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An Industrial Analysis of Twitch Prime: Colossal Steps Forward, Half-Steps Back

In 2014, live-streaming site Twitch was acquired by tech giant Amazon for \$970 million¹. Only 4 years later, in 2018, the site was evaluated at \$3.79 billion². Described by some as “Amazon’s best-kept secret,³” Twitch seems primed to continue its astronomical growth, as does its aptly-named subscription service, “Twitch Prime.” To understand the likely future of the company and its service, it’s crucial to first understand their context in the blossoming esports industry as well as the larger media entertainment industry. The market size, market growth potential, scope of competitive rivalry, number of companies in the industry, ease of entry/exit and industry profitability surrounding Twitch Prime all suggest the service will soon skyrocket in value; however, the customer behavior, technology/innovation product characteristics, and extent of vertical integration emerge with a select few reservations. Even still, two of the industry forces featured in the Porter’s Five Forces Model⁴, the Intensity of Industry Rivalry as well as the Threat of Potential Entrants, work in tandem to buttress Twitch Prime as a service prepared for complete industry dominance.

¹ Engerman, Jason A., and Robert J. Hein. “ESports Gaming and You.” *Educational Technology*, vol. 57, no. 2, 2017, pp. 62–64. *JSTOR*, www.jstor.org/stable/44430526. Accessed 22 Nov. 2020.

² Nawal, Anuj. “Twitch.tv Business Model: How Does Twitch Make Money?” *Feedough*, 5 Oct. 2018, www.feedough.com/twitch-tv-business-model-how-does-twitch-make-money/.

³ Fortney, Lucas. “How Amazon’s Twitch Platform Makes Money.” *Investopedia*, Investopedia, 28 Aug. 2020, www.investopedia.com/investing/how-does-twitch-amazons-video-game-streaming-platform-make-money/.

⁴ “Competitive Forces Model - Understand the Six Competitive Forces.” *Corporate Finance Institute*, 8 July 2020, corporatefinanceinstitute.com/resources/knowledge/strategy/competitive-forces-model/.

Before delving into an industrial analysis, it's paramount to note that when discussing Twitch and Twitch Prime, there are two industries at play: of course, there's the larger entertainment industry, which encapsulates the modern media streaming landscape in the form of competitors such as Netflix, Disney+, Hulu, and more; but there's also the increasingly-standout esports industry, rife with growth and evolution of its own. While the rise of streaming services across the entertainment industry is no secret, the esports industry— Twitch's primary realm of influence— is only just now fully emerging into the zeitgeist.

All metrics available demonstrate that the esports industry is booming in terms of visibility, marketability, and most importantly, profitability. The global esports audience (which includes occasional and frequent viewers along with participants) has gone from approximately 205 million people in 2014 to an audience of nearly 500 million in 2020⁵. Projections show that by 2022, esports viewership could surpass that of America's greatest pastime, baseball. By 2023, experts predict that over 15% of global internet users will watch esports at least once a month⁶. The increased audience has translated directly to revenue: research shows that global esports independent revenue (without the inclusion of sponsorships) will grow to \$1.1 billion by 2020's end, up from \$950 million in 2019⁷. Including room for sponsorships and accompanying ad revenue rackets these numbers up even higher.

With these developments in business, the national circumstances surrounding esports have changed as well. Legal scholar Drew S. Dean explains that "Competitive gaming has

⁵ "The Global Esports Audience Will Be Just Shy of 500 Million This Year." *Newzoo*, 30 Sept. 2020, [newzoo.com/insights/articles/newzoo-esports-sponsorship-alone-will-generate-revenues-of-more-than-600-million-this-year/](https://www.newzoo.com/insights/articles/newzoo-esports-sponsorship-alone-will-generate-revenues-of-more-than-600-million-this-year/).

⁶ Gough, Christina. "U.S. ESports Viewership Reach 2018." *Statista*, 26 Oct. 2020, www.statista.com/statistics/694321/esports-viewership-reach-united-states/.

⁷ "Newzoo Global Esports Market Report 2020: Light Version." *Newzoo*, 30 Sept. 2020, [newzoo.com/insights/trend-reports/newzoo-global-esports-market-report-2020-light-version/](https://www.newzoo.com/insights/trend-reports/newzoo-global-esports-market-report-2020-light-version/).

become so popular, and its star players so sought after, that the United States has begun to offer visas to competitive gamers as ‘internationally recognized athletes,’ the same special immigrant status awarded to athletes like David Beckham.⁸”

By all accounts, the esports market size is skyrocketing, with increasingly more and more room for growth potential. What’s more, before locating Twitch Prime’s relevance in the booming esports industry, it’s integral to acknowledge Twitch’s gargantuan industry foothold. In 2014, in the larger media industry, Twitch accounted for nearly 2% of all traffic in the US during peak hours, as well as 40% of all live-streamed internet content⁹. While this may seem impressive on its own, from 2014 to 2020, average viewership on Twitch more than sextupled¹⁰. By 2020’s end, there are expected to have been over a trillion minutes watched on Twitch, up 65% from 2019. Even further, Twitch’s dominance in the esports industry is pronounced to a T: in Q1 of 2020, 65% and 72% of all gaming content online was watched and streamed on Twitch, respectively¹¹. Other competitors, such as Youtube Gaming, Facebook Gaming, and Mixer, struggled to match any semblance of these numbers across the board.

When discussing rivals in the industry, it’s important to note that Amazon’s steep financial backing makes ease of entry difficult for new services and ease of exit heartbreaking. Earlier in 2020, would-be streaming rival Mixer suffered an embarrassing and public collapse. After only two years on the market, the organization folded in spectacular fashion, laying off creators, designers, and executives *en masse*. In their article “The Last Days of Mixer,” The

⁸ Dean, Drew S. “HITTING RESET: DEVISING A NEW VIDEO GAME COPYRIGHT REGIME.” *University of Pennsylvania Law Review*, vol. 164, no. 5, 2016, pp. 1239–1280., www.jstor.org/stable/24753539. Accessed 22 Nov. 2020.

⁹ Kim, Eugene. “Amazon Buys Twitch For \$970 Million In Cash.” *Business Insider*, Business Insider, 25 Aug. 2014, www.businessinsider.com/amazon-buys-twitch-2014-8.

¹⁰ “Twitch Statistics & Charts.” *TwitchTracker*, 2020, twitchtracker.com/statistics.

¹¹ May, Ethan. “Streamlabs & Stream Hatchet Q1 2020 Live Streaming Industry Report.” *Medium*, Streamlabs Blog, 9 May 2020, blog.streamlabs.com/streamlabs-stream-hatchet-q1-2020-live-streaming-industry-report-9630bc3e0e1e.

Washington Post detailed the cataclysmic fall of the platform in the wake of its purchase by Microsoft. One would think that Microsoft would be a substantive-enough backer to ensure at least a competitive edge in the streaming marketplace, but one former Mixer employee, Milan Lee, painted a different picture. “A lot of other people, they look at platforms like Twitch, and Twitch is massive ... so sometimes they feel like their voices aren’t heard and they’re just a grain of sand at the beach,” she said¹². Twitch’s already-established presence in the marketplace coupled with Amazon’s financial security make for a giant seemingly too huge to fall.

Statistics and insider testimonials paint Twitch as an unstoppable force, and for the most part, they’re correct. But this Herculean facade begins to fade when delving into the specific product offered by Twitch, Twitch Prime. Twitch Prime is a joint subscription service between Amazon and Twitch; if a viewer has a subscription to Amazon Prime, they can link their Twitch account to said subscription, enjoying the benefits for no additional cost. Without an Amazon Prime subscription, viewers can join Twitch Prime for \$4.99 as well as Twitch Turbo for \$8.99. Both of these subscriptions come with benefits such as reduced advertisements, smoother viewing, and aesthetic customization. However, when looking into these services a bit closer, a few details begin to unravel.

To begin, Amazon and Twitch have released very little information to the public regarding overall subscriptions, activity, and revenue accrued through the service. While this in and of itself is not a detriment to the average would-be subscriber, from an analytical lens, this detail is suspicious. Nearly all imaginable complimentary details of the base Twitch viewing experience are easily accessible online; what does it mean that Twitch Prime has been kept so tightly under wraps? Moreover, the benefits of the service are not immediately apparent.

¹² Klimentov, Mikhail. “The Last Days of Mixer.” *The Washington Post*, WP Company, 19 Aug. 2020, www.washingtonpost.com/video-games/2020/06/30/last-days-mixer/.

Mainstream streaming services such as Netflix, Hulu, and Disney+ have a model that only allows content to be consumed by subscribers. On Twitch, viewers without a Twitch Prime subscription can still access the live-streaming content of the site, reducing the impetus to purchase a subscription. Even esports competitors such as Youtube Gaming and Facebook Gaming have specific content that can only be viewed by those with subscriptions, but Twitch offers no exclusive content to subscribers. In contrast to these services, a Twitch Prime subscription seems unnecessary, offering only aesthetic bonuses and other superfluous privileges. One notable appeal of a Twitch Prime account is the ability for subscribers to “gift half of their monthly subscription cost to one of the website’s streamers” (Fortney 3). But while this is an encouraging subscription benefit, it alone seems too minute to attract a bevy of Twitch viewers to the service.

Also distressing for Twitch’s long-term growth is the customer behavior in the industry. Time and time again, it has been shown that audiences will follow streamers across streaming platforms, and nowhere was this more evident than in the case of Tyler “Ninja” Blevins. A repeated record-breaker, Ninja is perhaps most well-known for his feat of streaming to 667,000 live, concurrent viewers in a 2018 *Fortnite* Twitch stream¹³. Known by many as the “King of Twitch,” Ninja and the service seemed synonymous... Until they weren’t. Earlier this year, Ninja left Twitch in pursuit of more profitable streaming sites, first heading to Mixer before transitioning to Youtube Gaming. During his first Youtube Gaming stream, the 29-year-old drew 160,000 people to the site at once¹⁴, attracting mass attention to the up-and-coming service and contributing to the organization’s retention of 22% of the total hours watched in Q1 of the 2020

¹³ Hester, Blake. “Fortnite’ Streamer Ninja Breaks Concurrent Record (Again), Talks Being Famous.” *Variety*, Variety, 23 Apr. 2018, [variety.com/2018/gaming/news/ninja-fortnite-record-twitch-1202782141/](https://www.variety.com/2018/gaming/news/ninja-fortnite-record-twitch-1202782141/).

¹⁴ Browning, Kellen. “Ninja Played Fortnite on YouTube, and the Gaming World Lost Its Mind.” *The New York Times*, The New York Times, 8 July 2020, www.nytimes.com/2020/07/08/technology/ninja-fortnite-youtube.html?action=click.

esports streaming market (May 5). Later in the year, Ninja returned to Twitch in an undisclosed deal, and his enthusiastic following returned with him. But while Twitch retains its industry footing for now, the precedent has been set: customers are loyal to the streamer, not to the site. If sources like Youtube Gaming— which is now second to Twitch in terms of total hours watched— offer incentive packages to streamers that trump their current ties to Twitch, those streamers will leave and bring their audiences with them.

In theory, Twitch’s backer Amazon should have the financial backing to conquer innovation in the gaming field, but so far, this has proven to be another stopping point for the esports giant. To begin, Amazon rebranded the service from “Twitch Prime” to “Prime Gaming” in August of this year in an effort to increase their distribution¹⁵, but this move has not been well-received by fans. The switch was intended to make the gaming sphere more accessible to members of Amazon not familiar with Twitch, but it ended up alienating viewers on Twitch, who had grown used to the old title. As reported in Forbes, “Twitch Prime has been plugged so many times and so often by streamers (it’s a huge moneymaker for them) that it’s become a meme in the community (“Have you heard about our lord and savior Twitch Prime?”) and changing memes is not terribly easy” (Tassi 2). To this day, many streamers— and, by extension, their viewers— still refer to the product by its now-outdated name, “Twitch Prime.”

What’s more, the same article goes on to explain that the primary motivation for the bungled innovation seems to be “for something that has not happened yet: the arrival of Amazon’s game streaming service which will use AWS to stream games directly to devices like Google Stadia and Microsoft xCloud are doing now” (Tassi 3). When that next step arrives, the

¹⁵ Tassi, Paul. “Twitch Prime Changing To 'Prime Gaming' Is Likely For One Major Unspoken Reason.” *Forbes*, Forbes Magazine, 10 Aug. 2020, www.forbes.com/sites/paultassi/2020/08/10/twitch-prime-changing-to-prime-gaming-is-likely-for-one-major-unspoken-reason/?sh=da3b177680a9.

shift to Amazon-focused marketing may make more sense, but in an ironic twist, the project—nicknamed “Project Tempo—” has been delayed to 2021.

This bungled innovation also extends to the company’s attempts at vertical integration. Amazon pumped a huge amount of money into an original title, *Crucible*, that failed in almost every way. To begin, the game suffered major timing issues, eventually launching after years of malfunctions in May of this year “after several [additional] coronavirus-related delays¹⁶.” From there, the game was panned by players, returning to a state of closed beta multiplayer in July only two months after its launch¹⁷. The multiplayer was then closed down entirely in October. Amazon’s fumbled movement into the game development sphere doesn’t bode well for the company’s future in vertical integration, especially when considering the massive foothold AAA game-development studios already maintain in the industry.

Though Twitch Prime has stumbled over its fair share of complications, ultimately, Twitch’s industry positioning poises the product for fantastic future success. The Porter’s Five Forces Model specifically presents two Twitch-controlled forces which will be key to its success moving forward: Intensity of Industry Rivalry in addition to Threat of Potential Entrants.

Many factors have already been mentioned in terms of rivals in the industry, but now that a more thorough understanding of their complexities has been reached, they can be seen in a new light. With the shut-out of Mixer, Twitch faces only Youtube Gaming and Facebook Gaming as competitors in the esports live-streaming sphere. While Youtube Gaming and Facebook Gaming offer subscriptions based on access to content, the main draw of Twitch Prime is the benefits a

¹⁶ Schiesel, Seth. “Amazon Pushes Into Making Video Games, Not Just Streaming Their Play.” *The New York Times*, The New York Times, 2 Apr. 2020, www.nytimes.com/2020/04/02/technology/amazon-making-video-games.html.

¹⁷ Peters, Jay. “Amazon Has Canceled Crucible, Its Free-to-Play Multiplayer Shooter That Had Already Been Returned to Closed Beta.” *The Verge*, The Verge, 10 Oct. 2020, www.theverge.com/2020/10/9/21510190/amazon-crucible-canceled-game-studios-closed-beta.

subscription allows a viewer's favorite streamer. This product may seem unorthodox; however, when taking into account that customer loyalty belongs to streamers instead of platforms, the service makes a lot more sense. In this new context, it's clear that Twitch has devised a system that incentivizes streamers to remain on the platform in order to reap the benefits of their Twitch Prime subscribers, who will in turn remain on the platform because of the presence of said streamers. With the multitude of streaming services available in the larger entertainment industry, switching services from Twitch Prime to Youtube or Facebook Gaming is highly disincentivized due to inaccessible costs. The network effect of being on the most widely-used streaming service also clearly fosters a sense of inclusion seen in features such as record-breaking streams, news-worthy moments, and an ever-present Twitch Chat filled with fellow viewers. Though there is always room for the unexpected, at present, Twitch Prime faces decisively little pressure from its rivals in the industry.

Some of the factors behind the Threat of Potential Entrants follow the same reasoning. Despite its flubs, Twitch has maintained a specific network of brand loyalty among its following, with switching costs and network effects also contributing positive effects. One factor not-yet-discussed when talking about the possibility of new entrants to the fray is the high barrier to entry that live-streaming presents: data. Launching a live-streaming service requires servers capable of hosting, at their apex, millions upon millions of hours of live video on any given day. While megaton companies like Amazon, Google, and Facebook need not worry about the price of hosting information on the web, the technological requirements of live-streaming bar many potential competitors in the larger media industry from participation. Investing in the sheer scale of server equipment necessary for a live-streaming venture is a huge risk for any start-up or even any already-established media company, especially in the immediate aftermath of Mixer's

downfall. After seeing the barriers to exit faced by Microsoft among the company's collapse—including public derogatory testimony by former employees—potential entrants will be more than dissuaded from throwing their hats in the ring.

Saying that Twitch Prime will catapult the esports world into unfathomable success would be a bit misguided. On the one hand, the esports world seems to be doing just fine on its own. On the other, no service is too sure to fail, and Twitch Prime is no exception. Suffering from deficits in customer behavior, technology/innovation product characteristics, and extent of vertical integration, the service has a ways to go before becoming “the next best thing.” At the same time, the service's forward momentum is undeniable. Bolstered by its market size, market growth potential, scope of competitive rivalry, number of companies in the industry, ease of entry/exit and industry profitability, much more propels Twitch Prime forward than not, especially when taking into account two of the industry forces featured in the Porter's Five Forces Model, the Intensity of Industry Rivalry as well as the Threat of Potential Entrants. While it's not a surefire industry-evolver, when taking in the grand scope of Twitch Prime, it's safe to say that the service will continue to achieve great success in the esports realm for a long time to come.

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