Unbundling Shomi: How Rogers Communications Inc. and Shaw Communications Inc Are Positioning Their New Streaming Service

Description

Earlier this week, **Rogers Communications Inc.** (TSX: RCI.B) (NYSE: RCI) and **Shaw Communications Inc** (TSX: SJR.B)(NYSE: SJR) announced a new streaming service called Shomi to compete with **Netflix.**

Let's examine the strategy that Rogers and Shaw will employ in positioning Shomi.

Unbundling the corporation

Traditionally, telecommunication companies have been good at bundling services to make their value proposition stronger for the customer.

Investors only need to look to a December 2012 public presentation by Jean-Francois Pruneau, CFO of **Quebecor** (TSX: QBR.B) and Quebecor Media, to know the true value of a bundle. In his presentation, he outlined convincing data that bundling has increased average revenue per user (ARPU) and that bundling has reduced churn (cancel rate).

In fact, the data showed that if a customer were to take a four-product bundle, he or she is 10x less likely to cancel compared to a customer taking on only one product.

So why is Shomi a separate entity compared to, say for example, Rogers Smart Home Monitoring service, which is operating under the same umbrella?

It's all about maximizing Shomi's potential.

Rogers and Shaw unbundled Shomi out of their traditional product offering because it would cannibalize its existing TV revenue base (the term is cord-shaving).

Had management not unbundled Shomi, the product may not have received the focus and resources required due to competing incentives. Why promote a $9 product to compete against a $70 TV service?

On that price

It was only earlier this year that Netflix moved to a two-tier pricing structure for Canadians.

Netflix’s new customers would pay $8.99 while existing customers have their rates frozen for two years at $7.99. It also introduced a $7.99 plan with standard-definition quality viewing on any screen (TV, tablet, mobile) one at a time.

Not surprisingly then, Shomi will launch at $8.99 per month. Because it is a late entrant, it does not have the pricing power to price any higher nor does it want to be seen as an inferior service by pricing cheaper. So $8.99 is the sweet spot, or maybe, the only spot.

Second mover advantage

In September 2010, Netflix expanded into Canada with its first expansion into the international market. Since then, it has rapidly grown its base to the tune of 3.5 million subscribers.

While business strategy 101 typically touts first-mover advantage, Rogers and Shaw may also gain a second-mover advantage becuase they do not need to create and promote an entire new product category. Shomi can also leverage the deep pockets of its parent companies and their existing relationships with current distributors.

At the same time, Netflix has created a successful scalable business model that is ripe for competition as it still lacks the rights to the latest contents due to licensing agreements.

If there is any time to be a fast follower, this is it.

Ultimately, given the scalability of the business, this is a low-risk, high-reward investment for Rogers and Shaw. The biggest question is how important is a first mover advantage and can a second mover succeed by being a fast follower?

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:NFLX (Netflix, Inc.)
2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:SJR (Shaw Communications Inc.)
4. TSX:QBR.B (Quebecor Inc.)
5. TSX:RCI.B (Rogers Communications Inc.)
6. TSX:SJR.B (Shaw Communications)

Category

1. Investing

Date
2025/08/28

Date Created
2014/08/28
Author
patrickli