Israel

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Key Takeaways

- Lack of Hebrew-language user interface and limited selection of local content has limited Netflix's appeal

- Size of Netflix's catalog available to Israeli users is one of the smallest in the world with 572 television series and 1,629 films (ranked 89 of 95 according to uNoGS.com)

- Some of Netflix's most popular programs are broadcast by local multichannel television providers and recent seasons remain available through these providers' video-on-demand (VOD) services as well as on Netflix

- Availability of local over-the-top (OTT) skinny bundle services further limits Netflix's appeal among consumers

- Content piracy is common in Israel and consumers are largely unwilling to pay for content that can be accessed illegally

Market

Like most media industries in Israel[1] the television industry is heavily concentrated (Schejter & Yemini, 2015). At the time of Netflix's arrival, the multichannel television market could fairly be described as a duopoly dominated by the cable provider Hot and the satellite provider Yes. There are approximately 2.3 million households in Israel. Approximately 1.5 million households subscribe to pay TV services: 55% (828,000) subscribed to Hot and 43% (639,000) subscribed to Yes (Tucker, 2016). Of the 35% that do not subscribe, approximately 11 percent are Orthodox Jews, known locally as Haredim, and are unwilling to engage with any form of secular culture. Among Israeli-Arabs, private satellite dishes are common.
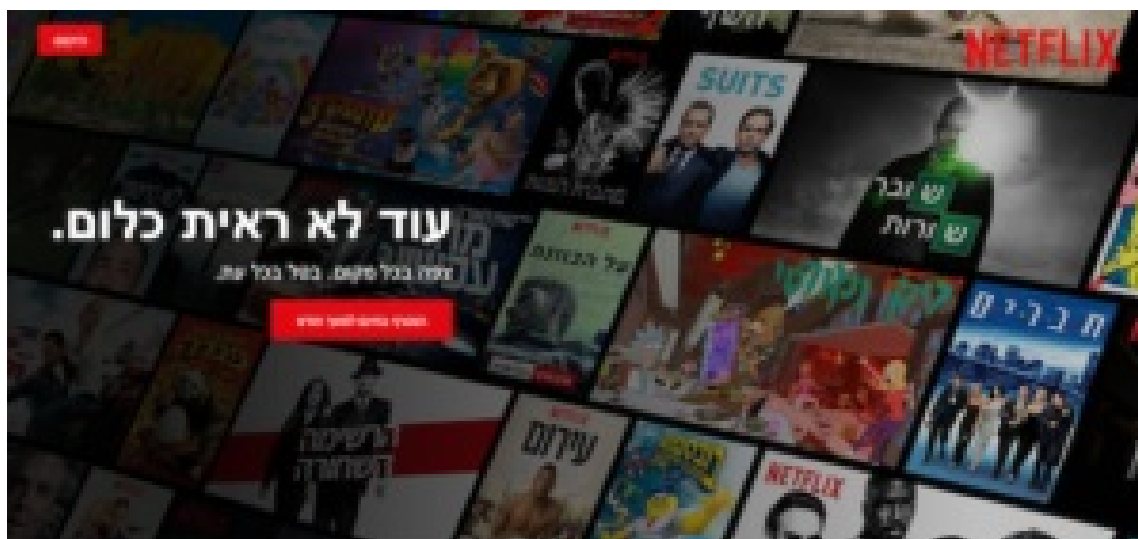
Hot offers more than 170 channels and has one of the world's largest VOD libraries with nearly 40,000 titles. Yes offers more than 200 channels and has a VOD library with 32,000 titles. Hot introduced VOD in 2005 and Yes followed in 2010. In addition, the in-house channel YesOh had exclusive rights to HBO content in Israel until early 2017. Hot and Yes are required by law to carry the six channels available through digital terrestrial broadcasting know as Idan Plus. Both services have similar price points costing consumers around 200-250 shekel (about US$57-71) per month.

In December 2014, Cellcom TV introduced an OTT platform and had picked up 3% (50,000 subscribers) of the market by the end of 2015 (85 percent of homes had internet access) (Ziv, 2016). Although the platform includes Idan Plus, some older Hebrew-language programming, and other Israeli channels, the majority of the available content is foreign series and movies delivered through VOD. Yet, with an all-inclusive package priced at 99 shekel (about US$28) per month, Cellcom TV is significantly cheaper than either cable or satellite service.

Regulation

Both cable and satellite television are regulated by the Cable and Satellite Broadcasting Council which operates within the Ministry of Communications (MOC). As Schejter (2010) observes, electronic media regulation in Israel is characterized by specific cultural and economic obligations. For example, as multichannel operators, Hot and Yes are forbidden from having exclusive distribution rights for foreign content. The only exclusivity allowed pertains to local programming with the goal of encouraging local production and competition for quality content. In addition, Hot and Yes are required to spend 8% of their annual revenue producing local television content.

In response to the introduction of OTT services, in February 2014, the MOC appointed a ten-member public regulatory committee headed by Professor Amit Schejter to develop regulatory recommendations for the audiovisual market. Specifically, the committee was asked to propose a new regulatory framework addressing the market changes brought about by digital distribution. Although the Schejter committee produced a variety of recommendations (see Schejter & Tirosh, 2016, Appendix 1), the MOC has yet to implement any of them. As a result, Netflix, Cellcom TV, and any other audiovisual service that does not rely on traditional cable or satellite technology is unregulated by the Israeli government.

Viewing Habits

Israeli viewing habits are dominated by traditional television. In a 2015 survey of Israel's Jewish population (75 percent of the country's population), the results revealed that 78% of respondents still watch content on TV, 58% also watch the computer, 23% watch video content on a smartphone, and 11% watch on a tablet (Ziv, 2015). The results also revealed that 68% of respondents define television as their primary viewing medium, 26% said the computer is their primary means of viewing, and 5% used a smartphone as the primary device for video content consumption. 15% of the respondents said they did not have a television at home.

Among those aged 21-30, 52% responded that the computer was their primary means of viewing, compared with 35% who stated that television was the main device for content consumption. Among respondents who preferred online direct viewing, 52% said they use live streaming sites to watch movies, series, and other television content: 17% said they used Popcorn Time, 15% said they download content with torrents, and 9% said they used Kodi. Although the functionality of Popcorn Time and Kodi differ substantially, both help users to more easily access copyrighted content provided by third parties.

Despite the size of these VOD libraries, linear viewing remains dominant. As of 2012, VOD viewing in Israel was very low relative to global standards. At the time, the director of the Audience Research Board (the governmental body that produces local TV ratings) said, "Despite that fact that the household penetration rate [in Israel] for VOD and other delayed-broadcast technology is more than 50%, most prime-time viewers are watching shows as they are broadcast. We behave differently than the rest of the world. The dominance of prime-time here is a unique phenomenon. The public wants to gather around the tribal fire."

Internet Pricing and Availability

According to government estimates, in 2015, broadband internet penetration stood at approximately eighty-five percent of Israeli households (Ministry of Communications, 2015, p. 5). Wireline internet access infrastructure in Israel is controlled by two companies, Hot and Bezeq. Due to regulatory laws preventing these infrastructure companies from providing bit stream access, consumers are required to purchase both bit stream access provided

by an infrastructure company and separate internet service from one of several local ISPs. Consumers pay an average of 100 shekel (about US$28) per month for 40 Mbps infrastructure service and an average of 40 shekel (about US$11) per month for ISP access. There are no data caps for home internet service.

Beyond access to wired internet services, in 2014, mobile phone penetration stood at 125% (Ministry of Communications, 2015, p. 6). However, not all mobile phone users use these devices to access the internet. Most notably, several hundred thousand ultra-Orthodox Jewish Israelis use "Kosher phones" that either limit or disable internet access to inappropriate content (Hacker May, 2011). Nonetheless, for Israelis who do use mobile phones to access the internet, monthly plans with significant data allowances are quite affordable. For example, Pelephone, the first company to provide mobile service in Israel, offers a 69 shekel (about $20) monthly plan that includes 8 GB of data.

Content

When Netflix entered the Israeli market, the content library available to local consumers was extremely limited and the platform lacked a Hebrew-language user interface. With only 143 television series and 438 movies, the selection represented 12% and 9.5%, respectively, of the US library at the time (Ziv, 2016). Furthermore, many of Netflix's most popular shows, including *House of Cards,* were not available as the distribution rights had already been sold to local television providers. In addition, it took nearly six months for Netflix to begin adding Hebrew subtitles (Levy, 2016).

Consumer and Press Reaction

In the Hebrew and English local press, Netflix's entry into the Israeli television market was largely understood as an additional challenge to the dominant providers Hot and Yes. For example, a headline in *Globes*, an Israeli business daily, proclaimed, "Netflix Doesn't Challenge the Hot-Yes Duopoly, Yet" (Averbach, 2016). In this vein, most press reports observed that Netflix's local appeal was significantly limited by the lack of Hebrew-language content and subtitles.

Although it is impossible to gauge consumer reaction without systematic market research, anecdotal evidence indicates that Israeli consumers were not particularly excited about Netflix. As one Facebook commenter noted, "Maybe I'm missing something, but why use Netflix at all? Why not watch anything you want for free online? You have literally thousand[s] of sites that have every show or movie ever filmed, most of them in good quality and with subtitles if you want them" (quoted in Elis, 2016). There are reasons to believe this response is representative as survey findings indicate that nearly two-thirds of Israelis watch pirated television and movie content online (Ziv, 2015).

Subscriber Estimates

There are no official estimates regarding the number of Israelis subscribing to Netflix. Furthermore, prior to the service's official launch in January 2016, access was only available through virtual private networks. With this caveat in mind, the 2015 survey of Jewish Israelis found that 2% of respondents were Netflix users although this increased to 8% among respondents aged 21-30 (Ziv, 2015).

Local Netflix Office

There are currently no Netflix offices in Israel. However, in March 2017, Convergys Global Services posted online advertising seeking applicants for a position titled "NETFLIX Call Center Agent Hebrew" located in Berlin, a city well-known for a sizable population of native Hebrew speakers (Perez, 2017). Rumors of local Netflix offices in Israel date back to September 2015. At the time, local press reports claimed that outgoing Israel Broadcasting Authority director Yona Weisenthal had been asked by Netflix to run their Israel operations (Tucker, 2015). Yet, nothing came of these rumors.

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Notes

[1] Any attempt to perform a nation-level analysis of Israel's media markets is complicated. Inside the Green Line that separates Israel from the West Bank and Gaza, the total population is approximately 8.7 million. Roughly 20% of this population are Arabs. Thinking about these demographics in the context of Meehan's (1990) arguments regarding the commodity audience, it is unsurprising that some viewers are more valuable than others. In Israel, this reality manifests itself in a variety of ways. For example, Hebrew-language channels are largely uninterested in measuring their Arab audience. In addition, opinion polls are routinely published only for the Jewish population. As Bourdon and Ribke (2016) note in their analysis of television ratings in Israel, "In the end, the figures of both the audience (ratings) and the public (polls), supposed to represent the whole nation, represent only or mostly the dominant majority which imposes its notion of citizenship" (p. 170). The data included in this dossier is similarly limited.