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Streaming success: positioning Roku's future in a hypercompetitive industry

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Disclaimer. This case is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources.

As the pioneer and market disruptor of media consumption, Roku connected customers, publishers and advertisers (Bouma, 2015). Believing that all TV content should be available through streaming, Roku changed the model of how media content was distributed and consumed. As traditional cable and satellite consumers switched to streaming (Exhibit 1), the streaming media devices arena experienced significant growth (Business Wire, 2019). As of April 2020, Roku had 39.8 million active accounts and a rising stock price due to increased streaming during the COVID-19 pandemic. However, such growth for Roku and the industry gave way to the emergence of new and increasingly stiff competition. This left Roku in need of a strategy that would allow it to successfully compete in this hypercompetitive market.

Roku in brief

Witnessing the transformation of television consumption, Anthony Wood founded Roku in 2002 and launched the first digital media player to stream data output (audio/imaging) through an internet connection (Butler, 2020). This device allowed Netflix's content to be directly accessed via a television instead of a PC or laptop (HotHardWare, 2008), making Roku a first-mover in the streaming media devices arena (see Exhibit 2 for timeline). As the "middle-man" (Butler, 2020) Roku allowed the increasing number of cable cutters and content consumers to view programming from content creators (Disney, ABC, etc.) via its diverse streaming products (media players like the Roku TV and Roku Streaming Stick) (de Looper, 2019). Roku also developed partnerships with television manufacturing companies like TCL and Hisense, allowing it to offer built-in services in Smart TVs. These moves enabled Roku to enter more consumers' homes and increase its brand recognition (Baldwin, 2014).

However, initial success created fast followers and Roku was a relatively small player in the growing streaming arena (Owler, 2020). While Roku enjoyed 232% growth in revenues from 2015 to 2020, the company struggled with high-operating expenses, which contributed to a lack of profitability (Exhibits 3 and 4). Specifically, Roku had never turned a profit, with net loss spanning from more than -\$40,000 in 2015 to nearly -\$60,000 in 2019. Though Roku enjoyed strong brand recognition, it paled in comparison to new competitors like Amazon and Google, who also had more stable financial positions

(Owler, 2020). However, Roku did have some advantages. For example, its agreements with TCL provided an advantage in its Smart TV capabilities as nearly half of Roku's 29.1 million active users were Roku TV users (Levy, 2019).

The streaming media devices market

The streaming media devices market was valued at \$113.3bn in 2018 and a compounded annual growth rate of 16% was expected from 2019 to 2024 (Business Wire, 2019). In 2019, 39% of US households owned a streaming media player and half of those subscribed to two or more over-the-top (OTT) services (Parks Associates, 2018). The rapid growth of this arena paired with increased demand contributed to increased competitive dynamics in the industry.

While Roku was a first-mover, competitors like Amazon became threats as they launched their own video streaming devices (Exhibit 5) (Parks Associates, 2019). As the industry grew, larger companies in adjacent industries entered this arena with relative ease (Parks Associates, 2018). This posed a significant challenge for the smaller and less financially viable early movers like Roku that were less vertically integrated (Exhibits 6 and 7).

Despite the entrance of large competitors, Roku maintained a steady and growing share of the market, surprising analysts and investors (Exhibit 8) (Palmer, 2019). While Roku's competitors were well-known global brands, in 2019 Roku led the internet video streaming device market (39%), followed by Amazon (30%), Apple (15%) and Google (14%) (Frankel, 2019). Roku innovated to find new ways to grow, such as launching interactive pop-up ads using its Smart TV operating system to differentiate and capitalize on its large market share. Investors looked to Roku for continued growth, but this could only occur if it could find additional ways to successfully compete in this hypercompetitive industry. According to one analyst, Roku needed to develop additional partnerships to protect its market share (Levy, 2019).

Roku's next move

As many of its competitors continued to vertically integrate and diversify their offerings, Roku faced the difficult task of continuing to grow its market share while navigating this

increasingly hypercompetitive arena. Was Roku's focus on its standalone devices and integration in Smart TVs enough to compete with the competitors like Amazon? How might vertical integration help Roku parse out a unique position in this highly competitive industry?

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Exhibit 1. Number of households not paying for traditional TV services (2017–2022)

Figure E1

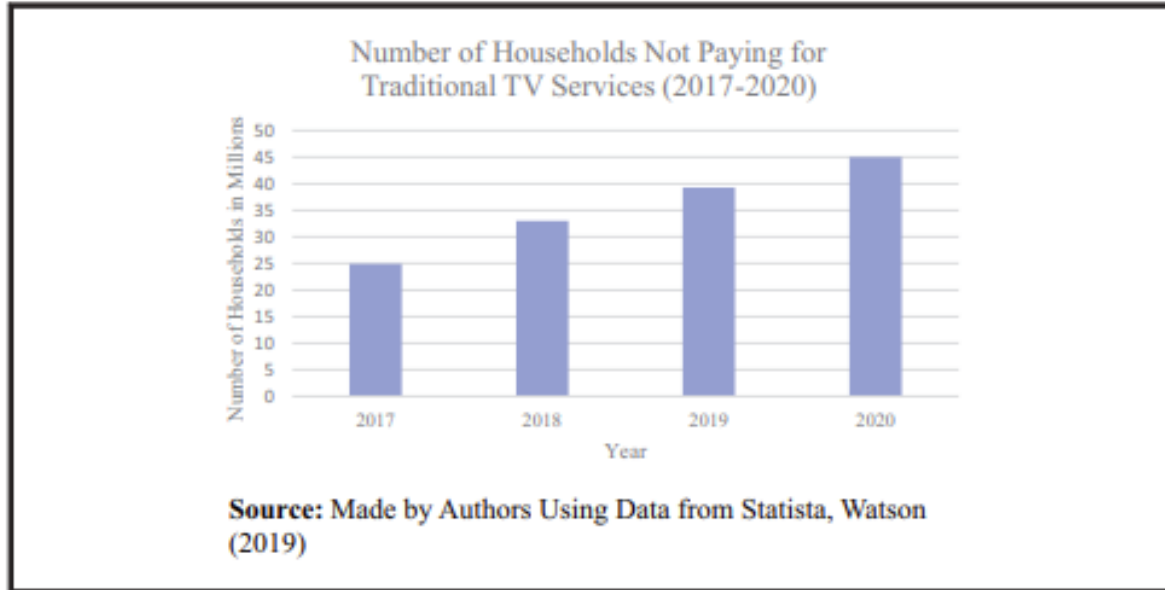


Exhibit 2. Timeline of Roku (2002–2020) Butler (2020)

Figure E2

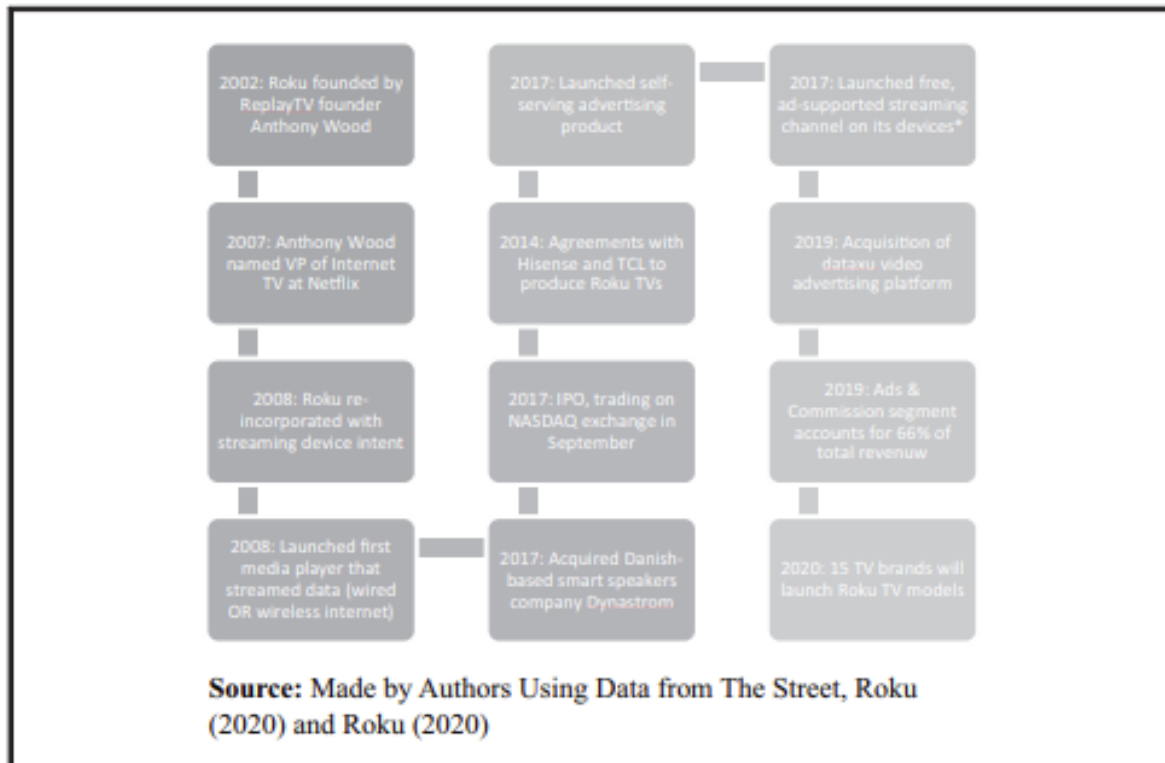


Exhibit 3. Roku's stock price (2018 – Q1 2019)

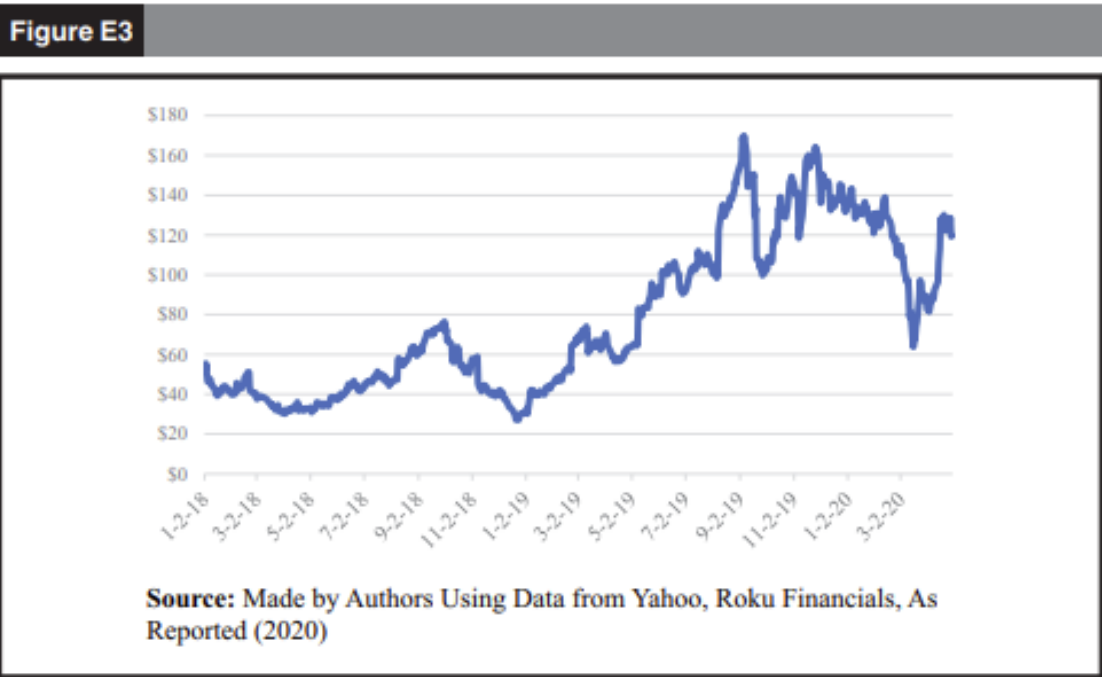


Exhibit 5. Revenue comparisons among key players in the streaming media devices industry in 2019

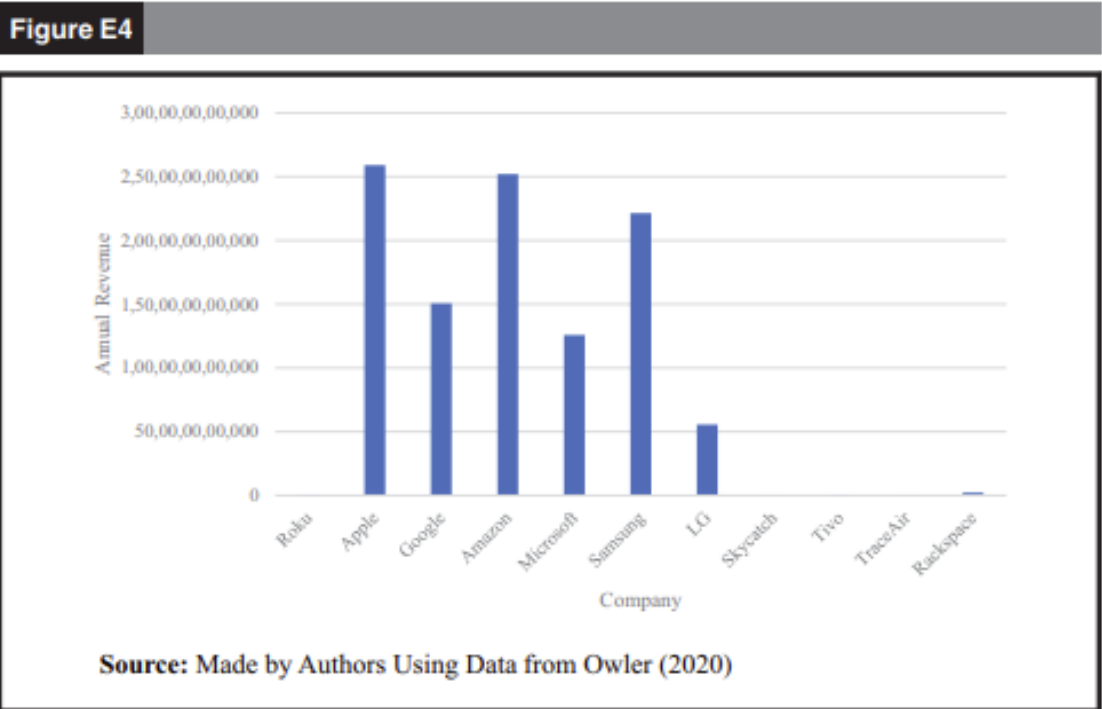


Exhibit 4. Roku's financial statements (2016 – 2019)

Table E1 Roku's balance sheet

Report date Currency US\$ Scale	12/31/2019		12/31/2018		12/31/2017	
	Thousands	% of TA	Thousands	% of TA	Thousands	% of TA
Cash and cash equivalents	\$515,479	35.06	\$155,564	33.45	\$177,250	47.66
Short-term investments	–	–	\$42,146	9.06	–	–
Restricted cash	\$1,854	0.13	–	–	–	–
Accounts receivable, gross	\$360,194	24.50	\$204,975	44.08	\$138,292	37.19
Allowances	\$27,521	1.87	\$21,897	4.71	\$17,739	4.77
Accounts receivable, net	\$332,673	22.63	\$183,078	39.37	\$120,553	32.42
Receivable from related parties	–	–	–	–	–	–
Inventories	\$49,714	3.38	\$35,585	7.65	\$32,740	8.80
Prepaid expenses and other current assets	\$25,943	1.76	\$15,374	3.31	\$11,367	3.06
Deferred cost of revenue	–	–	\$1,188	0.26	\$3,007	0.81
Total current assets	\$925,663	62.96	\$432,935	93.10	\$344,917	92.75
Computers and equipment	\$23,834	1.62	\$16,056	3.45	\$11,631	3.13
Leasehold improvements	\$93,239	6.34	\$18,396	3.96	\$8,437	2.27
Website and internal-use software	\$6,510	0.44	\$6,423	1.38	\$5,461	1.47
Office equipment and furniture	\$12,091	0.82	\$4,069	0.88	\$1,987	0.53
Total property and equipment	\$135,674	9.23	\$44,944	9.67	\$27,516	7.40
Accumulated depreciation and amortization	\$32,412	2.20	\$19,680	4.23	\$12,780	3.44
Property and equipment, net	\$103,262	7.02	\$25,264	5.43	–	–
Operating lease right-of-use assets	\$283,291	19.27	–	–	–	–
Property, plant and equipment, net	–	–	–	–	\$14,736	3.96
Deferred cost of revenue, noncurrent portion	–	–	–	–	\$5,403	1.45
Intangible assets, net	\$76,668	5.21	\$1,477	0.32	\$1,382	0.37
Goodwill, net	\$74,116	5.04	\$1,382	0.30	\$3,429	0.92
Other non-current assets	\$7,234	0.49	\$3,939	0.85	\$2,030	0.55
Total assets	\$1,470,234	100.00	\$464,997	100.00	\$371,897	100.00
Accounts payable	\$115,227	7.84	\$56,576	12.17	\$56,413	15.17
Accrued royalty expense	\$18,040	1.23	\$7,939	1.71	\$17,165	4.62
Accrued inventory	\$2,892	0.20	\$6,008	1.29	\$2,382	0.64
Accrued payroll and related expenses	\$14,522	0.99	\$12,217	2.63	\$8,699	2.34
Accrued cost of revenue	\$58,149	3.96	\$22,830	4.91	\$12,210	3.28
Accrued payments to content publishers	\$57,376	3.90	\$32,463	6.98	\$24,037	6.46
Operating lease liability, current	\$17,896	1.22	–	–	–	–
Taxes and related liabilities	\$3,052	0.21	\$1,314	0.28	–	–
Customer prepayments	\$2,669	0.18	\$3,124	0.67	–	–
Marketing and advertising expenses	–	–	–	–	–	–
Marketing, retail and merchandising costs	\$7,624	0.52	–	–	–	–
Accrued legal expenses	\$3,158	0.21	–	–	–	–
Sales tax payable and related liabilities	–	–	–	–	\$751	0.20
Other accrued expenses	\$12,969	0.88	\$6,091	1.31	\$7,100	1.91
Accrued liabilities	\$198,347	13.49	\$91,986	19.78	\$72,344	19.45
Current portion of long-term debt	\$4,866	0.33	–	–	–	–
Deferred revenue, current portion	\$39,861	2.71	\$45,442	9.77	\$34,501	9.28
Total current liabilities	\$358,301	24.37	\$194,004	41.72	\$163,258	43.90
Long-term debt, non-current portion	\$94,742	6.44	–	–	–	–
Preferred stock warrant liability	–	–	–	–	–	–
Deferred revenue, non-current portion	\$15,370	1.05	\$19,594	4.21	\$48,511	13.04
Operating lease liability, non-current	\$301,694	20.52	–	–	–	–
Other long-term liabilities	\$1,701	0.12	\$6,748	1.45	\$7,849	2.11
Total liabilities	\$771,808	52.50	\$220,346	47.39	\$219,618	59.05
Convertible preferred stock	–	–	–	–	–	–
Common stock	\$12	0.00	\$11	0.00	\$10	0.00
Additional paid-in capital	\$1,012,218	68.85	\$498,553	107.22	\$435,607	117.13
Accumulated other comprehensive income (loss)	\$29	0.00	–\$17	0.00	–	–
Retained earnings (accumulated deficit)	–\$313,833	–21.35	–\$253,896	–54.60	–\$283,338	–76.19
Total stockholders' (deficit) equity	\$698,426	47.50	\$244,651	52.61	\$152,279	40.95

Source: Made by Authors Using Data from 2017 to 2019 Roku Shareholder Letters (Roku, 2021a; 2021b)

Table E2 Roku's income statement

Report date Currency US\$ Scale	12/31/2019		12/31/2018		12/31/2017	
	Thousands	% of Rev	Thousands	% of Rev	Thousands	% of Rev
Revenue – player	\$388,145	34.38	\$325,643	43.86	\$287,407	56.05
Revenues – platform	\$740,776	65.62	\$416,863	56.14	\$225,356	43.95
Total net revenue	\$1,128,921	100.00	\$742,506	100.00	\$512,763	100.00
Cost of revenue – player	\$371,042	32.87	\$289,815	39.03	\$258,104	50.34
Cost of revenue – platform	\$262,655	23.27	\$120,543	16.23	\$54,826	10.69
Total cost of revenue	\$633,697	56.13	\$410,358	55.27	\$312,930	61.03
Gross profit – player	\$17,103	1.51	\$35,828	4.83	\$29,303	5.71
Gross profit – platform	\$478,121	42.35	\$296,320	39.91	\$170,530	33.26
Total gross profit	\$495,224	43.87	\$332,148	44.73	\$199,833	38.97
Research and development	\$265,011	23.47	\$170,692	22.99	\$107,945	21.05
Sales and marketing	\$178,855	15.84	\$102,780	13.84	\$64,069	12.49
General and administrative expenses	\$116,417	10.31	\$71,972	9.69	\$47,435	9.25
Total operating expenses	\$560,283	49.63	\$345,444	46.52	\$219,449	42.80
Income (loss) from operations	–\$65,059	–5.76	–\$13,296	–1.79	–\$19,616	–3.83
Interest expense	\$2,366	0.21	\$346	0.05	\$1,612	0.31
Gain (loss) on extinguishment of debt	–	–	–	–	–\$2,338	–0.46
Change in fair value of preferred stock warrant liability	–	–	–	–	–\$40,333	–7.87
Other income (expense), net	\$6,506	0.58	\$4,309	0.58	\$705	0.14
Total other income (expense), net	\$4,140	0.37	\$3,963	0.53	–\$43,578	–8.50
Income before income taxes – United States	–\$63,453	–5.62	–\$11,128	–1.50	–\$63,831	–12.45
Income before income taxes – foreign	\$2,534	0.22	\$1,795	0.24	\$637	0.12
Income (loss) before income taxes	–\$60,919	–5.40	–\$9,333	–1.26	–\$63,194	–12.32
Current federal income tax expense (benefit)	–\$47	0.00	–	–	–	–
Current state income tax expense (benefit)	\$244	0.02	\$114	0.02	\$89	0.02
Current foreign income tax expense (benefit)	\$108	0.01	\$184	0.02	\$674	0.13
Total current income tax expense (benefit)	\$305	0.03	\$298	0.04	\$763	0.15
Deferred foreign income tax expense (benefit)	–\$1,287	–0.11	–\$774	–0.10	–\$448	–0.09
Deferred income taxes	–	–	–\$774	–0.10	–\$448	–0.09
Income tax expense (benefit)	–\$982	–0.09	–\$476	–0.06	\$315	0.06
Net income (loss)	–\$59,937	–5.31	–\$8,857	–1.19	–\$63,509	–12.39
Net income (loss) attributable to common stockholders	–\$59,937	–5.31	–\$8,857	–1.19	–\$63,509	–12.39
Weighted average shares outstanding – basic	\$115,218	10.21	\$104,618	14.09	\$28,308	5.52
Weighted average shares outstanding – diluted	\$115,218	10.21	\$104,618	14.09	\$28,308	5.52
Year-end shares outstanding	119,897	10.62	109,770	14.78	99,157	19.34
Net income (loss) per share – basic	–\$1	0.00	\$0	0.00	–\$2	0.00
Net income (loss) per share – diluted	–\$1	0.00	\$0	0.00	–\$2	0.00
Number of full-time employees	1650		1111		817	
Number of class A common stockholders	68		48		4	
Number of class B common stockholders	30		48		225	
Foreign currency translation adjustments	29		–		–	

Source: Made by Authors Using Data from 2017 to 2019 Roku Shareholder Letters [Roku \(2021a, 2021b\)](#)

Table E3 Roku's ratios

<i>Profitability ratios</i>	<i>12/31/2019</i>	<i>12/31/2018</i>	<i>12/31/2017</i>
ROA % (Net)	-6.19	-2.12	-23.05
ROE % (Net)	-12.71	-4.46	-74
ROI % (Operating)	-12.48	-6.7	-21.02
EBITDA margin %	-4.05	-0.16	-11
Calculated tax rate %	EBT<0	EBT<0	EBT<0
Revenue per employee	\$684,195	\$668,322	\$627,617
<i>Liquidity ratios</i>	<i>12/31/2019</i>	<i>12/31/2018</i>	<i>12/31/2017</i>
Quick ratio	2.35	1.96	1.78
Current ratio	2.58	2.23	2.11
Net current assets % TA	38.59	51.38	48.85
<i>Debt management</i>	<i>12/31/2019</i>	<i>12/31/2016</i>	<i>12/26/2015</i>
LT debt to equity	0.14	-	0.28
Total debt to equity	0.14	0.77	0.28
<i>Asset management</i>	<i>12/31/2019</i>	<i>12/31/2018</i>	<i>12/31/2017</i>
Total asset turnover	1.17	1.77	1.86
Receivables turnover	4.38	4.89	5.13
Inventory turnover	14.86	12.01	8.2
Accounts payable turnover	13.14	13.14	11.68
Accrued expenses turnover	8.29	9.04	8.65
Property plant and equip turnover	17.57	37.13	42.27
Cash and equivalents turnover	3.36	4.46	4.84
<i>Per share</i>	<i>12/31/2019</i>	<i>12/31/2018</i>	<i>12/31/2017</i>
Cash flow per share	0.12	0.13	1.32
Book value per share	5.83	2.23	1.54

Source: Made by Authors Using Data from 2017 to 2019 Roku Shareholder Letters [Roku \(2021a, 2021b\)](#)

Exhibit 6. Vertical integration comparison of major companies within streaming media device industry

Figure E5

	Roku	Amazon	Apple	Google	Disney+	Hulu*	Netflix
Content Creation		X	X	X	X		X
Content Production		X	X	X	X		X
Content Aggregation		X	X	X	X	X	X
Content Distribution	X	X	X	X	X	X	X
Streaming Devices	Roku Stick Roku TV	Firestick Amazon TV	Apple TV	Chromecast			

*Disney's acquisition of 21st Century Fox gave it majority control (60%) of Hulu in 2019; Comcast has agreed to a deal to sell its shares over the next five years.

Vertical Integration Key

Content Creation: The creative process of writing and building stories, characters, and settings seen in streaming content (e.g., Jack Sparrow)

Content Production: The production of content creation in the form of end-user media seen on streaming platforms (e.g., Schitt's Creek)

Content Aggregation: The platform the houses (aggregates) the streaming content (e.g., Disney+)

Content Distribution: The *software* that provides access to the streaming platforms (e.g., Amazon Firestick homepage)

Streaming Devices: The *physical devices* that allow end-users to access the streaming platform software (e.g., Roku TV)

Source: Made by authors

Exhibit 7. Detailed vertical integration comparison within streaming media device industry

Figure E6

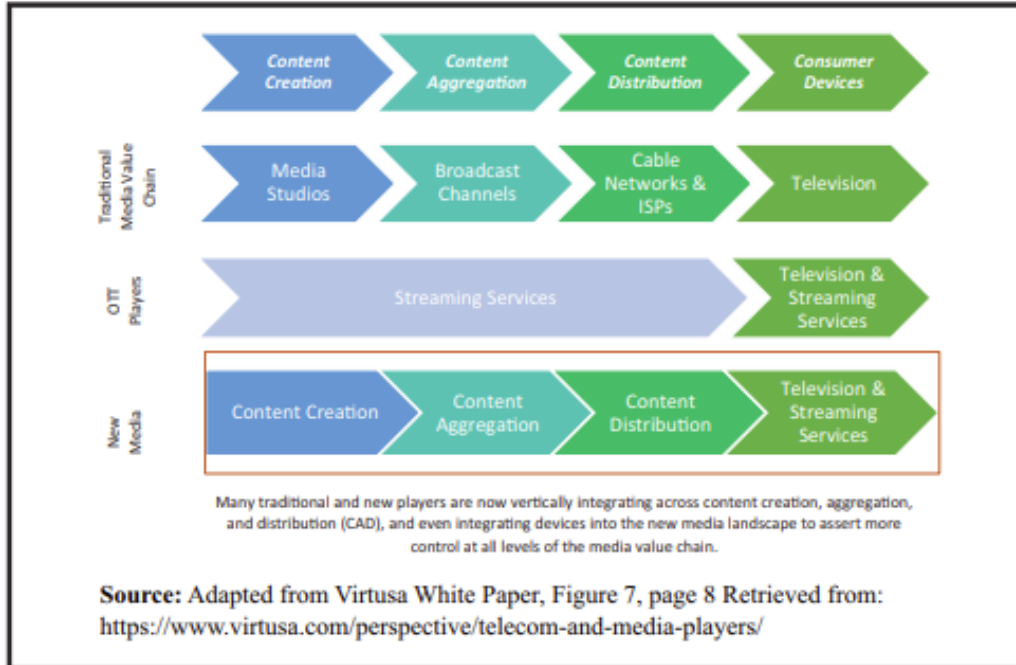


Exhibit 8. Share of streaming media players in US by Company 2015–2019

Figure E7

