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Investigation on Competitive Dynamics in Video Streaming Market
Taking Netflix and Amazon Prime Video as Analysis Cases

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ABSTRACT
This research intends to find the competitive dynamics in the market of video streaming. With the video streaming market entering a new era, how to adapt the current business strategy to the changing preference of customers has become a vital issue for every participant within the market. In the research, the market operations of the two entities have been analysed with the case study method and correlated data. It is found that market focus at an early stage is service-oriented, and has low unique competitiveness while the marginal return of the efforts is decreasing at high speed. In the latest situation, the content-oriented method has been proven consistently effective when other factors have no further potential for competition. Therefore, it is concluded that, as for advice for market players in the video streaming market, original content is the real competitive dynamic that determines the choices of customers. For any service provider, a product line for the original series will be a requirement to become a player in this market.

Keywords: *Competitive dynamics, Netflix, Amazon Prime Video, Case Study*

1. INTRODUCTION

1.1. Background

Around the mid-2000s, with the help of developments in data transferring and Internet technology, the first generation of “video streaming” has entered the traditional television media market. After nearly twenty years of further development and iteration, the video streaming market in the 2020s has generally changed its market focus from quality-based competition to a more content-oriented condition. Under this background, how the current main players in the video streaming market, Netflix and Amazon Prime Video act to the new trend and their further business strategies can roughly represent the market trend and have much significance in studying the future development of the video streaming market.

1.2. Related research

Some of the previous researches show that models would do well in the video streaming market on the technology level. Vega reviewed the most significant “predictive” Quality of experience(QoE)management methods for video streaming services, showing how different machine learning approaches may be used to perform proactive control. Methods pinpointed a selection of the best-suited machine learning methods, highlighting advantages and limitations in specific service conditions. The review led to lessons learned and guidelines to better address QoE requirements in complex video services. The research reviewed proactive QoE management techniques, with particular emphasis on prediction-based methods founded on machine learning [1]. Cicco presented a model of the automatic video stream-switching employed by one of these leading video streaming services along with a description of the client-side communication and control protocol. A detailed validation of the proposed model was carried out through experimental measurements in an emulated scenario. The research investigated the control system of a leading adaptive video streaming service [2]. Using an active measurement study, Adhikari dissected several key aspects of Over-the-top (OTT) streaming platforms of Netflix and Hulu. The research proposed a measurement-based adaptive Content-delivery-networking (CDN) selection strategy and a multiple-CDN-based video delivery strategy that can significantly increase users' average available bandwidth [3]. Results show that the evaluators' QoE is highly correlated with the users' preference for video content type. Therefore, an application scenario is presented, in which the proposed video quality metric is implemented. Experimental results highlight the relevance of considering the assessors' preference for video content in video quality assessment tests. Therefore, assessors with an explicit preference grant the lowest Mean Option Score (MOS) scores [4].

Some researches show how the new form of video-on-demand(VOD) services affects the traditional TV industries. Janne sought answers to how competitive advantages are pursued within the industry and how the strategic decisions of the companies differ from more traditional industries. Finally, the results help predict which actions are important for the companies to prepare for the accelerating competition and upcoming industry shakeout, and to ultimately retain the interest and subscription of consumers. Based on its analysis, it shows that as a contrast to more traditional industries, companies were mostly competing with content whereas companies in traditional industries were competing with traditional competitive actions such as pricing and market expansions [5]. Jenner explored the relationship between traditional television and the new VOD service. The main analysis was based on conceptualizations of contemporary media, taking Netflix as the objective of a case study to reinforce the process of analyzing. In conclusion, the research pointed out that the Netflix case concerns issues of technology, but maybe more importantly, branding and programming strategies [6].

Others focus on the main players in the video streaming market. Wayne examined the effects of the approaches of network branding identities from Netflix and Amazon by analyzing them based on several former pieces of research and mechanism explanations. The researchers also considered the value of branded content on Subscription Video-on-demand (SVODs) for American cable networks and then concluded the need to think about contemporary television branding as an ongoing negotiation between established and emerging practices [7]. Tryon analyzed the promotional strategies of Netflix as well as the evolution of promotional practices Netflix has. By showing several significant stages of Netflix's development history, Tryon highlighted typical strategies like promises of plenitude, participation, prestige, and personalization to show the ideas behind them, and finally concluded that technological discourses of participation and plenitude with a set of cultural assumptions about prestige audiences have become a topic worthy of our attention [8]. Rahe, Buschow, and Schlütz investigated Germany's most popular S-VoD services Netflix and Amazon Prime Video from a perspective of the Function-oriented Media Brand Model. With the statistically significant differences method, they explored the brand perception of the S-VoD players Netflix and Amazon Prime Video to provide insights regarding future challenges in the fast-paced video streaming industry. Overall, findings showed a stronger brand perception of the market pioneer Netflix [9]. Matrix conducted the "Netflix effect" to demonstrate the media trend as well as how the audiences vary through generations. By both theoretical and empirical analysis, he concluded that Video on demand, or the Netflix effect, is ushering in a mediated culture of instant gratification, infinite entertainment choices, and immersive experiences in televisual fantasies that combine drama and realism in irresistibly fascinating and spectacular ways [10].

1.3. Objective

This research first analyzes the strategy of two major companies in the video streaming market——Netflix & Amazon Prime Video. By concluding the commons and differences of their strategies, the competitive dynamics of the video streaming market can be shown, and the rough structure of the market can be clear. The finding of this paper can be a very helpful tool when trying to analyze some actions of the main players in this market. In addition to this, based on the conclusion of competitive dynamics, future suggestions related to this area will be easier to make.

2. FROM MAIN PLAYERS TO A GENERAL VIEW

In recent years, the structure of the share that different companies hold in the video streaming market has not changed much. More share means more subscribers. More subscriber means the strategy has more market competitiveness. Meanwhile, the video streaming market structure is relatively solid, with a high barrier to new entries. Therefore, by analyzing the strategy of some selected main players, after market-based figure comparison and further argumentation, the research then concludes the competitive dynamics of the video streaming market.

2.1. Why Netflix & Amazon Prime Video

By the first quarter of 2021, Netflix had 207.64 million subscribers and held a 20% share in the video streaming market, which made Netflix the reigning champion in streaming services. Amazon Prime Video followed closely by having 200 million subscribers and held a 16% share in the market. Netflix and Amazon Prime Video are undeniable market leaders from every perspective. Although with the appearance of new players like HBO Max, the two companies' share in the market did decline in the past few years, their revenues were increasing as the video streaming market was developing rapidly. With the taste of the audience changed, the strategies of these two companies also made some significant changes. By concluding the common grounds of two market leaders' strategies, it could easily lead to competitive dynamics.

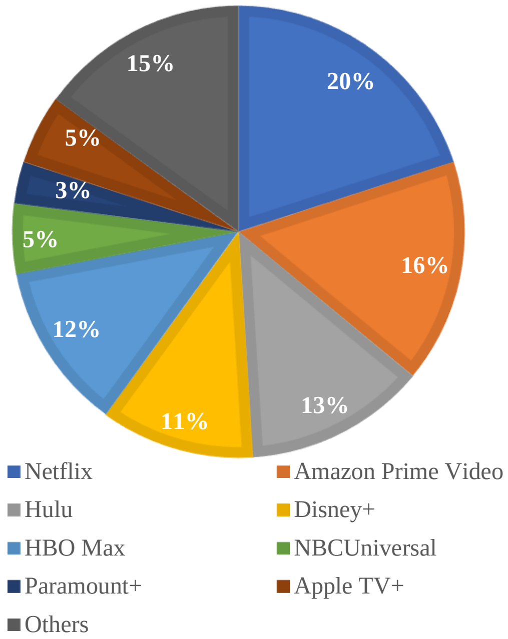

Figure 1 U.S. Video Streaming Market Share

As for other main players in the market, Home Box Office (HBO)Max is not considered since it is a relatively new player in the video streaming market. Even it has a similar number of subscribers as Amazon Prime Video, due to lack of own production, this research still does not take it into its consideration. For Disney+, since it has a relatively insufficient diversity in its contents, while Disney and Warner Brother (WB) have concentrated more on comic-based video content, this research does not consider it as for comprehensive market-level analysis. Apple TV+ is not considered because of its customers' loyalty and solidity. Mostly consist of Apple hardware users, they have less motivation to shift to other service providers, resulting in the insignificance of impacts from the change in business strategy. That is, subscribers of Apple TV+ are less likely to react that much to content or service quality change, resulting in them not being suitable to be this research sample. Those minor players were not considered, for they have no such significance in the research.

2.2. How the factors are selected and analyzed

Given the chosen firm/service system, this research selected several main business operations to pick out the strategies behind. Then it focuses on the market performance of their strategy, mainly taking the number of subscribers, the growth rate, and the average performance of the videos available. By this stage, the research takes the two series of figures to analyze whether the action made are effective, mainly by case study and analysis of the correlated performance. It compares these figures at a market level to see which of the operations is the most significant, and then this research shows the key factor associated with it as the dominant competitive dynamic in the video streaming market, where necessary data processing methods are applied.

3. NETFLIX'S AND AMAZON PRIME VIDEO'S MARKET STRATEGY

3.1. How Netflix acts in the market

Netflix focuses mainly on content, which can be seen through its spending in recent years. $17 billion was spent on content in 2021, $11.8 billion in 2020, and $13.9 billion in 2019, which is almost twice as much as its main competitors. Its subscribers have access to over 3,800 movies and 2,000 TV shows. However, the size of Netflix's movie library has been going down since 2010, since it has focused more on original TV shows. Netflix has launched over 400 original content in the U.S, which is the most among the main market players. With business models like pay-per-view and free ad-supported doing quite well in some firms, Netflix decided to value its relationships with the customers, by offering only flat-fee unlimited viewing commercial-free services.

For non-content factors, in terms of pricing strategy, Netflix selects the market penetration strategy. Users can enjoy Netflix services for free for a month, to make customers continue to subscribe after the free period ends. Then, subscribers need to pay a higher subscription fee if they want to watch new shows and some featured premier. As a pure media streaming service provider, Netflix pays great emphasis on its algorithms for personalized services. One big difference Netflix has from Amazon Prime, Hulu, and so on is that Netflix provides its subscriber with personalized content recommendations based on the watching list and searching history. Netflix uses the privileges the Internet provides to have users interface quickly learn based upon individual users' tastes, and fills their homepages with contents they enjoy. Netflix also uses its personalized algorithms, aiming to set up its global presence by focusing on internal cultures and conforming to the diversity in different countries and regions.

3.2. How Amazon acts in the market

Amazon Prime Video (henceforth referred to as APV) was created as a complement to the Prime membership system in 2006. From the very beginning of its history, APV acted as a component of the whole "flywheel" strategy of Amazon, only consisting of a few non-original contents to improve user viscosity. Not surprisingly, the early-stage performance of APV was unremarkable with a poor library of contents. However, years later, Amazon realized the importance of having a big library of material available as part of an attraction for a membership. It tried to expand its library by acquiring copyrights of a series of classical IPs, which helped it to develop some competitiveness. However, with just some classics but no modern self-produced series to attract subscribers, APV was much less competitive in the increasing market competition, and could hardly satisfy its strategic target. That is why Amazon has announced that $5 billion will be invested in the production of original content every year, mainly focusing on producing high-quality independent and niche videos. Later on, the focus and efforts on original content were proved effective by the increase in market share and number of subscribers.

As for non-content factors, for pricing, APV has followed the low-price strategy, which can be seen as the market equilibrium after the fierce gaming process. Further discounts are available in the annual subscription option APV provides, which also matches the general strategy of loyal customers for the Prime membership system. When it comes to services factors, it seems that APV does not do well among main players. By data from Amazon's review website, up to 30% of comments are complaints on the messy interface, unclear sub-categories, and non-personalized recommendations. APV seems to care less about users' experience, which still makes sense considering the low expectation for profitability Amazon has towards Prime Video.

4. HOW THE MARKET LOOKS LIKE

4.1. Commons and differences

For the commons, compared with other factors, both companies mainly focus on the content in their library. The production of original content is the priority of both companies, with Netflix investing over $15B each year and APV $5B each year. Netflix and APV have also been managing to gain the number of contents produced by other studios or companies in recent years, by directly investing in the production of the content or with the acquisition of companies who own the copyright of a great deal of film and television works. In addition to all these, they attach great importance to creating their famous IPs too, since IPs like James Bond have brought the owner of its copyright—MGM, a significant amount of profit. Besides the content factor, the two have a very similar price strategy. Being well-known for consumer mentality, both Netflix and APV provide a free one-month period of their subscription service for the new users. After the free period ends, consumers need to pay a higher price of subscription fee to watch all the content in their library.

The most significant difference between Netflix and APV is the type of services that they offer. Netflix provides only video streaming services' privileges, including unlimited access to its media library, higher quality of videos, and faster download speed. On the other hand, an APV's membership can also be used when a customer orders things on Amazon online store, which includes faster shipping and free delivery on certain items, etc. Also, APV offers the pay-per-view service, which suits customers who only want to watch a few episodes very well, while Netflix persists in only offering all-access-subscription. Besides, Netflix pays great attention to personalized recommendations using algorithms that are worth millions of dollars. This allows Netflix to take great advantage in the competition with companies that don't provide such personalized services, like APV. The detailed comparison can be seen in Table 1.

Table 1. Main focuses in strategy

	The Amount of Content in the Media Library	The Production of Original Content	The Copyright of Famous IPs	Free One-Month-Subscription	Personalized Customer Services	Pay-Per-Episode Service	Privileges in Other Areas
Netflix	√	√	√	√	√		
APV	√	√	√	√		√	√

4.2. The competitive dynamics in the video streaming market

By analyzing the former commons and differences in market strategies of Netflix and APV, a rough structure of the video streaming market has been constructed. In the previous content, Netflix has been chosen as the representative of pure video streaming services provider, while APV was a typical example of tries for entering the streaming video market by veteran Internet companies, so the situation of the whole market can be revealed. From the commons they have, it can be concluded that, in this stage of the video streaming market, the core competitive dynamics is the original contents service providers produced. Or in other words, the ability to produce high-quality original content. Besides, customized services also distinguish a service provider from its competitors, which greatly impacts the customers' loyalty. The market seems to react mildly to the differences in the quality of streaming services, which can be explained by the theory that above a certain threshold, further improvements in the quality make an insignificant change in customer utility. Therefore, when it comes to the advice for future development of the video streaming market, it is suggested that focusing on the productivity of high-quality original content is the trend and the most effective strategy for better competitive dynamics. With the background of similar service quality and customer experience, the future competition will be a race of original content produced.

5. CONCLUSION

Under the background of the approaching new era of the video streaming market, the main players' market operations have changed a lot to catch up with the changing flavour of audiences. Since the video streaming market is highly centralized, it is practical to take operations of the main players to show the trend in the whole market. In this research, Netflix and Amazon Prime Video have been chosen to be typical examples of video streaming service providers and tech giants. By analyzing the former business operations and consequences of the two entities, this research concludes that although both two entities have tried to compete in non-content fields several times, the following growth of subscribers do not show much significance, while some new original series by Netflix has won both reputation and market share for it. So, this research finally concluded that the true competitive dynamics in the video streaming market in this era is still content-based competition.

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