

Analyzing the Reasons for Prime Video's Better Performance

Jiakun Li^{1,a,*}

¹*DeGroote School of Business, McMaster University, Hamilton, Ontario, L8S 4M4, Canada*

a. li591@mcmaster.ca

**corresponding author*

Abstract: In 2021, Amazon successfully finalized its significant acquisition of Metro-Goldwyn-Mayer (MGM). This development strengthened Prime Video's position in the fiercely competitive sector of streaming video-on-demand (SVOD). This study aimed to investigate the factors that contributed to Prime Video's improved performance following its acquisition of MGM. The investigation determined that Prime Video effectively enhanced its market performance through the implementation of advertising services, regular updates to its original content library, and a vigorous expansion of its market reach. This paper provides concrete recommendations based on the future trajectory of the industry. Firstly, it suggests enhancing the cost-effectiveness of services to appeal to a wider range of users. Secondly, it recommends continuing to invest in original content and regular updates to maintain user engagement. Lastly, it proposes bolstering the development of the brand ecosystem by integrating multiple services within Amazon, thereby enhancing the user experience and fostering brand loyalty. This research not only addresses the existing scholarly deficiency but also serves as a valuable resource for guiding the future progress of other firms.

Keywords: Amazon Prime Video, Prime Video Ad Tier, Original Content, Develop New Market

1. Introduction

With the widespread use of social media and the advent of the internet age, more and more people have shifted their entertainment time from offline to online platforms. In this digital age, watching various long and short videos has become a popular form of entertainment, and using various video platforms has become an indispensable part of people's lives. From another perspective, more and more companies have started to develop their streaming video platforms to get a slice of the traffic market. In recent years, plenty of companies entering the market have led to the booming development of the streaming video industry. Even Amazon, a commercial platform known for online shopping, has entered the online video market. It launched a subscription video-on-demand service named Amazon Prime Video in 2016. From 2016 to 2017, the number of Amazon Prime subscribers in the United States soared from 65 million to 99.7 million, representing a remarkable increase of 34.7 million [1]. This surge marks the fastest growth in Amazon's history. On May 26, 2021, Amazon announced the acquisition of Metro-Goldwyn-Mayer (MGM) to enter the streaming video market further. Following the completion of the acquisition on March 7, 2022, the number of Amazon Prime subscriptions in the United States surged to 161.7 million [1].

Amazon Prime Video attracts attention not only in the real world but also from a number of academic experts. Lothar Mikos' research examines the influence of media digitalization on the future of television through an analysis of Amazon Prime Video [2]. Furthermore, there are essays that scrutinize the factors contributing to Amazon Prime Video's success by comparing it to other streaming video services [2]. Song Minzheong conducts a comparative analysis of Amazon Prime Video and other streaming video services, examining five key elements of innovation success to understand the reasons behind their success in 2021 [3]. Furthermore, there are dissertations that examine Amazon's strategic diversification and growth potential following the acquisition of MGM. In their article, Dr. Wadeu and his colleagues examine the strategic implications of Amazon's acquisition of MGM for the sake of diversification and expansion [4].

While there have been a lot of papers on Amazon Prime Video, previous analyses have yet to investigate the impact of Amazon's acquisitions on its current success elements. This paper aims to fill this gap by exploring the reasons behind Prime Video's success and analyzing whether MGM's acquisition has an impact on it. By analyzing this topic, industry practitioners and investors can gain deeper insights into Amazon's strategic and competitive advantages in the streaming video industry, while also comprehending the industry's trends. At the same time, it also provides a reference for other companies to formulate strategies to promote the development of related industries. In addition, the paper provides a critical case for the academic area to promote in-depth exploration of the video streaming industry and enterprise strategy, as well as theoretical support for the industry's further development.

To answer the aforementioned queries, the paper will provide a concise introduction to the fundamental information regarding Amazon Prime Video and pertinent details concerning the MGM acquisition case. Subsequently, the study will examine the variables contributing to the triumph of Prime Video, specifically focusing on the acquisition of MGM. Furthermore, it will discuss how these methods influence the key elements that have contributed to its success. Based on the study results, the article will offer practical recommendations for Prime Video's future strategic development.

2. Case Description

With its headquarters in the US, Amazon is a multinational technology company that specializes in e-commerce, cloud computing, digital streaming, and other services. It has already become one of the five major technology giants in the United States. Amazon Prime Video is one of the platforms under Amazon that offers customers subscription-based video-on-demand over-the-top streaming services. Prime Video offers content such as Spider-Man: No Way Home, Rings of Power, the National Women's Soccer League live streams, and so on. Amazon Prime Video membership is part of the Amazon Prime membership, which means that if customers buy an Amazon Prime membership, they can enjoy free shipping of goods, unlimited Prime video viewing, and other services. Users can subscribe to Prime Video separately rather than buying an entire Amazon Prime membership. To solidify its position in the market and enhance its competitiveness, Amazon announced that it would acquire MGM for \$8.45 billion on May 26, 2021, and complete the acquisition on March 7, 2022. There have been some noticeable changes since the acquisition.

According to Table 1, the market share of selected subscription video-on-demand (SVOD) services for Amazon Prime Video in the United States is 21 percent [5]. Amazon Prime Video has surpassed Netflix to become the largest online video-on-demand platform in the SVOD market share.

Table 1: SVOD Market Share In 2nd Quarter, 2023 [5].

Service	Market Share
Amazon Prime Video	21%
Netflix	20%
HBO Max	15%
Disney+	13%
Hulu	11%
Paramount+	7%
Apple TV+	6%
Other	7%

(Data source: <https://www.statista.com/statistics/496011/usa-svod-to-tv-streaming-usage/>)

According to Table 2, in 2023, Amazon Prime users' growth rate is 8 percent. Although this growth rate decreased from 33 percent in 2021 to 25 percent in 2020, it represents a slight improvement compared to 6.5 percent in 2022 [6].

Table 2: The Growth Rate of Amazon Prime Member From 2020 to 2023 [6].

Year	The Growth Rate of Amazon Prime Members
2023	8%
2022	6.5%
2021	33%
2020	25%

(Data source: <https://www.businessofapps.com/data/amazon-statistics/>)

In Table 3, the number of Amazon Prime subscribers grew after the acquisition. In 2023, there were 230 million Amazon Prime members, compared to 213 million in 2022, representing an increase of 17 million Prime members [6].

Table 3: Amazon Prime Annual Subscribers 2016 to 2023 (mm) [6].

Year	Subscribers(mm)
2016	46
2017	66
2018	100
2019	120
2020	150
2021	200
2022	213
2023	230

(Data source: <https://www.businessofapps.com/data/amazon-statistics/>)

Furthermore, in Table 4, from 2016 to 2023, Amazon Prime Video users also maintained an increasing trend. According to Table 4, the number of new customers from 2022 to 2023 is still increasing. 20 million new users were added, from 190 million in 2022 to 210 million in 2023 [6].

Table 4: Amazon Prime Video Users 2019 to 2023 (mm) [6].

Year	Users(mm)
2019	90
2020	125
2021	175
2022	190
2023	210

(Data source: <https://www.businessofapps.com/data/amazon-statistics/>)

3. Analysis

3.1. Reasons for The Introduce Prime Video Ad Tier

After acquiring MGM, Amazon began implementing the Prime Video Ad Tier in January 2024. Additional advertising fees paid by customers and AD space fees paid by advertisers have increased Prime Video's revenue and driven growth in Amazon's AD services business, which can subsidize the cost of acquiring premium content like MGM's library. To cancel the ads, customers who do not want to see them will have to pay an extra \$2.99 on top of the subscription. Since Amazon has its e-commerce platform, they have its consumer database. Delivering ads more effectively to its target market enhances Prime Video's appeal as an advertising destination. According to TD Cowen's analysis, 70 percent of advertisers in their sample showed interest in running ads on Prime Video [7]. In addition, Prime Video has nearly 200 million subscribers [7]. At the same time, the AD service business is becoming increasingly critical for Amazon. With the help of Prime Video Ad Tier, Amazon's AD service revenue reached \$14.65 billion with an annual growth rate of 26 percent in the fourth quarter; it is almost 14 percent of the company's total sales, compared to about 12.4 percent in 2023 [7].

Several papers also highlight the correlation between advertising and online platforms. Campos and Pedro Filipe Reis found in their research study that the implementation of an ad-supported program would result in a 73 percent rise in streaming subscriptions within the sample [8]. Some articles discuss the need to adapt the format of digital advertising in order to appeal to the upcoming young market [9]. Alison Munsch highlights the significance of Millennials and Generation Z in the industry. According to his findings, incorporating music, humor, and social media influencers into short digital advertising can effectively target both age groups [9]. Amazon advertising may possibly become a future trend.

3.2. Reasons For Keep Expand Original Content Library

After the acquisition of MGM, Amazon has improved its video content. Amazon has expanded its library of original content. Prime Video has added more than 4,000 movies and more than 17,000 TV shows, including classic videos such as the Rocky series and The Silence of the Lambs, since the acquisition of MGM [5]. Although Prime Video chose to distribute these original titles shortly after their release, the launch of more original titles also attracted some new users. Meanwhile, Prime Video continues adding to its library of original content, which is only available on Prime Video, including live sports and other TV shows and movies. This high-quality original content helps them increase the number of views. For example, in 2023, Prime Video's original content, Clancy's Jack Ryan, will have 12.8 billion minutes viewed [1]. Constantly updating and expanding original content plays a crucial role in retaining users. According to the analysis, 27 percent of users said the reason they continue to use the platform is the exclusive release of a new movie or TV series they want to

see, and 23 percent said being able to see a new movie in theaters at the same time is the reason they continue to subscribe [1].

Some academic articles confirm the usefulness of original content for video platforms. For instance, Erica and Karine confirm through regression that a weak positive correlation exists between the release of original content and user growth [10]. It demonstrates that the quality of new content also has an impact [10]. Another paper by Adelaida et al. shows that the continued update of original content could help Netflix stabilize its position in the European market and make linear television networks a competitor to Netflix [11]. Wayne also mentioned why Netflix's original content performed well in different countries [12]. These articles show the positive relationship between original content and streaming video platforms.

3.3. Reasons to Develop New Markets

Amazon's acquisition of MGM marks Amazon's strategic expansion into the subscription video-on-demand (SVOD) market, a move that dramatically enhances Amazon Prime Video's competitive advantage. MGM provides Prime Video with classic content and a professional video creation team, attracting more users. Unlike Netflix and Disney+, which focus on streaming platforms or film and television creation, Amazon is a multi-business company whose primary business is e-commerce. MGM's business fills Amazon's void. By acquiring MGM, Prime Video reduces its competitors and increases its competitiveness in this near-saturated SVOD market by having its own team of professionals. Amazon can generate revenue by increasing its position in the SVOD market, whether directly or indirectly. For example, users of Amazon's Prime video and music streaming platforms account for a third of customers who buy products from the app's wish list [13].

Wang's analysis supports this strategy, positing a correlation between market diversification and Amazon's profitability [13]. She points to Amazon's acquisition of Whole Foods as an example [13]. Amazon entered the grocery market by acquiring Whole Foods and combining Prime membership with delivery services to improve its competitiveness and attract more consumers, thereby increasing revenue. For example, Prime members get special discounts on Whole Foods items and free shipping [13]. Market diversification can help Amazon improve its stability and performance. Lee and others examine the difference between market-diversified and undiversified hotel companies in terms of financial performance and stability [14]. The analysis shows that market diversification can increase the stability of financial performance [14].

4. Suggestion

4.1. Suggestion of Improve Cost Performance

Kantar's analysis of Entertainment on Demand (EoD) data and insight into the US streaming market reveals that nearly 123 million US households subscribe to at least one streaming service, suggesting a nearly saturated market in the US [5]. Furthermore, compared with the past, customers consider money's value more when they subscribe to a streaming video platform. The pricing of the advertisement caused backlash from some users, who felt it was unfair to pay more for a service that used to be free. Prime Video could consider adding additional services for ad-free members in the future to improve its cost performance. For example, they could give members extra coupons for Amazon shopping or music platforms.

Spotify provides a good example. The members of Spotify can not only listen to anything in the application without advertisements but also download and play music in the order specified by the user. These are things that the free version cannot do. That is why Spotify's paid version feels like such good value. This change can help Prime Video attract more attention from cost-effective customers and increase revenue simultaneously.

4.2. Suggestion of Add Original Content

The projected revenue in the SVOD market is US\$108.50 billion in 2024 [5]. The SVOD market is expected to grow significantly, with a market volume of US\$137.70 billion by 2027 [5]. This means competition among providers such as Prime Video, Netflix, Hulu, and Disney+ is intensifying. While Prime Video continues to expand its content library, competitors like Netflix, Hulu, and Disney+ are constantly updating their content, especially original content. This rapidly growing market requires innovative strategies to attract and retain audiences. For Prime Video, leveraging the acquisition of MGM's vast content library and creative team is an invaluable asset. By integrating MGM's franchises and creating new originals, Prime Video can offer a unique viewing experience that can differentiate its platform from other platforms. Collaborations and partnerships can further enhance its content and attract more customers. In addition, trying a spin-off of a hit show like "The Marvelous Mrs. Maisel" could be a strategic move to tap into an existing fan base and expand its content. Based on originality and strategic partnerships, the approach allows Prime Video to improve its competitiveness and strengthen its market position.

Currently, Netflix has the largest market share (207.6 million subscribers). However, compared with other platforms, Netflix does not have cheap subscription prices or the most extensive catalog. However, the quantity and quality of original content (790 original videos) makes it the industry leader [5]. It also forecasts that Disney+ will become the number-one streaming platform in 2027, with 274 million subscribers, due to its high-quality original content [5].

4.3. Suggestion of Brand Ecosystem

Due to intense rivalry in the business, there is a growing trend towards the diversification of streaming services. Amazon's extensive presence in other industries positions it as a dominant player, providing Prime Video with a distinct edge over competitors in the market. By incorporating Prime Video into its comprehensive range of services, Amazon can capitalize on the expansion of other services to promote the growth of Prime Video. Prime Video saw a surge in subscribers and viewership last year as a result of the discounted Prime Shipping. Henceforth, Amazon can increase Prime Video's expansion by continuously venturing into untapped markets and fortifying its brand environment.

Apple is a good example. Apple has expanded and improved its services by acquiring companies in different fields. For example, they have acquired music industry giants Beats Electronics, Turi, and Lattice Data in artificial intelligence and machine learning; augmented reality companies Akonia Holographics and Metaio; and medical technology company Glimpse. The acquisitions enhanced Siri and Apple Music and brought innovative health-related technology to the Apple Watch. Amazon could further deepen its influence in the technology industry by acquiring more IT and related businesses.

5. Conclusion

In recent years, with the increasing competition in the online video-on-demand service market, various streaming video platforms have taken measures to strengthen their market position. This paper takes Amazon's acquisition of MGM as an example, discusses the acquisition strategy, and analyzes the reasons for Prime Video's remarkable performance after the acquisition. The paper introduces Prime Video's service overview and the acquisition details. The article provides an in-depth analysis of Prime Video's introduction of an ad-layer service, its continued library of original content, and Amazon's expansion strategy across the market. The paper also makes specific strategy suggestions based on the market's future development trend. Additionally, the paper articulates the reasons behind Prime Video's performance edge, shedding light on strategic corporate decisions.

This study not only addresses the existing knowledge gap in the academic field but also serves as a valuable reference for organizations in connected industries to obtain a deeper understanding of future trends and formulate effective strategies. Furthermore, the article substantiates the wisdom of Amazon's acquisition of MGM. However, this report has many limitations, such as the failure to analyze the influence of MGM+ as an independent paid service on Prime Video's overall operations. Future research has the potential to provide a more thorough study and a deeper understanding of the streaming service ecosystem. This will ultimately contribute to a more complete discussion of strategic growth in the SVOD business.

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