

# Market shares and competitive strategies in Next Generation Video

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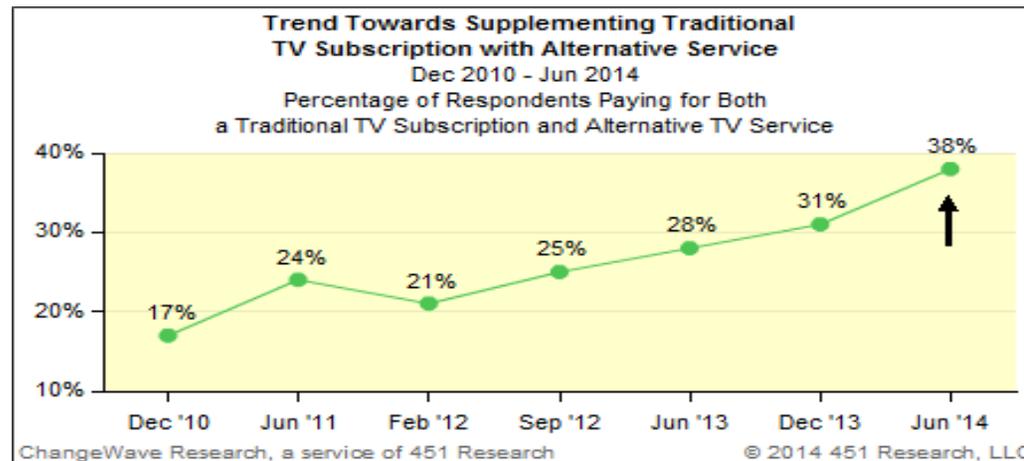
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## **This presentation focuses on understanding factors driving market share in NVD by applying competitive strategy concepts**

- Understand different measures of market share in NGV
- Tease out competitive strategies of dominant players
- Understand the zones of contention
- Outline a future scenario of industry development

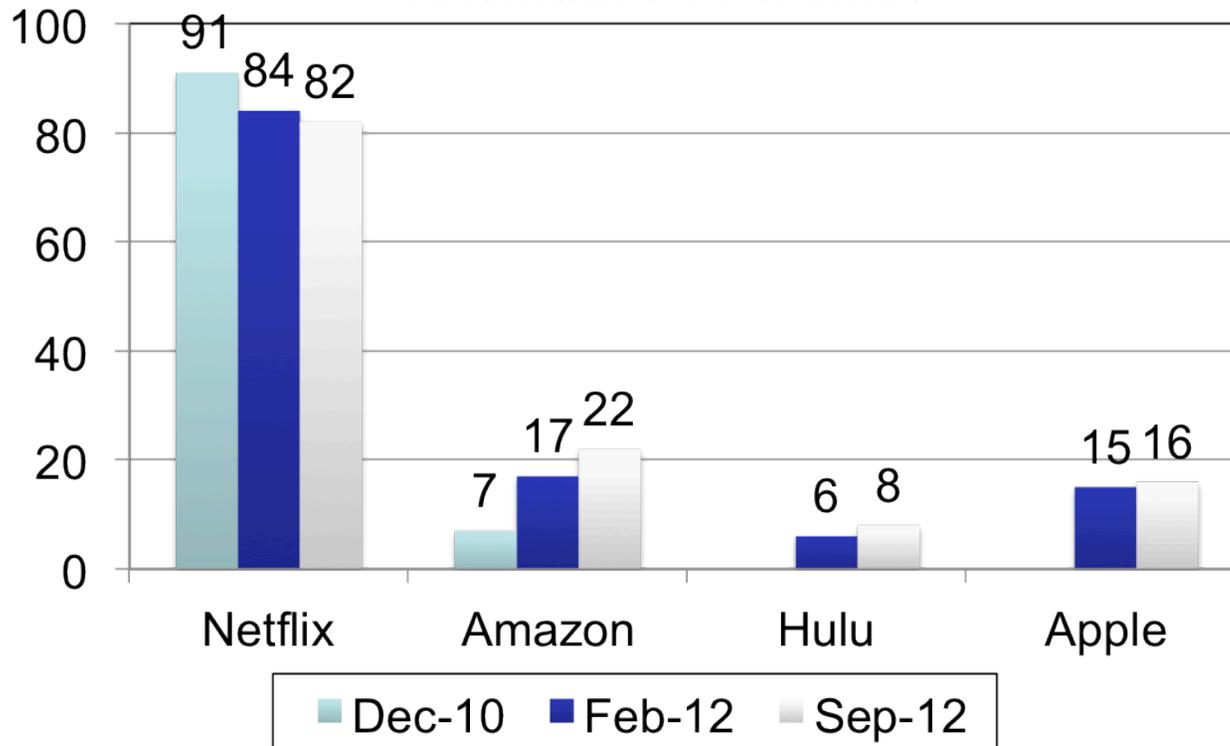
# We start by sizing the speed at which NGV is diffusing as a complement to traditional TV subscription

- Five enablers
  - Massive decrease in costs of capturing and processing video
  - Significant penetration in broadband
  - increases in Wi-Fi; huge advances in compression
  - Massively distributed advertising market
  - Consumer behavior which has made internet video a reality
- Dramatic increase in percentage of consumers supplementing traditional TV subscription with NGV service (Netflix or Amazon)



**However, a look at PAID NVD market indicates Netflix dominance rapidly eroding due to Amazon's encroachment**

**North America: Market Share of Alternative TV Market**

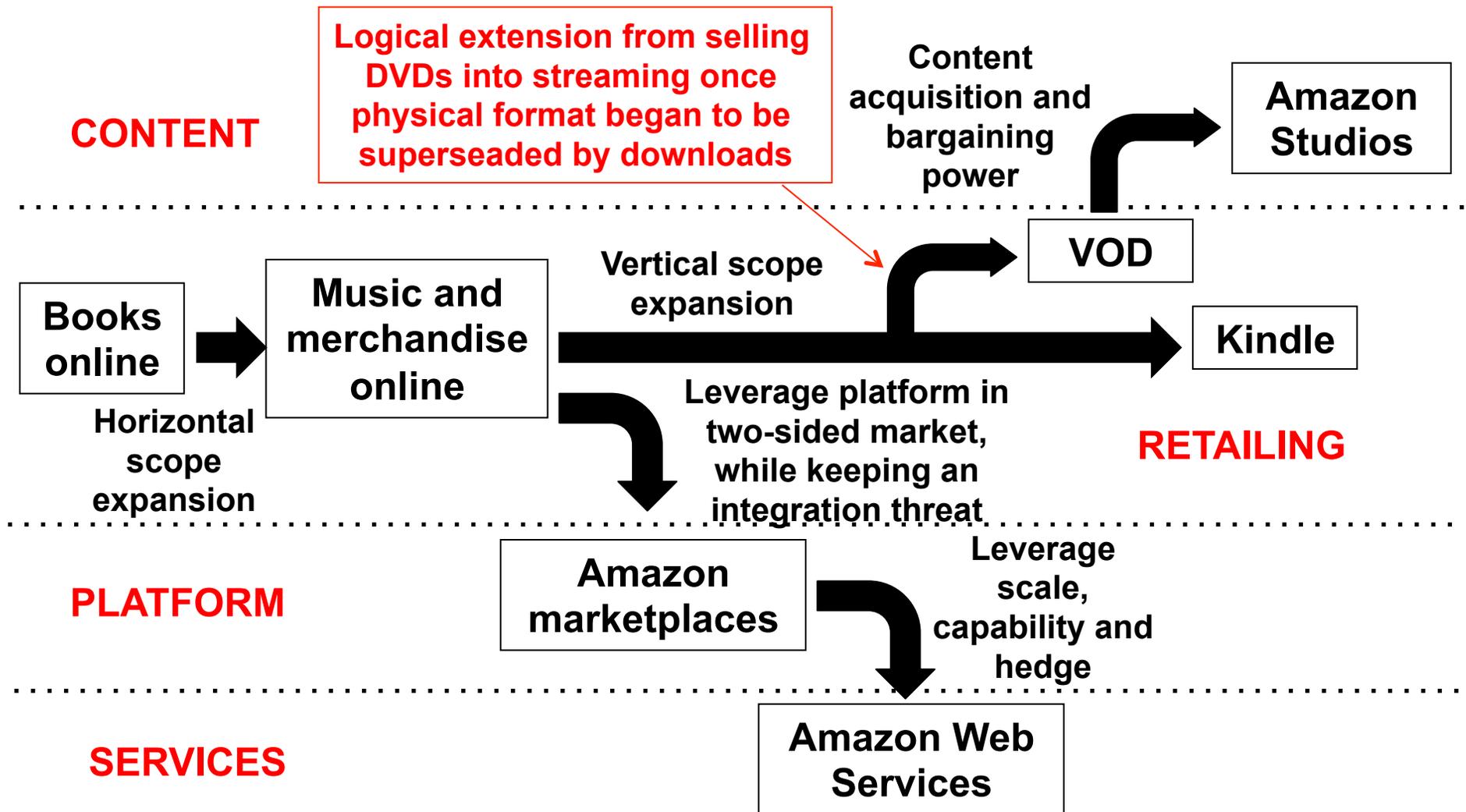


Source: ChangeWave Research

**North America: Users Pay For Netflix and Amazon**

Date	Percent
2/12	14%
9/12	18%

# Why is Amazon gaining share so fast?



# Amazon Kinlde Fire model subsidizes the device to build the retailing and content business

## COMPARATIVE TABLET ECONOMICS

		Retail Price	Manufacturing Costs	Producer Surplus
iPad (Wi-Fi Only)	16 GB	499	274	225
	32 GB	599	282.40	316.6
	64 GB	699	300 (E)	399 (E)
	128 GB	799	325 (E)	474 (E)
Google Nexus 8 GB	8 GB	199	181.75	17.25
	16 GB	249	199	50
Amazon Kindle Fire		199	201.70	-2.70
HP TouchPad	16 GB (Wi-Fi only)	279.99	306	-26
	32 GB (Wi-Fi only)	370	328	42

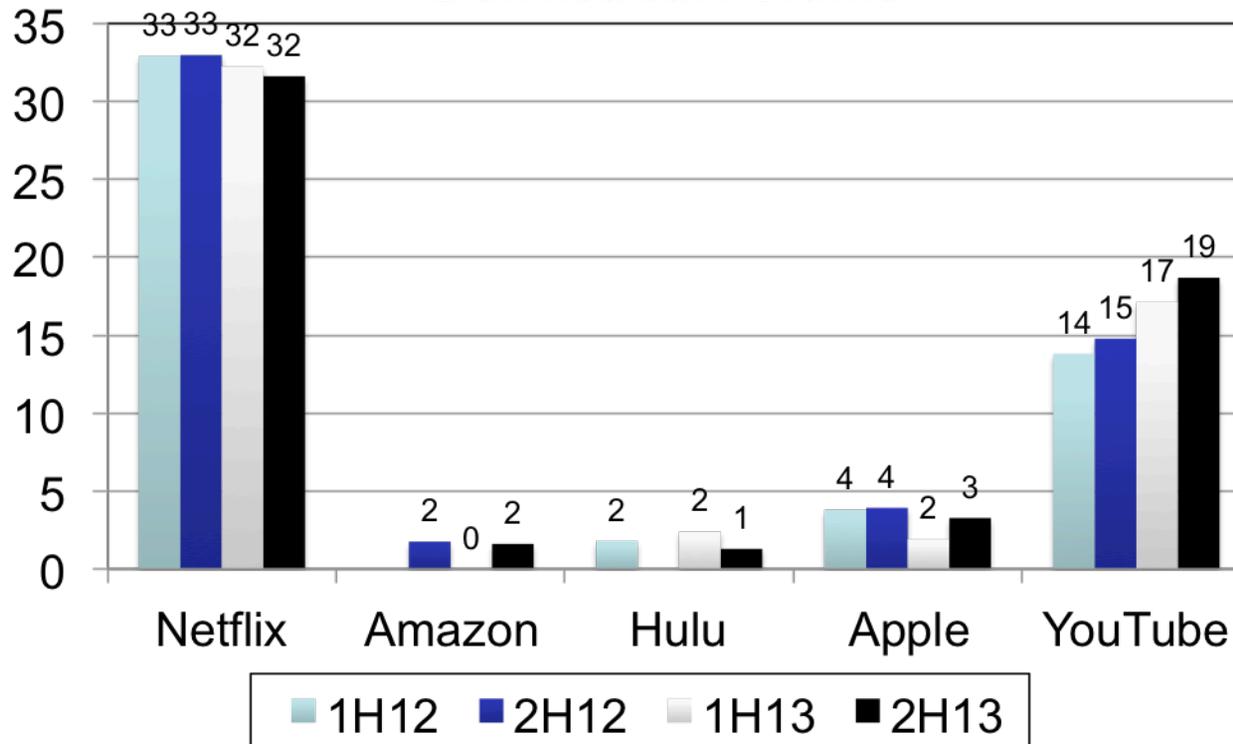
**Source: Supplier data; HIS iSuppli**

# The Kindle Fire is being sold at a loss to provide a content access point (baseline case)

	Year 1	Year 2	Year 3
<b>REVENUES</b>			
Hardware	199.00	-	-
Music and Movies	120.00	132.00	145.20
E-books	120.00	132.00	145.20
Incremental commerce sales	600.00	630.00	661.50
Advertising revenues	24.00	18.00	18.00
Applications	7.74	9.29	11.15
<b>Total</b>	<b>1,070.74</b>	<b>921.29</b>	<b>981.05</b>
<b>COSTS</b>			
Hardware	200.00	-	-
Music and Movies	84.00	92.40	101.64
E-Books	96.00	105.60	116.16
E-Commerce COGS	480.00	504.00	529.20
Applications	5.42	6.50	7.80
<b>Total</b>	<b>865.42</b>	<b>708.50</b>	<b>754.80</b>
<b>CONTRIBUTION</b>	<b>205.32</b>	<b>212.79</b>	<b>226.24</b>
<b>MARGIN</b>	<b>19%</b>	<b>23%</b>	<b>23%</b>

Now, if we look at the whole (paid and free) NGV market, shares change dramatically: YouTube is the big challenger

**Market Share of North American Peak Downstream Traffic**



Source: Sandvine

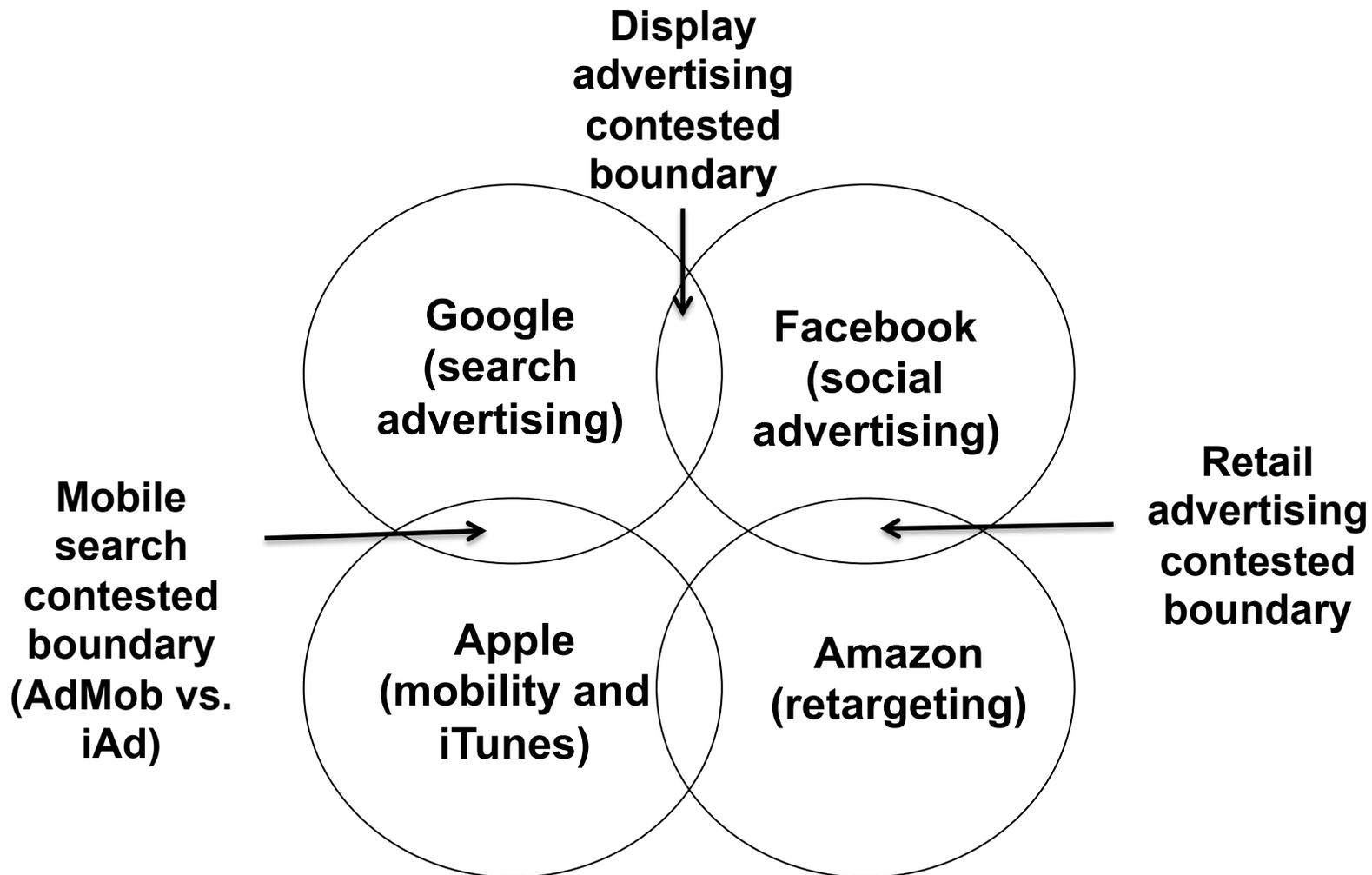
## Google is a huge player heavily subsidizing its video side of the platform

- YouTube's catalog comprises 15,000 movies (both legally and illegally uploaded)
- Applications "Full movies on YouTube" and "Zero dollar movies" allow for filtering
- Most access for free, but some movies are sold
- Revenue model is based on number of page views, which depend on online video viewers on YouTube and CPM rates (which means that access is subsidized by advertising side of the platform), plus movie purchase revenues

## We have not even counted Apple, which remains a marginal player but heavily endowed, with another subsidized model

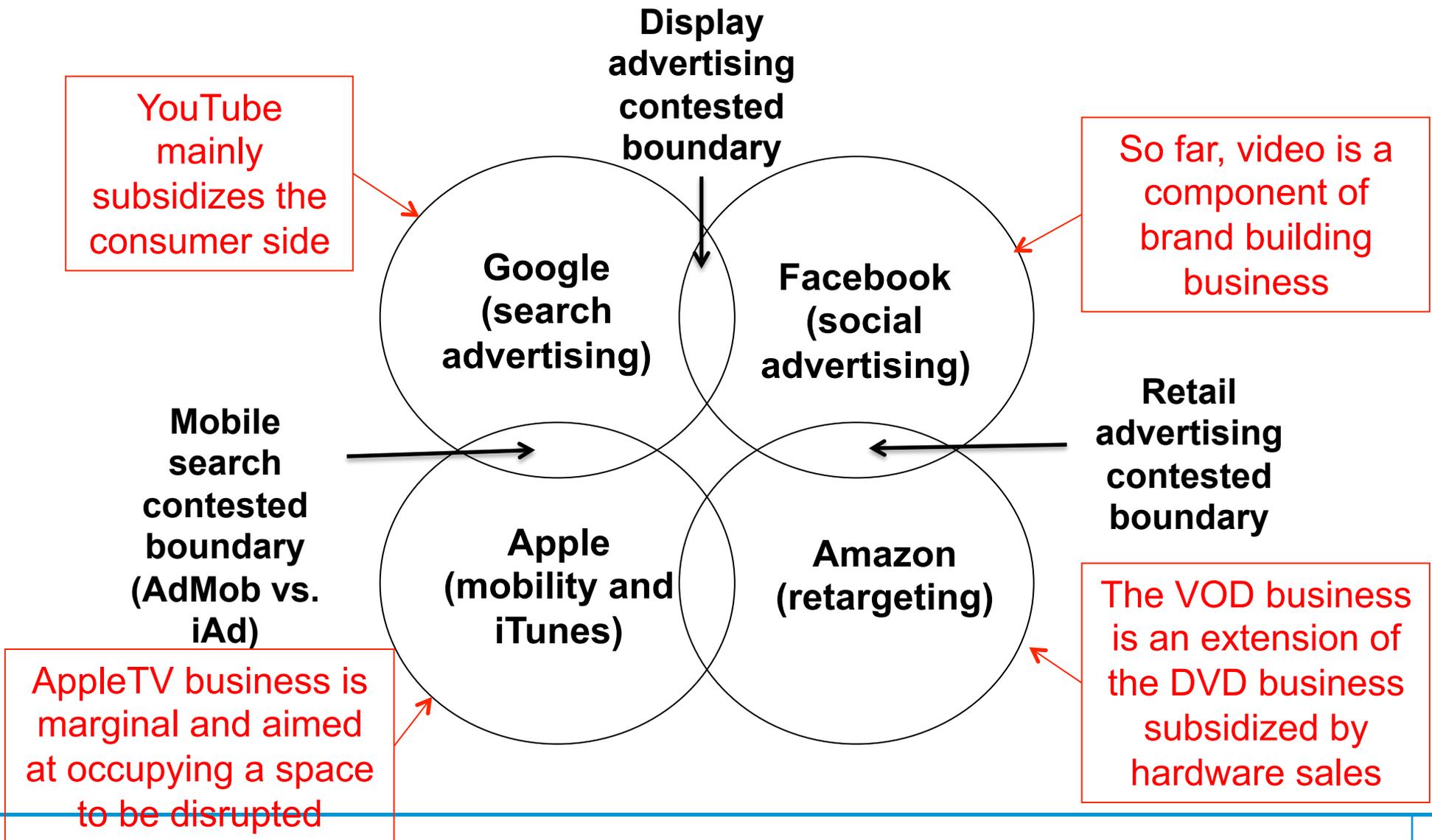
- Big potential to disrupt the video business (sold 10 million Apple TV units in 2013); however, margins are relatively low
- 90% of the top 250 shows can be purchased through iTunes
- So far it has preferred to negotiate with content providers (Disney channels available only with a subscription to participating pay TV providers; negotiation with Time Warner Cable; Major league Soccer agreed to be accessed through a subscription); these agreements are an incentive to limit cord-cutting
- But disruption will come from the device: the next generation Apple TV device will be a set-top replacement unit, capable of streaming live channels, recording TV a la TiVo, accessing Internet programming, and serving as a content aggregator capable of solving the “multiple input challenge”
- The already released software updates to Apple TV bring better iCloud and iTunes Match support, providing a single interface for subscription and payment

**At the highest level, the digital ecosystem is a huge two sided platform of platforms where big players compete at contested zones**



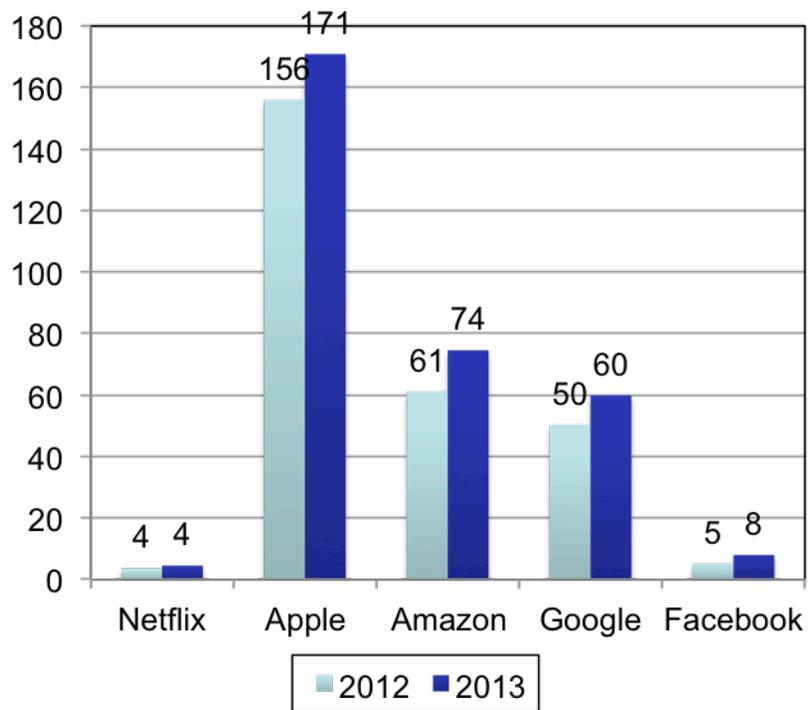
Source: Deighton and Kornfeld (2013). Amazon, Apple, facebook and Google. Boston: Harvard Business School

# In this context, I argue that the NGV play is a subsidized pawn of large players in their battle for dominance

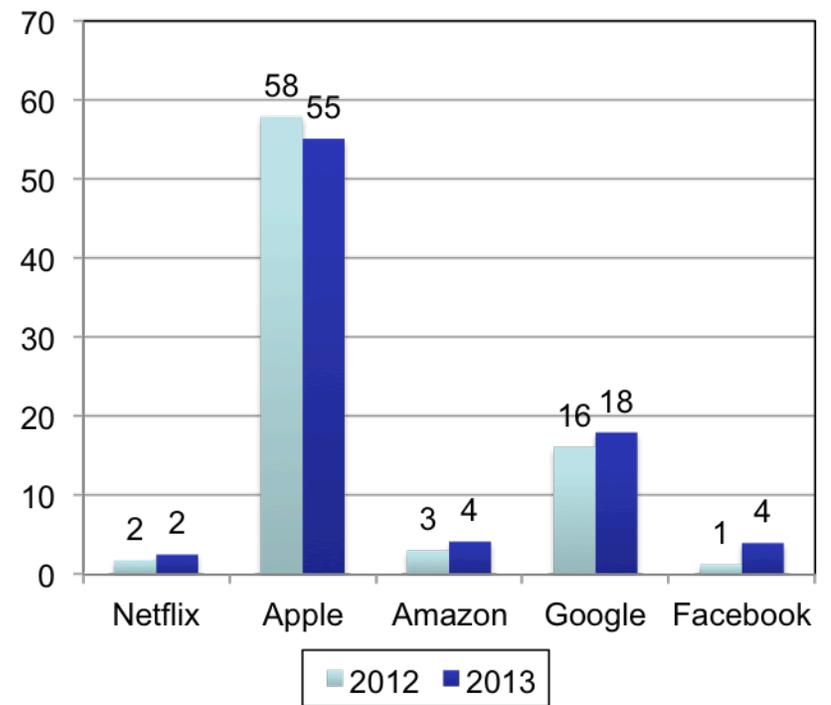


# So where is Netflix left? A small player that cannot compare to the other large players in a sector where buying power counts

## REVENUES



## EBITDA



Source: Market watch

## I believe Netflix could rapidly fade after being the innovator that rapidly changed the format of video distribution

- A "pure player" would have difficulty in mounting a sustainable strategy
- Multi-homing costs (being affiliated to more than one platform) are low, which reduces loyalty and the barrier to switching
- Piracy is increasing because interface is improving (see Popcorn Time), which affects primarily the "pure players" (trend akin to the music business)
- Other players are much better endowed
- Some of them are subsidizing the video business side of the platform to solidify their position in either advertising (Google), retailing (Amazon), and hardware (Apple)
- Netflix' role would have been as the disruptive innovator (video streaming) whose innovation will be coopted by major players of the eco-system
- This dynamic is being observed in other areas of the eco-system (online storage/backup: Dropbox being superseded by Google)
- BTW, Netflix international expansion strategy is aimed at furthering growth in the context of an increasingly contested domestic market

