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TECHNOLOGY

Twitch: Amazon's most underappreciated asset?



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Twitch has emerged as the sleeper hit of Amazon's media properties, revered by some as the company's most vibrant media platform yet often overlooked, unfairly dismissed as being just video game content. The reality is that Twitch already commands large, dedicated audiences of 15 million users daily. In comparison, BBC iPlayer, one of the most beloved online video services from a traditional broadcaster, averages fewer visits per week. Twitch also generates live audiences at the same level that the English Premier League achieves on traditional TV in its home market.

To some, Twitch may not possess the same widespread name recognition as Amazon's other properties, such as Prime—the online giant's paid subscription service giving users access to free two-day delivery as well as streaming video and music; or Amazon Web Services (AWS)—the behemoth on-demand cloud computing platform and current market leader in its field.

But Twitch commands an extensive and loyal fan base, one that has continued to grow since 2011 when it was first introduced as a game-focused streaming platform. And with the recent news that Amazon renewed its deal to broadcast NFL games live to a global audience—reportedly beating out YouTube and Twitter—the platform is gaining new clout and authority.

A spin-off of the general-interest streaming platform Justin.tv, Twitch had become the most popular esports streaming service in the United States by 2013. A year afterward in early 2014, Twitch could lay claim to being the fourth-largest source of US internet traffic during peak hours, behind only Netflix, Google, and Apple. Later that same year, Twitch was acquired by Amazon for close to \$1 billion, becoming a wholly owned subsidiary of Amazon in the process.

Today, content on Twitch includes online video games, esports tournaments, the personal streams of video players, and gaming-related talk shows. Twitch also offers non-gaming content, including music streams, a category showcasing the creative or artistic process, and a real-time channel letting users stream video on just about anything they wish to share under Twitch's terms of use for permissible content.

And yet despite impressive numbers, IHS Markit believes Twitch's significant potential is often underappreciated when placed in the context of Amazon's broader strategy. The disruptive potential and key advantages that Twitch offers lie in at least four sectors of interest, described in greater detail below. These four sectors are content, monetization, technology, and community/first-mover advantage in Live.

Sector 1: Content

Even though Twitch is generally regarded as a games video service, its audience has shown an easy willingness to go beyond the platform's core games offering. Also proving popular on Twitch are its music library; and IRL (in real life) channels, which let streamers share their life and chat directly with the audience. Twitch fans likewise binge-watch marathon streams of classic TV shows, such as the 1960s children's program "Mister Rogers' Neighborhood"; "Bob Ross," the artist behind the long-running PBS show "The Joy of Painting," the 1990s cultural phenomenon, "Mighty Morphin Power Rangers," and "Saturday Night Live." In this sense, Twitch should be thought of more as an ad-supported live and linear streaming service of Amazon, not simply as a games content video service.

Twitch has also just gained added luster and prominence after Amazon recently renewed its deal for digital streaming rights for "Thursday Night Football" with the National Football League (NFL), to be broadcast by Fox in the 2018-19 season. While the live action will be made available through Prime, the package stipulates that the NFL and Amazon will collaborate on "additional NFL content and enhanced viewing experiences" that will include making the games available on Twitch's interactive

social video service.” This means that Twitch users will be able to watch NFL games live, putting some of the most sought-after premium content on American TV onto the service—a clear sign that Twitch has moved well beyond its gaming roots.

Just as important to Twitch snagging the NFL games is that the large audiences Twitch commands today were built on content that is free to acquire. In comparison, content where rights must be paid for—e.g., traditional TV content and major esports events—is in the distinct minority. Like YouTube before it, Twitch is growing its audiences without significant content-acquisition costs. And when Twitch does show more premium content, the service is well placed to monetize it.

Sector 2: Monetization

Twitch monetizes its services today primarily through paid channel subscriptions, advertising, and fiat currency “Bits” that Amazon describes as a “virtual good.” Even so, lots of potential remain for Twitch to grow revenue, especially as the service and its stars get savvier at incentivizing subscriptions. Revenue could also increase as more goods are offered for Bits, and as programmatic video advertising becomes more wide spread internationally. Hard to reach through conventional means, the Twitch audience is particularly desirable to advertisers.

On the advertising front, Twitch is perfectly placed to benefit from Amazon’s ability to unite video advertising with purchase behavior, putting Twitch—and other Amazon properties—in a unique position among major competitors in the Western world. Amazon has been laying the groundwork in place to capitalize on this opportunity by integrating Twitch into its Prime subscription service. Users are incentivized to join their Twitch and Prime accounts with an evolving mix of benefits, including one free channel subscription and a range of promotional content, such as free games and in-game items.

On the pay side, Twitch enjoys a major differentiator from other sites: Its users have demonstrated a willingness to pay in a way that YouTube and Facebook audiences have not. Sources of revenue include subscriptions to individual channels as well as the purchase of Bits. While Twitch currently makes use of Bits to let its audience buy so-called “cheers” to celebrate or support a streamer, plenty of potential also exists for Twitch players to use Bits to buy other content on the site.

Going forward, Twitch stands to benefit from its unique role in the gaming space, as it will be able to feed intelligence back to publishers on what’s working in games and what isn’t. Such feedback becomes a key part of the marketing of video games, a position that Twitch can additionally monetize.

Sector 3: Technology

Twitch has a proven track record of delivering very large volumes of low-latency, high-concurrency live video online at levels almost without peer in the Western world.

The trick to understanding this is not to compare peak twitch event viewing to, say, watching the Super Bowl online. Instead, what should be considered is either the total audience on Twitch at any one point in time or the total volume of content being viewed.

For context, the online audience of the 2018 Super Bowl peaked at 3.1 million viewers. In comparison, Twitch’s most watched e-sport event of 2018 had more than 1 million concurrent viewers—including the international audience—a level of scale that very few other services can deliver.

Sector 4: Community/first-mover advantage in Live

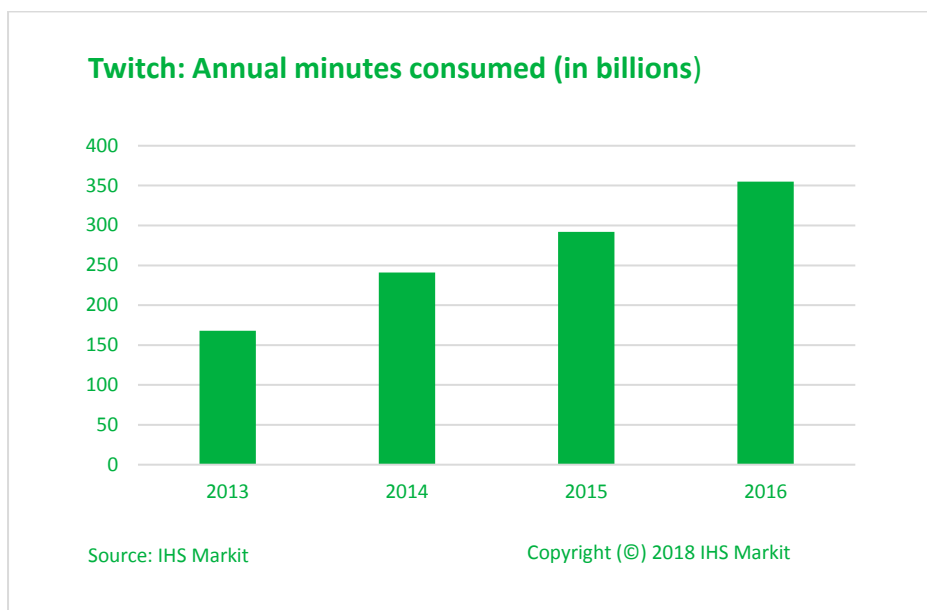
If Twitch can sustain its community of avid players, enthusiastic advocates, and growing user base, it will enjoy substantial first-mover advantage in its initiatives, being the live-game-streaming platform of choice and the dominant actor in the market.

The talent on the service, in turn, is kept alive and growing by a current business model that takes full advantage of both a devoted community and a financial engagement model that derives revenue from ads and the direct payment of Twitch subscribers.

Twitch is also able to capitalize on its built-in live chat functionality on all the videos offered by the platform—even on the marathons featuring classic TV shows—to further ensure engagement of its community. In contrast, other services often must build a new user interface to incorporate live chat or other similar functionality.

Challenges facing Twitch

Given Twitch's rapid growth and expansion for many years, the platform is starting to show signs of slowing growth in percentage terms—an expected phenomenon in any service that becomes larger. Last year, total minutes consumed grew by 21%, down from 43% in 2015. according to the company's own data.



And while the community has shown willingness to move beyond games, it's not clear how far Twitch users can be moved to support the generalist platform toward which Twitch seems to be headed, away from the gaming focus of its roots, toward non-gaming content. Specialist communities can struggle to become mass-market entities as they walk a fine line, which must avoid diluting community idioms and potentially alienate core audiences. Yet if those same conventions remain in full force, they can likewise become alienating, discouraging new users from joining.

Also under way is a concerted effort from some of Twitch's rivals, including YouTube, Facebook, and Twitter, to move into live streaming—and esports in particular—which could potentially deal a blow to Twitch and diminish a major differentiator for the platform.

Finally, despite Twitch's dominance in Western markets, it is less well established in Asian markets, in part because of strong local competitors. While regulation restricting online-video services will likely keep China out of reach for the foreseeable future, other Asian markets could present an opportunity for Twitch to continue growing, especially if it can begin to displace local services.

Nevertheless, Twitch remains in an enviable position, leading the charge into live video with growing consumption from an audience that has demonstrated its willingness to move beyond video games, and possessing a set of monetization options that some of its competitors can only look at with envy.

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