



## **Moving On Up or Just Moving On? The Changes at Move Networks**

Colin Dixon and Andy Tarczon

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There has been much speculation over the last few days regarding what's really going on at Move Networks. Reports of layoffs and worse abound in the blogosphere; this despite the fact that Move has become a gold standard of sorts for high-quality web video delivery. If you've watched the latest episode of *24* or *Fringe*, you are already aware of what a great job Move does (although you're more likely to ascribe the compliment to Fox or ABC). Move is the "stuff" that makes viewing many online TV programs significantly more enjoyable than, say, YouTube clips.

Given the rapid growth of online video viewing – especially online TV programs – how can a company like Move be imploding? If indeed the Company sets the benchmark for quality online video delivery, why are they facing layoffs and cutbacks?

To get a better idea what's going on at Move and why this is the case, TDG spoke with John Edwards, Executive Chairman of the Board at Directors at Move. He confirmed what has already been reported. Indeed the company has laid off 30% of their workforce. But why is this happening?

Though Edwards noted that Move has solid funding in place (and will for some time to come), it is under growing pressure to achieve profitability more quickly than originally expected. To do this, Move must "circle the wagons" and refocus resources on its core revenue generating business: the delivery of high-quality mainstream online video programming. Non-essential activities (e.g., developing sustainable online video advertising models) must be de-emphasized and associated staff either let go or repurposed to support the core business - high-quality online video delivery system.

First and foremost, Move is reaffirming its existing relationships with companies such as Disney and Fox. Ensuring the solidity of these relationships is absolutely crucial to Move's short-term survival.

Interestingly, this downsizing or “refocusing” comes at the same time that Move surpassed one million daily users who watch on average about 83 minutes of video each day – an incredible accomplishment driven primarily by the number of live events and sports offerings that Move supports. The first rule of short-term business survival is to reaffirm existing business relationships and revenue streams. This is no time to have to start from scratch!

Most agree that the outlook for web video is encouraging (one of the few positives in these belt-tightening times). As evidenced by recent announcements, broadband users are turning to Internet video in droves. For example, Microsoft recently reported that, in the three months since Netflix/Xbox streaming services were first announced, Xbox Live subscribers have watched more than 1.5 billion minutes of streamed content across one million Internet-connected Xbox consoles. This equates to approximately 25 hours per Netflix-enabled Xbox or two hours per week per device. Similarly, according to Comscore, Hulu users watched 227 million videos in November 2008. To date, Move itself reports that more than 58 million viewers have downloaded their video player and the company is adding 125,000 to 150,000 new viewers each day. Any way you slice it, the audience for online video continues to grow, as does the amount of time these viewers spend watching online video.

Second, Move will focus on growing its customer base and expanding its content relationships. In support of this effort, the company is about to announce its presence as an international vendor. In fact, Move just completed roll-out of the web video platform for one of Germany's top broadcast channels, ProSieben, which is providing a mix of live and VoD content for the channel. If it can maintain its U.S. base of brand-name partners, international sales of its solution should do well. Again, the winds favor online video purveyors who provide best-in-breed solutions, meaning Move is in an excellent position to exploit emerging international opportunities.

Third, Edwards indicated that Move will select growth paths “more intelligently,” employing a “less is more” strategy. He discussed two particular growth paths.

1. **Solutions Integration.** It was quite apparent at CES that Move had been actively pursuing a number of embedded CE plays, showing Mobile Internet Devices (MIDs) and new Internet-enabled set-top boxes, among other platforms. While a direct-to-TV strategy is highly desirable, Move will pursue that market based on an ecosystem approach. It plans to release an SDK (and other necessary tools) to enable partners to embed Move's technology, thus pushing some of the development and integration costs out to the partners instead of having to shoulder everything internally.
2. **Virtual Operator Platforms.** Move's core revenue model has always been built around video delivery in a service model. The technology behind these services is now being wrapped into a platform to enable an entirely new breed of service

provider: virtual video operators. In general, a virtual operator works much like a traditional PayTV operator, leveraging the same business models but without owning the physical network infrastructure upon which the video is transported. At CES, Move quietly showed its platform strategy, and how it will be targeting virtual operators. While this may be delayed by short-term refocusing efforts, TDG believes this is a market which Move will definitely pursue.

Fourth, Move sees itself as technology or industry brand, not a consumer-facing brand. According to Edwards, Move will work to make sure that it is positioned clearly as a technology player enabling content providers like ABC.com, not a consumer online video brand like Hulu. While there has been speculation in the past regarding what Move is or may evolve to be (confusion fueled by Move's messaging and positioning of their virtual operator platform), the Company clearly sees its role as the enabler of both content players and virtual operators. Clarifying this positioning is a smart move; as such confusion could alienate the content partners upon which Move depends.

So are these back-to-basics strategies right for Move? It's tough to tell given the current economic climate. With technology bellwethers such as Microsoft and Google (though sitting on a pile of cash the size of Gibraltar) announcing lay-offs, write-offs, and downsizing, it becomes clear that we are living in extraordinary times. Add to this the worst VC climate in a generation, and it is little wonder that companies like Move are convinced that the "new money" won't be arriving on their doorsteps anytime soon. It would thus be financially irresponsible for Move not to batten down the hatches for the long haul. Whether Move can continue to serve and expand its core business with 30% fewer employees, however, remains to be seen.

So where does all this leave Move?

In the short term, these back-to-basics moves should make Move more focused, more efficient, and more competitive. That much we can say with confidence. Prognosticating on Move's long-term viability is, however, significantly more difficult. Remember, Move's revenue model depends upon collecting fees per gigabyte of video delivered. Though the number of gigabits delivered is increasing, the rates being charged per gigabit are declining. Hence, wagering one's long-term financial health on this revenue model is probably not the best choice.

Move's challenges are further compounded by the uncertainties inherent to pioneering a new business model in a dynamic but immature market space. This is probably one of the reasons that Ross Levinsohn, a partner at Velocity Interactive, is now predicting that 20-30% of the online video sector will disappear within the next 24 months.<sup>1</sup>

As with all new companies, maintaining a sharp focus on well-defined market space and implementing tight fiscal controls are necessary (though never sufficient) for Move's success. As a

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<sup>1</sup> "2009 Looks like Make-or-Break for Web Video Companies," Daisy Whitney, TV Week, February 15, 2009.

leader in the online video delivery space, Move enjoys several advantages. However, as my own personal experience with WebTV taught me [Colin Dixon], leadership in an emerging, uncertain market is short-lived and never a guaranty of one's long-term success. For Move to survive, it must remind the marketplace and its core clients that it is indeed the "gold standard" against which all other solutions must be compared. Without aggressive messaging and product positioning, Move is unlikely to rise to its rightful place as the true leader in online video delivery.

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Media Contact:

Wendy Stockard

[ws@asktdg.com](mailto:ws@asktdg.com)

469.287.8061