canadian content, not integration.

In terms of content, Netflix not only launches the production of Canadian local content but also strives to improve its globalization and break geographical restrictions so that subscribers can access the same content globally to meet the requirements of Canadian media policies. Netflix made this decision based on the negative attitude of the Canadian government towards the overuse of VPNs in Canada (Davis & Zboralska, 2017). In 2015, about one-third of Canadians used VPNs to access the richer American version of Netflix (Kwong, 2015). However, this behavior completely bypasses the Canadian copyright market and is therefore not tolerated by copyright policies in the Canadian media system (Kwong, 2015). Considering Canadian policy requirements and consumer needs, Netflix has made a strategic shift to achieve a higher degree of globalization and help subscribers access the same content. Netflix's senior management publicly expressed this vision in 2015, and one year later Netflix's degree of globalization was significantly enhanced (Davis & Zboralska, 2017; Liedtke, 2016). This strategic shift made by Netflix removes the incentive for Canadian consumers to use VPNs, thus meeting relevant media policy requirements (Davis & Zboralska, 2017). At the same time, Netflix has maintained a good relationship with subscribers by ensuring that subscribers have access to richer content.

After increasing the production of Canadian local content, it becomes particularly important to recommend such content to consumers in order to meet the requirements of Canadian media policies, which cannot be achieved without the adjustment of the technology level. It is well-known that the core of the media business has always been predicting audiences and their viewing habits. Companies such as Netflix tend to use algorithms to target viewers as consumers, and fine-tune algorithms to

find precisely the right content for consumers of different social backgrounds (Burroughs, 2019; Lamkhede & Das, 2019). Netflix's algorithm can push Canadian local content to consumers according to personal preference, and its recommendation is often chained, that is, all related content is likely to be recommended (Burroughs, 2019). In addition, video on demand (VOD) implemented by streaming media services such as Netflix in Europe in the form of a VOD quota according to the requirements of audio-visual media cultural policies has constituted a new achievement within the scope of cultural platform regulation (Bröker, 2022). Therefore, Netflix can further meet the requirements of the Canadian government on local content production and distribution by increasing the VOD quotas.

Netflix's strategic adjustment in investment is also closely related to the content, mainly reflected in increasing investment in the production and promotion of original Canadian content. From 2017 to 2023, at least CAD \$500 million will be invested in the original content production in Canada, which will be distributed on Netflix's global platform (Canadian Heritage, 2017). As part of this investment, Netflix will continue to work with Canadian producers, studios, broadcasters, creators, and other partners to produce original Canadian content in English and French (Canadian Heritage, 2017). Netflix will also contribute CAD \$25 million to support the Canadian content in French on its platform, including but not limited to promotional and market development activities related to it (Canadian Heritage, 2017). In addition, it is worth noting that Netflix Canada will operate in accordance with the Investment Canada Act, which means that any investment by Netflix in Canada, including content and technology, must fully comply with the Investment Canada Act and will face fines if it violates the law (Schnitzer, 2019). Therefore, the investment adjustments made by Netflix in the Canadian market are the results of the joint action of the Investment Canada Act, the 1991 Broadcasting Act, and other related laws. Based on the above elaboration, this case study puts forward that Netflix attaches great importance to the changes at the content level, and the adjustments made by Netflix at the technology and investment level are also content-oriented.

5. Conclusion

To sum up, based on the Canadian media system and policies, Netflix's adjustments to its development strategy in the Canadian market mainly concentrate on the content level, while the adjustments at the technology and investment level are expected to serve the content production and distribution. In order to meet the requirements of the Canadian government, Netflix has made two prominent changes to its development strategy at the content level. In the first place, Netflix increases the production of local content in Canada and presents part of the original content in French. In the second place, Netflix is making efforts to improve its degree of globalization and breaking geographical restrictions to achieve subscribers' access to equivalent content around the world. When Netflix adjusts its development strategy according to the Canadian media system and policies, it not only takes policy regulations as its orientation but also fully considers the demands of consumers, which makes the company increasingly popular in Canada. In addition to adjusting and optimizing the algorithm and increasing investment in the production of local content in Canada, this case study also suggests that Netflix can also follow its strategy in Europe to increase the video on demand quotas to further meet the requirements of the Canadian government for local content production and distribution. Future research is encouraged to compare the expansion of streaming media platforms such as Netflix and YouTube in Canada, so as to provide a clearer understanding of how these platforms adjust their development strategies according to Canadian digital policies.

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