



Amazon Ramps Up Its Efforts to Contain Roku's Growth

Description

Roku ([NASDAQ: ROKU](#)) and **Amazon** ([NASDAQ: AMZN](#)) controlled 69% of the US streaming device market in the first quarter of 2019, according to [Parks Associates](#). Between the first quarters of 2017 and 2019, Roku's share rose from 37% to 39%, while Amazon's share climbed from 24% to 30%.

Roku's resilience allayed fears that Amazon's new Fire TV set-top boxes and Fire TVs would throttle its growth. However, Amazon recently introduced a wide range of new Fire TV devices — including a new Fire TV cube, a Fire TV Edition soundbar from Anker, and 15 new Fire TV Edition products — to ramp up the pressure.

Image source: Getty Images.

Roku also released two new audio products — the Roku Smart Soundbar and the Roku Wireless Subwoofer — which follow its initial expansion into the audio market with its Roku TV Wireless Speakers last year. Let's take a closer look at this escalating battle, and whether or not Amazon can contain Roku's growth.

What's Amazon's game plan?

Roku remains ahead of Amazon in the US, but Amazon claims that its Fire TV devices have over 37 million users worldwide — which tops the 30.5 million global users Roku reported last quarter.

Amazon sells its Kindles, Fire TVs and Echo speakers at paper-thin margins or losses to lock users into its Prime ecosystem. That's why it's plowing [billions of dollars](#) into its streaming video and music platforms, and why it's expanding its smart home ecosystem with smart doorbells and Alexa-powered appliances.

Amazon recoups those losses by squeezing out more revenues per Prime user. In addition to an annual subscription fee of \$119, Prime users spend an average of \$1,400 annually on Amazon, according to research firm CIRP, compared to just \$600 for nonmembers.

The firm estimates that 82% of US households now have Prime memberships, and Amazon is now leveraging that massive user base to challenge companies like Roku, **Spotify**, and **Netflix**. Amazon doesn't mind spending a lot of cash to disrupt those markets, since its earnings are buoyed by the growth of its higher-margin AWS (Amazon Web Services) cloud platform.

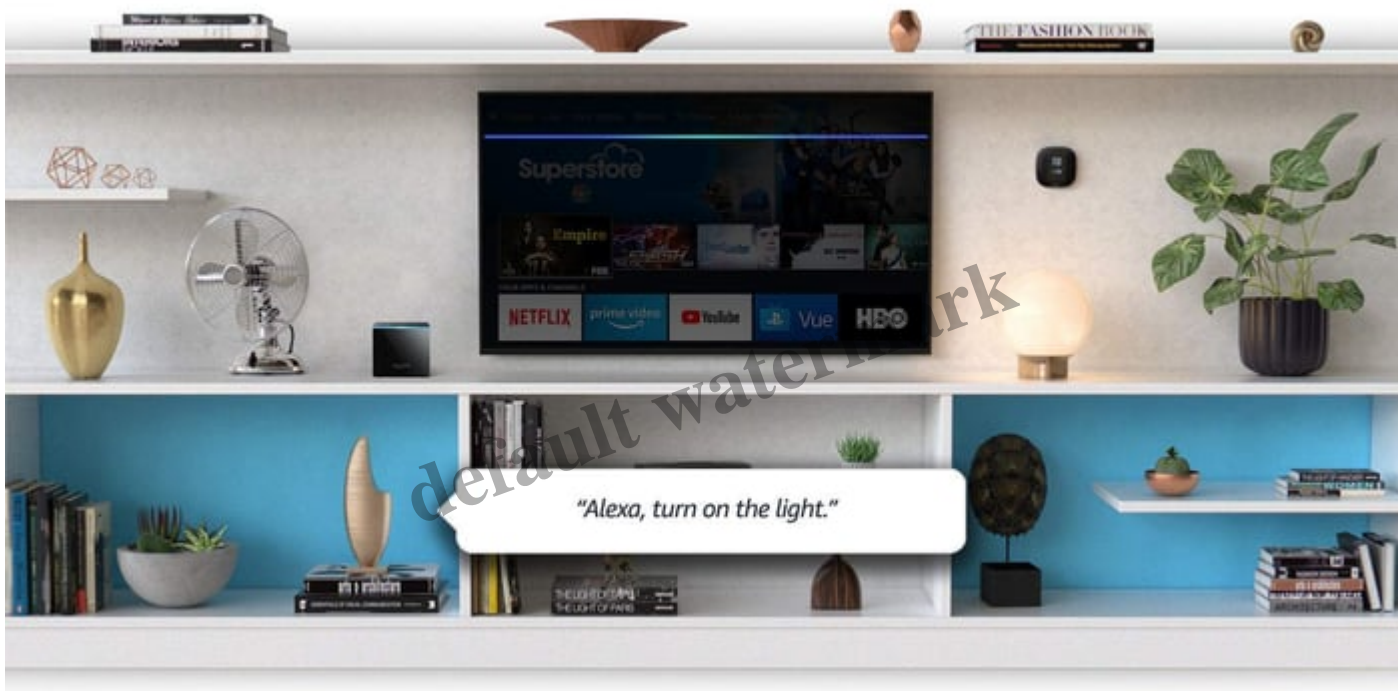


Image source: Amazon.

Why Amazon is struggling to contain Roku

Roku is a thorn in Amazon's side for two reasons: it has a first mover's advantage in the streaming device market, and it isn't tethered to a single ecosystem like Amazon, **Apple**, and **Google**'s devices — which makes it an appealing partner for third-party hardware makers.

To address the saturation of the streaming device market, Roku reduced its dependence on hardware sales and expanded its software platform — which consists of its OS and app for third-party devices and generates revenues from ads and content partnerships. As a result, Roku's platform revenues rose 86% annually last quarter, marking its strongest growth in four quarters:

Revenue (millions)	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
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Player	\$66.5	\$73.3	\$124.3	\$72.5	\$82.4
YOY growth	24%	9%	21%	18%	24%
Platform	\$90.3	\$100.1	\$151.4	\$134.2	\$167.7
YOY growth	96%	74%	77%	79%	86%

Source: Roku quarterly reports. YOY = year-over-year.

That acceleration indicates that Amazon’s prior attempts to contain Roku’s growth, like its partnership with **Best Buy** to [sell Fire TVs](#) last year, aren’t working.

Roku’s player sales also rose sequentially and annually in the second quarter, as it sold a higher number of cheaper devices — which indicates that its higher-margin platform business enables its player business to counter Amazon’s loss-leading strategies. Its diversification into new markets, like wireless speakers, could reinforce that growth and counter Amazon’s creeping expansion across [IoT-connected](#) homes.

Will Amazon’s latest efforts move the needle?

Amazon’s most interesting new product is the new Fire TV Cube, which offers hands-free voice-activated controls via Alexa, upgraded hardware, and tighter integration with myriad smart home devices.

This \$120 device, which basically merges the Fire TV and the Echo, could appeal to consumers who haven’t purchased either device yet. It could also be an appealing upgrade for consumers who are still using older versions of both devices or the first-gen Cube.

However, I don’t think that Amazon’s deluge of new devices will curb Roku’s growth. Instead I think they’ll reinforce its existing market share and possibly pull users away from less popular platforms like Apple TV and Chromecast.

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TICKERS GLOBAL

- 1. NASDAQ:AMZN (Amazon.com Inc.)
- 2. NASDAQ:ROKU (Roku)

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