



Netflix Versus Amazon

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Agenda

Netflix

- Growth
- Usage
- Strategy
- Technology
- Weaknesses

Amazon

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Netflix Growth

- Usage

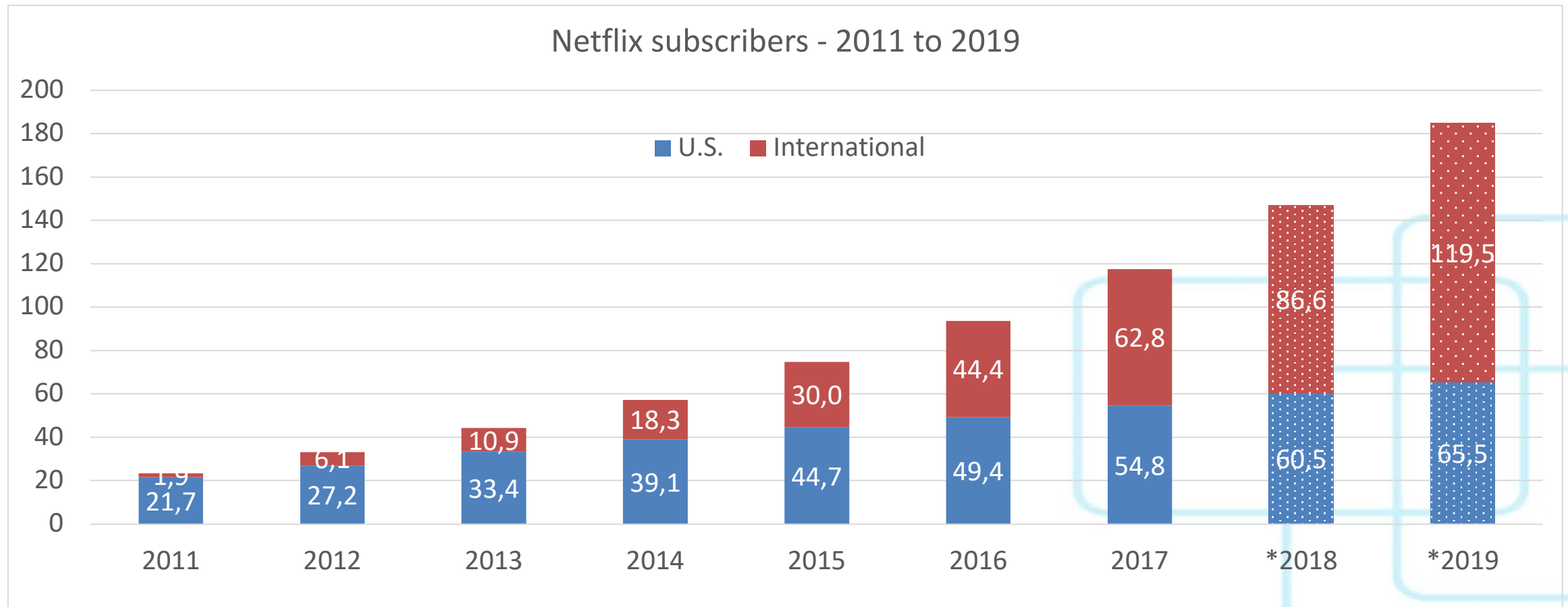
- Strategy

- Technology

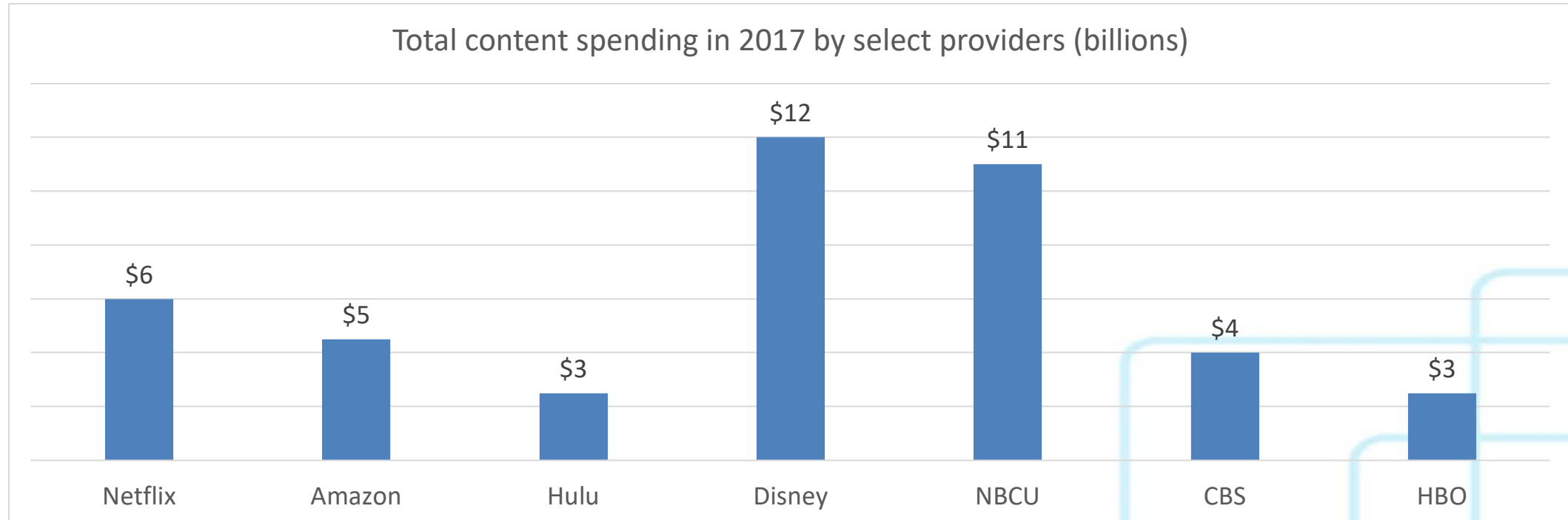
- Weaknesses

Photographer: Jens Kreuter

Netflix Growth

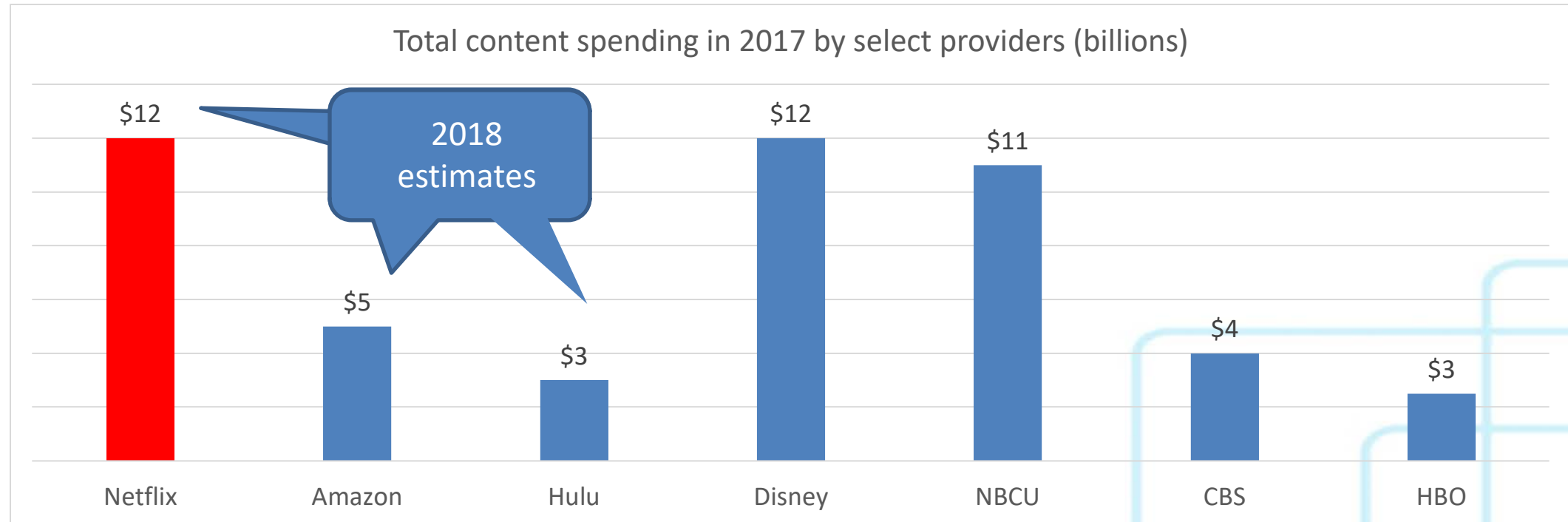


Netflix content investment in perspective



Overall, Disney and NBCU spent twice as much on content as Netflix in 2017

Netflix content investment in perspective



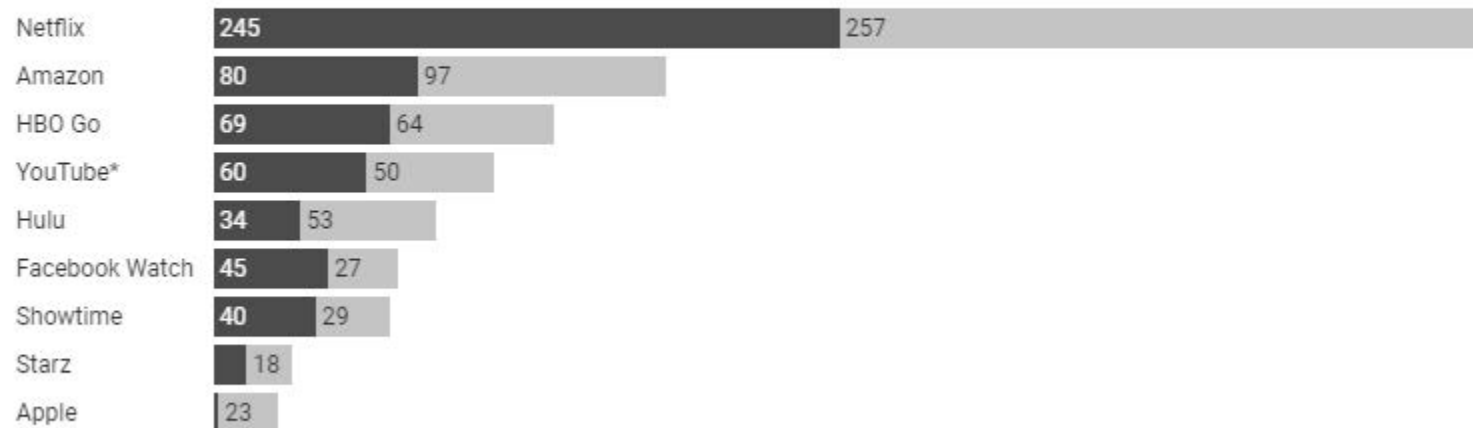
Overall, Disney and NBCU spent twice as much on content as Netflix in 2017

In 2018, Netflix will double its spending on content, to match Disney

Netflix content investment in perspective

Number of original TV shows from each video service

■ Currently available ■ Upcoming



Source: Ampere Analysis; *Estimates from YouTube

Netflix will produce almost 3X as many shows as its nearest rival

11X increase in content 2 years old or less
60% decrease in content 5 years or older

Netflix Content Strategy

Outspend every other streaming company

- What happens in 2019 when Disney arrives?

Originals strategy increasingly driven by international market

- Invest in local content with international appeal
- 3%, the Brazilian Sci-Fi series.
 - **One of the most watched originals in Brazil.**
 - **Ted Sarandos says it did well in the rest of Spanish-speaking Latin America.**
 - **Many watched in the US in its dubbed and subtitled form**
- Partner with local providers
 - **TV2 and Rita, Warrior**

Disruptive original financing model

- Pay more up front, limit upside potential
- Removes risk for content provider



Netflix Content Strategy

Content catalog is getting smaller

- Using data to ensure usage rate increases
- Pays more for the best content, prioritizes global licenses
- Rarely licenses full catalog

Focus on originals

- Originals spending dominates over licensing
- Drama, comedy, kids/family, documentary

Ramping up international production

- In Europe, India, others
- No interest in live: Sports, News

Trusts the data

- Deals with Adam Sandler, PeeWee Herman

Content strategy is working

- Viewing times high – average subscriber watches 1 hour 15 minutes per day
- Seeing meaningful growth, even in mature markets
 - **US streamers +11% YoY to 58.5M Q3 2018**

“We are getting better at making a local show at least pan-regional and at best global. We’ve seen that recently with 3% and with Dark from Germany. Those U.S. numbers for us on those foreign language shows would be big hits on cable in the US.”

Ted Sarandos
Netflix CCO



What do customers like about Netflix

Family profiles more highly valued than price by users

- Netflix is for everyone in the family

Price still important

- Though \$1/\$2 price increase last year did not slow growth

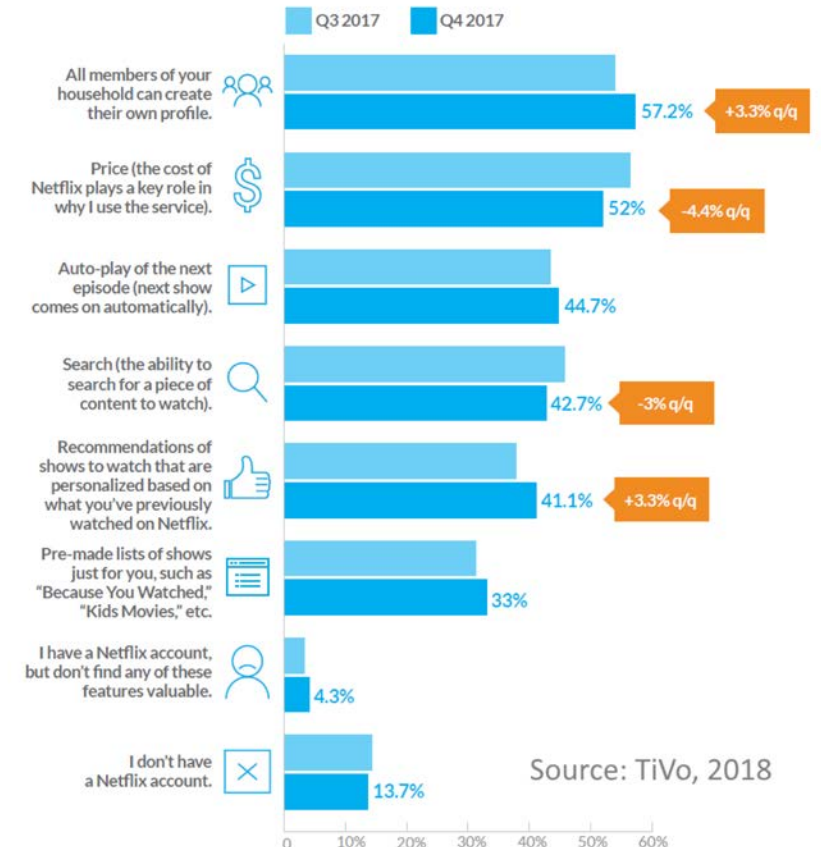
Binge viewing very important

- First time it is ranked so highly

Netflix is consistently rated higher in quality, content, value, and convenience than traditional television

- Broadcast TV NPS 14
- SVOD NPS 41

If you are a Netflix subscriber, which of Netflix's features do you find appealing? (Choose all that apply)



Source: TiVo, 2018

Technology

Owns the complete technology stack of delivery

OpenConnect

- Netflix CDN
- Places caches for free in ISP networks
 - **Saves ISP and Netflix money**
 - **Improves performance for the customers on that network.**

Netflix approved TVs

- Program to allow manufacturers to claim “Netflix runs better on this TV”
- Set of features must be supported: including fast start, dedicated remote button

ISP index

- “Shames” ISPs into improving performance

Other efforts continue

- Recommendations, bandwidth reduction and control, interface innovation etc.

Strategy – toward a billion members

Totally data driven in every aspect of the business

- “We are a learning machine”

Driven by global expansion

- Using global client to identify demand
- Launches custom services in promising regions
 - **Poland, Greece**

Growth is primary objective

- Amazon suffered many years of losses before it became profitable

“I remind everyone at Netflix that Facebook and YouTube have a billion daily actives. In many parts we are just so small in comparison with those other Internet firms, we have a lot of catch-up to do.” Reed Hastings, Q4 2016

Wants to be THE service every streamer must have

Weaknesses

Overreaches sometimes

- Fight with the movie industry is unproductive
- *“How did distribution innovate in the movie business in the last 30 years? Well, the popcorn tastes better, but that’s about it.”*
- *“What Netflix wants to do is to unleash film. It’s fundamentally about growing the movie business.”*
- *Reed Hastings, CEO Netflix, March 2017*

Not competitive in some markets

- *Too expensive versus competition (iflix) in SE Asia*
- *Focused on the television, some markets mobile dominates*

Sometimes arrogant

- *“Someday we will see competition for wallet-share, but it seems far off.”*
- *Reed Hastings, CEO Netflix, October 2018*



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The number of Prime Video users

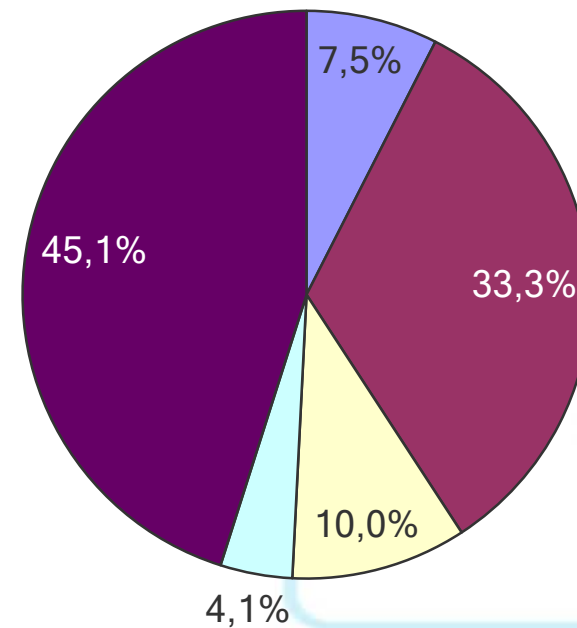
People subscribe to Amazon for the shopping benefits, not the video

- Only 7.5% say they subscribed for the video
- 47.4% subscribed for the shopping benefits
- Of those that are prime members, three quarters watch prime video

Company has 100 million Prime Members worldwide

- Around 75 million used Prime Video worldwide
- Between 25-30 million U.S. monthly users

Do you subscribe to Amazon Prime specifically for video?



- Yes, I love their video content!
- No, I subscribed for the shopping benefits, but I watch the video too
- No, I subscribed for the shopping benefits, and don't watch the videos
- No, I subscribe for the shopping benefits - I didn't know they offered streaming video
- I don't subscribe to Amazon Prime

Content strategy

Content spending was \$4.6B in 2017

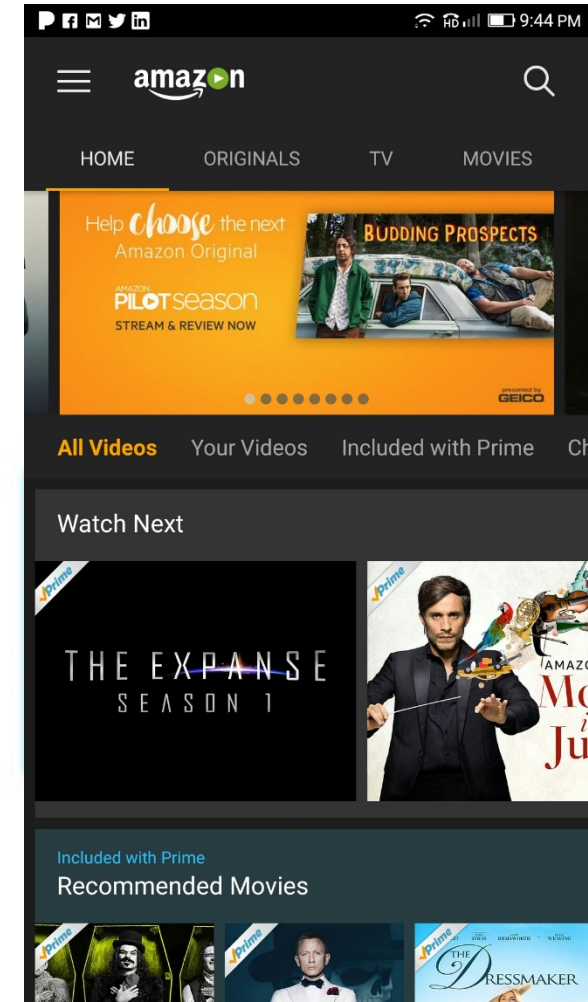
- Includes music and video
- Estimated to be slightly higher in 2018
- Spent \$3.2B in 2016
- Tripled spending on originals in 2017

Willing to work within existing industry constraints

- *Manchester By The Sea* distributed as a “regular” movie
- Distribution deals with CBS for summer shows like *Extant*, *Under the Dome*

Leverages customer feedback to decide on originals

- Customers can vote on pilot episodes of new shows
- Amazon ultimately decides which go forward, which get cut



Amazon Channels Program



Channels is a reseller program

- Amazon uses its marketing might to push partner video services to customers
 - **When you search for a movie or show in a partner channel**
 - **When you enter Amazon Prime Video**
 - **In email promotions to members**
- Partner content integrated into Prime Video interface
- Credentials don't work with partner's own app
- Amazon handles billing, customer support, marketing
 - **For a fee, of course**

Amazon Channels Program



At least 100 US partners

Partners seem very happy with the program

- Helps them be found by Amazon's 100M prime members

“They’ve [Amazon] been at the top of the list. We get more [subs] from them than any of our partners. We like what they do.”

Les Moonves, Former CEO CBS, Aug 2018

Amazon Channels launched in UK, Germany, Austria

- 40 on-demand partners
 - **ITV, Discovery, Eurosport, MGM and Amazon's own curated Bollywood channel Heera**
- Also includes traditional flow TV channels
- Discovery Channel - £4.99/month
 - **First time available outside of pay TV**
- Eurosport - £6.99/month

Amazon moving to ad-supported service

Rich Au, head of Amazon Channels in the U.S., says:

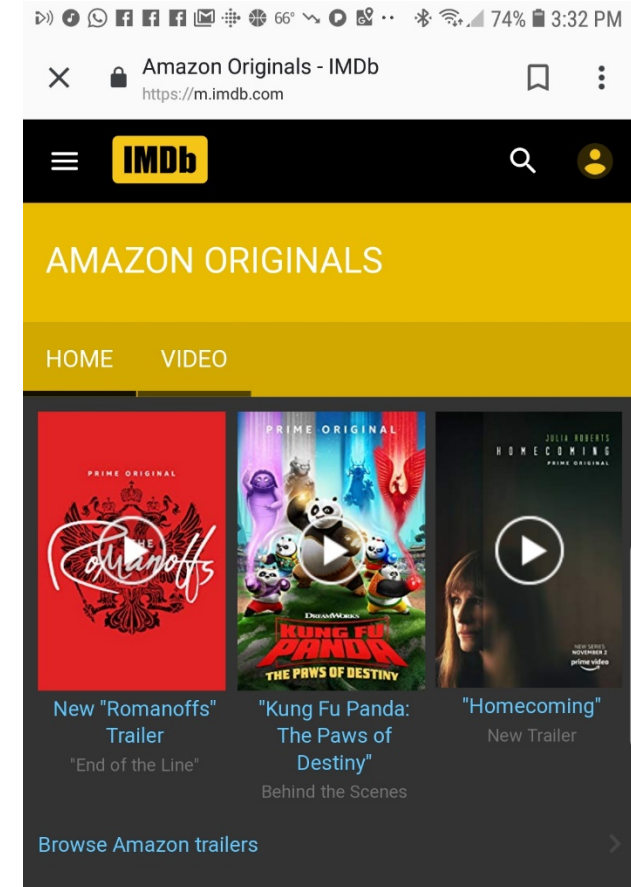
- Offer ad-supported services later this year
- Not part of Channels program

Developed by IMDB (owned by Amazon)

- Delivered to 50M Amazon Fire TV device owners
- Ad supported
- An attempt to grab some of the \$70B U.S. ad market

Amazon already delivering ads during videos

- On Twitch, IMDB
- During Thursday night NFL games



Fast as Lightning: "Kung Fu Panda" Returns

The adventures of Po continue in "Kung Fu Panda: The Paws of Destiny," now streaming on Prime Video.

Check out the trailer and interviews with the cast and

Amazon's complete entertainment strategy



Amazon Channels is, in effect, a la carte TV

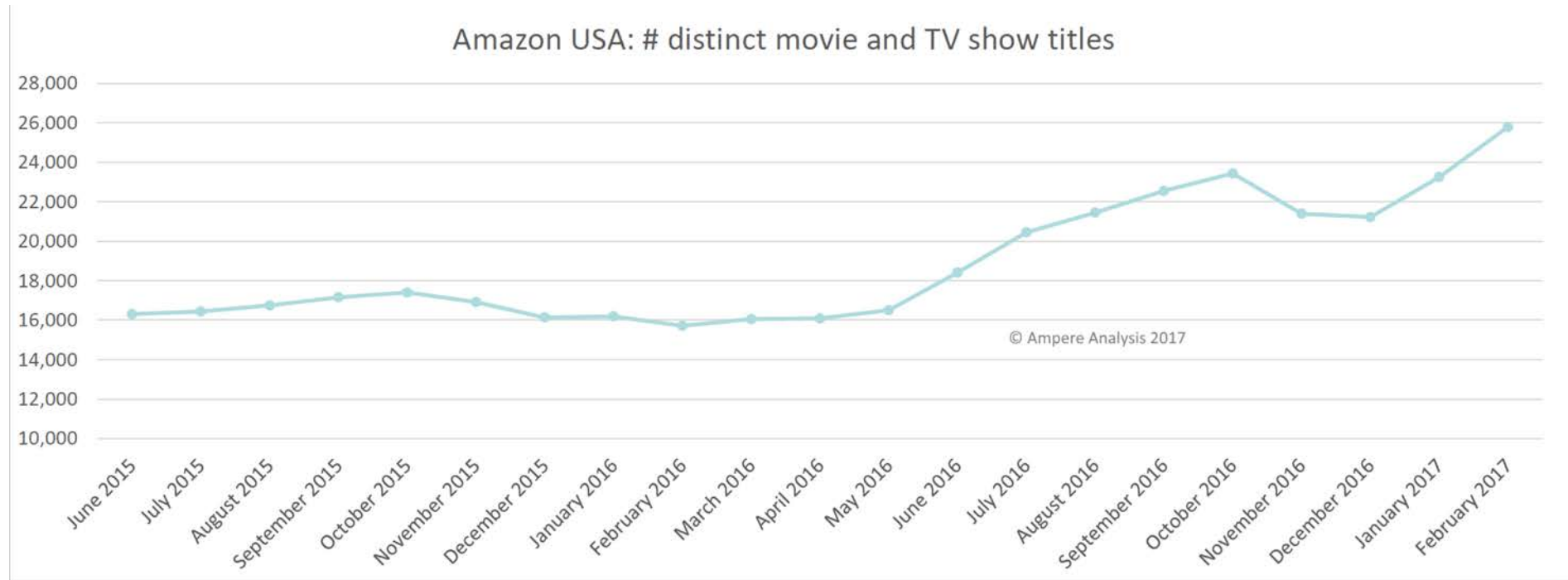
- Customers buy only the channels they want
- They can drop them whenever they want
- Everything is integrated into a single place
- Unified by voice search, recommendations

Ad-supported flow TV

Digital rentals and purchases

Anchored by Amazon devices

Amazon content mix



Amazon continues to expand content catalog

- Up 62% since June 2015

Also focusing on originals, exclusives

- Originals up 3X since June 2015
 - **Exclusives up 4X**

Amazon Videos Direct

- Delivered 8000 short form videos
- YouTube model

Amazon Strategy

Amazon is, at its core, a retailer

- Video was introduced to bolster the Prime program as the lure of two-day shipping began to fade
 - **Digital media downloads, streaming took over from physical media sales and shipping**
- Retail sales are first and foremost, even with prestigious video awards!
 - ***“When we win a Golden Globe it helps us sell more shoes.”***
 - **“People that use Prime Video renew <their membership in Prime> at higher rates and convert from free trials at higher rates.”**
 - **“We can charge less for premium content because we have the flywheel spinning”**
 - **Translation: One business can help subsidize another**
 - **Big advantage for Amazon over Netflix in license negotiations**
 - **Jeff Bezos at the Code Conference, May 2016**



Why Amazon allowed separate video subscriptions

Video is a key incentive supporting Prime membership

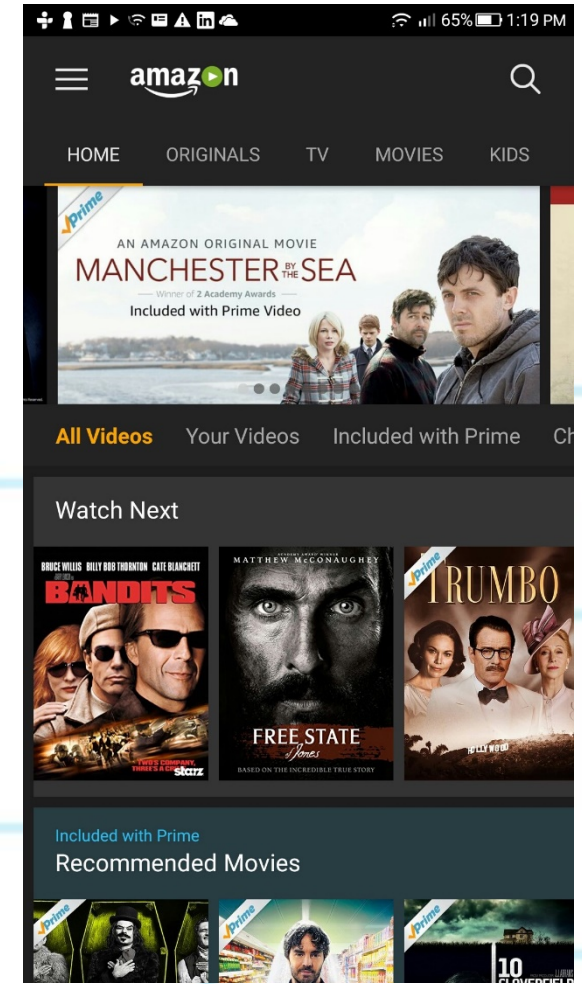
Why did the company allow people to subscribe just to the video

- \$8.99 a month
- Full Prime membership is \$99 a year

The reason is Amazon Channels

- Amazon wants to sell Channels to as many people as possible
- Those people that don't want to buy from Amazon store, can still use Amazon Channels
- Pricing is unattractive for existing Prime members

Allowing people to sign-up from Prime Video separately is still a retail strategy!



Amazon hardware strategy

Looking to create vertically integrated distribution channels, like Apple

- Fire TV, Fire TV stick put Amazon Video at center of online experience
- Is licensing Fire TV OS to television manufacturers
 - **Partnering with BestBuy on 10 models of smart TVs**
 - **Insignia (in-house brand), Toshiba**
 - **Models exclusively available through BestBuy, not Amazon**

No strong differentiation from competitors

- Not as many services available as competitors
- Me-too products
- Part of ecosystem of devices: Alexa, Kindle Fire

Further Amazon's retail strategy

- Selling partner content in "channels"
- Digital movie rentals and sales



Amazon perceived as biggest disrupter

Digital TV Europe interviewed 380 digital TV industry execs from 42 countries.

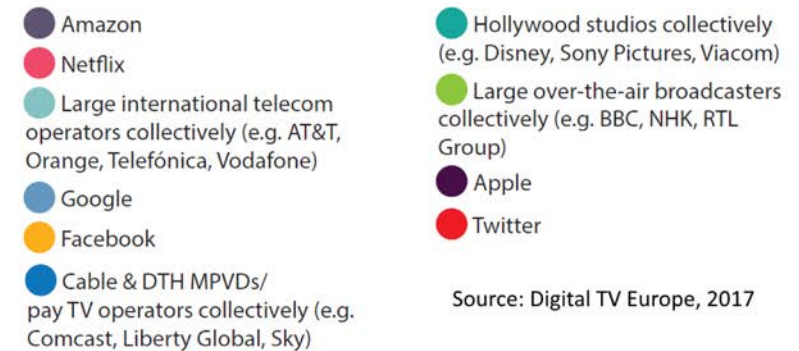
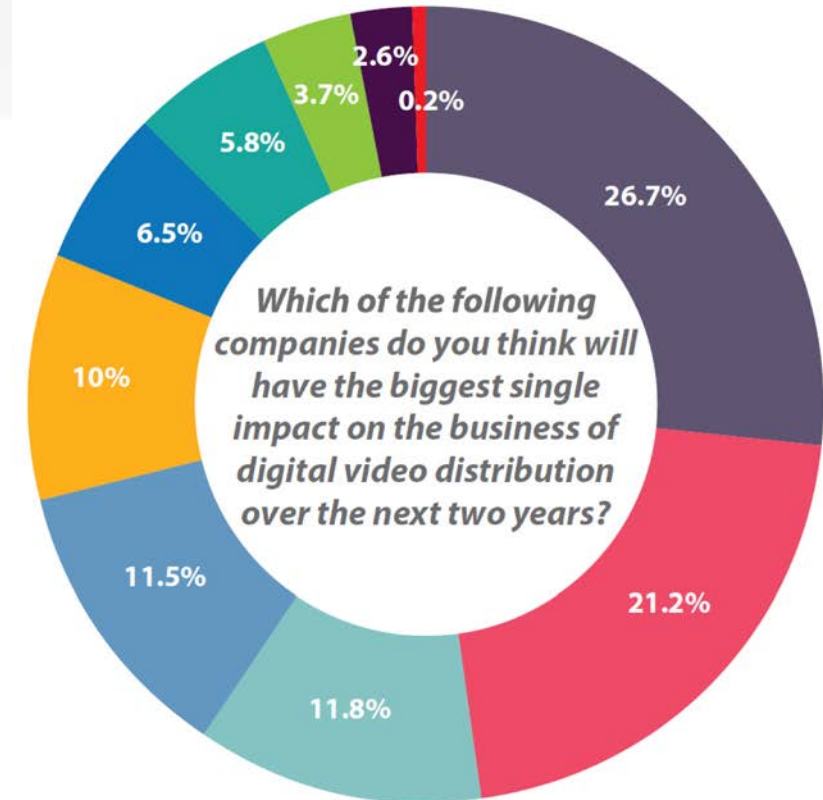
27% said they thought Amazon would have the biggest impact of digital video distribution over the next two years.

- Confirmed in a 2018 nScreenMedia survey of US media executives

21% said Netflix

Everything else is relatively small by comparison.

Do you agree?



Amazon weaknesses

Service experience weaker than Netflix, Hulu, Apple

- Interfaces lack polish, cohesion
- Billing is confusing
- TV devices not as successful as competitors
- App installation clumsy, confusing

Vulnerable to overall economic conditions

- Retail slows down and consumer confidence is weak
- Video services generally do well during tough times

Moving to monopoly status in core market

- Attracting the attention of government regulators

Vulnerable to net neutrality issues

- Climate is anti-regulation in the US
- Already signs of neutrality infringement



Donald J. Trump ✓

@realDonaldTrump

Follow

I have stated my concerns with Amazon long before the Election. Unlike others, they pay little or no taxes to state & local governments, use our Postal System as their Delivery Boy (causing tremendous loss to the U.S.), and are putting many thousands of retailers out of business!

4:57 AM - 29 Mar 2018

31,031 Retweets 124,281 Likes



51K 31K 124K

Netflix versus Amazon

	Netflix	Amazon
Overall strategy	Video service business	Retail business
Overall content strategy	Content aggregator	Service aggregator
Content approach	Originals, license newer titles	Originals, exclusives, library
Video business approach	Premium provider	A la carte TV

Conclusion



Are Amazon and Netflix competitors?

- Neither Bezos nor Hastings says so
 - **There is room for both**
- Both companies have bigger challenges than competing with each other

Netflix wants to be the one service everybody must have

- Providing general entertainment
- Views itself as part of a consumer's overall entertainment package
- May launch new tiers of service

Amazon is seeking a broader role

- As service aggregator, manager
 - **Pay TV replacement**
 - **Can it do this without Netflix as a partner?**
- Views itself as a consumers complete entertainment package

About nScreenMedia

nScreenMedia is a resource to the Digital Media Industry as it transitions to the new infrastructure for multi-screen delivery. Through a mix of informed opinion, news, information and research nScreenMedia helps you make sense of multi-screen media.

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