22
The Roku Channel

Vertically Integrated Connected TV

Ramon Lobato and Eleanor Patterson

Initially known as a manufacturer of affordable streaming devices, the consumer electronics firm Roku has in recent years morphed into a multifaceted television distribution and advertising platform. Since launching The Roku Channel in 2017, the company has also begun to offer Roku-branded content and programming, while at the same time refashioning the very notion of a television "channel" for its own purposes. In this chapter, we explore Roku's distinctive trajectory from hardware to content, programming, advertising, and data. We also consider the company's vertically integrated character, in which control extends from hardware to in-house advertising brokerage and payments and, ultimately, to all aspects of end-user experience. Our analysis suggests that Roku, from its base in device manufacturing, has adapted an unusual hybrid of the legacy television network and cable operator model to the volatile world of streaming television.

LOCATING ROKU

Roku, along with Amazon, Google, and Apple, is a key player in connected TV (CTV)—an industry term that refers to online distribution of content and advertising to TV sets. Roku has been the dominant CTV device supplier in the US for the last decade, and, in recent years, has begun to expand its device sales to Canada, France, Mexico, and the UK, with plans to launch in Germany in late 2021. However, Roku's core consumer market is still the US, where approximately fifty-five million Americans own a Roku device.

The CTV sector forms part of the larger industrial category of over-the-top television, as well as the analytical category of connected viewing—"the broader eco-system in which digital distribution is rendered possible and new forms of user engagement

DOI: 10.4324/9781003099499-26

Japanese word for "six") is Wood's sixth company. Its first media player, the Roku HD1000, was released in 2002. Designed to play slideshows, music, and digital images on high-definition TVs, the HD1000 had twenty-one different input/output connections and cost $499—a price-point typical of early media players, which appealed to a small market of early adopters. In 2007, Wood took a job at Netflix, where he led an in-house project to build a streaming box: the Netflix Player By Roku. The project was canceled after nine months, but Wood parted on good terms with Netflix CEO Reed Hastings and was able to take his intellectual property and engineering team with him when he departed, all of which he integrated back into Roku (Hastings also came on board as a Roku investor). This partnership with Netflix proved to be a boon for Roku, providing a boost to its funding, expertise, and public profile.

Returning to Roku full-time, Wood's focus was now firmly on streaming hardware rather than media players. The company's mission, as Wood saw it, was to streamline the often-frustrating user experience of streaming by producing easy-to-use devices that could be sold cheaply in big-box retailers. Over the next decade, Roku would release a string of these devices, including the Roku 1, Roku 2, Roku 3, Roku HD, Roku Streaming Stick, and Roku Express. In contrast to the expensive HD1000, these later Roku devices were simple, easy to use, and cheap, with prices beginning at US$30.

Roku devices now come in many different shapes and sizes. Yet their user interface, and their general look and feel, is quite consistent. At the heart of this is a rather traditional idea of what television viewing is all about. Wood has stated on several occasions that television audiences "don't want 'smart'" (Peoples 2011) and instead prefer a familiar TV-viewing experience that aligns with cable and broadcast viewing norms, such as lean-back viewing and remote-control navigation. Wood argues that audiences "want to sit there, drink their beer, and watch TV" (Sherman 2021) rather than changing settings and navigating complex interfaces. Accordingly, Roku's stated ambition has long been to strip away the complexity of streaming, apps, and discoverability in favor of a traditional lean-back experience that looks and feels rather like cable.

Apps are always referred to as "channels" in the Roku interface—a deliberately old-fashioned gesture that seeks to smooth the transition from linear to internet-distributed television (Lotz 2017). Similarly, the Roku remote control aspires to continuity over change. Roku remotes are small and lightweight, the size of a candy bar. They are designed to fit comfortably in the hand, with a deliberately limited number of buttons and an easy color-coded system: a purple navigation pad; smaller buttons for playback and function controls; and then four branded shortcut buttons (e.g., Netflix, Hulu, YouTube). In line with Roku's design philosophy, remotes feature the minimum necessary number of buttons, and no extraneous features such as number pads or voice assistant shortcuts are included. In this way, Roku's remote is emblematic of the company's ability to mesh the experiential norms of linear television with the protocols of internet-distributed television.

While Roku's roots are in hardware, device sales now account for a declining proportion of the company's revenue. In fact, Roku sells its devices at artificially low prices in order to grow its user base, thus increasing the advertising rates it can charge. "Advertising is our biggest business," states Wood (McAlone 2016). He takes pains to emphasize that Roku is a "platform company" rather than a hardware manufacturer (ibid). This is borne out in Roku's current revenues. In 2020, Roku's advertising, platform and software licensing[2] revenues accounted for 69% of overall revenue and 94% of its gross profits (Spangler 2020). This reliance on advertising points to how hardware has become a loss-leader for Roku: a way for the company to expand its installed user base ("Roku Learning" 2021; "Roku to Launch" 2021; "Roku Unveils" 2020). The real revenue now comes from eyeballs, and, in this sense, Roku has adopted the legacy television commodity audience model for a twenty-first century CTV platform.

Beyond advertising, Roku monetizes its installed user base in several other ways. The first strategy is to take a commission of content sales and subscriptions on its platform, enabled through mandatory use of Roku's payment gateway, Roku Pay (Roettgers 2018b). All new subscriptions and content sales initiated on a Roku device are subject to this levy. For example, even if a user sets up a subscription to Disney+ outside of Roku, purchases of additional premium content on the Disney+ channel/app will be billed through Roku Pay. Another approach is to require apps/channels to hand over a portion of their advertising inventory to Roku. In fact, with the exception of a few larger streaming services like YouTube that historically used their popularity to negotiate free carriage,[3] Roku now requires most channels to commit a percentage of their ad slots as a precondition for the app's availability on Roku devices (Roettgers 2018a), reminiscent of the arrangement US TV networks have with local affiliates.

This system of de facto carriage fees highlights another continuity between traditional and internet-distributed television: disputes over carriage and compensation. Unlike traditional cable operators, who must pay networks and cable channels licensing fees to carry them on their system, Roku pays nothing for the over-the-top (OTT) apps, or "channels," that they provide, just as local network affiliates have historically paid nothing for network content. In this way, we can see how Roku operates as both hardware, television network affiliate, and cable operator, albeit, using its position to reverse the compensation of legacy cable companies. The increased significance of advertising revenue led Roku to develop and program their own "in-house" streaming service in 2017: The Roku Channel (TRC).

THE ROKU CHANNEL

TRC is a curious collection of aggregated, licensed, and exclusive content that signals Roku's tentative entry into the world of FAST (free ad-supported TV), not just third-party distribution. Helmed by Rob Holmes, a former Comcast executive who joined Roku in early 2017 as VP of Programming, TRC signifies the company's investment both in publishing content and poaching personnel from legacy television companies. Initially available exclusively to Roku device users (and, subsequently, via mobile app or web browsers), TRC has evolved into a multifaceted service combining elements of on-demand library, linear feed, and content database—all of which challenges, once again, our understanding of a television "channel". Yet the nature of TRC's content, much of which has been pulled from YouTube and other free services, suggests Roku's focus may be on the bottom end of the FAST market.

When TRC launched in 2017, it offered a small selection of on-demand, ad-supported films from a handful of major studios, including Lionsgate, Metro-Goldwyn-Mayer, Sony Pictures, and Warner Bros., as well as smaller content providers like American Classics, Fandor, FilmRise, and others (Roettgers 2017b). Over time, it added television series and aggregated free content from participating internet video publishers (Jarvey 2018). By June 2020, TRC offered users 100,000 on-demand film and TV titles. At this point, it resembled one of the pioneering cable channels of the 1980s described by Kompare (2005) that used syndicated films and network television shows as inexpensive content to build up an audience and advertising clientele. In this sense, TRC acted much like a cable channel within its cable operator-like OTT platform ecosystem.

By mid-2020, TRC had begun to incorporate live feeds, via a Live Guide subsection, comprised of 100 linear channels somewhat akin to Pluto TV and Xumo (Perez 2020). Today, this number has more than doubled, with over 200 linear channels available ("Roku Channel Adds" 2021). After selecting the Live Guide tile, nestled prominently in the upper right corner of TRC home screen, the user is presented with a simple viewing grid reminiscent of the now-defunct TV Guide Channel once offered by legacy cable providers in the US. The design is functional and utilitarian, using white text on a black background with a scrollable list of all the "live" channels available. Users navigate the list via the remote's directional pad; but because the remote is designed without number keys, one must scroll extensively through the channels to browse the full list. This somewhat confusing system—with channels embedded within Roku's own channel—suggests a *mise en abyme* of free linear content buried within the Roku ecosystem.

The design of TRC and its various constituent elements recalls, but also challenges, some organizing principles of traditional linear television. In many ways, TRC's Live Guide functions almost as a cable operator within a cable operator, if we think of the OTT hardware as a connected viewing equivalent to legacy operators like Comcast and DirecTV, offering a range of what Roku calls "channels" on its hardware home screen. Then, there is TRC, itself one of the tiled applications that the Roku company calls a "channel," which—like other publishers on the Roku platform—also provides on-demand viewing options through its nonlinear content library.

Some of the included channels, such as NBC News, ABC News, The Young Turks, OAN News, and Cheddar, are, indeed, content being aired on TRC's Live Guide as it is being made and aired by these publishers on their cable channels, YouTube live feeds, Xumo, and/or Pluto TV channels. In fact, Paramount Global is unabashedly pushing content from Pluto TV (a Paramount-owned channel) for the extra TRC ad share without even changing the name of their channels. The result is that TRC's Live Guide includes options like CMT on Pluto, BET on Pluto, and MTV on Pluto. This replication is a result of Roku's partnership deal with other FAST providers Pluto TV and Xumo to further increase its Live Guide's offerings (Perez 2020). Far from the exclusive premium content favored by many subscription streaming services, this re-distributed nonexclusive AVOD content makes up a substantial portion of TRC's offerings.

This is characteristic of the content on the somewhat misnamed Live Guide, much of which is not live at all, but, rather, scheduled ongoing flow of old and repurposed television. Watching the content feed on the Food 52 Channel, we are consistently invited to

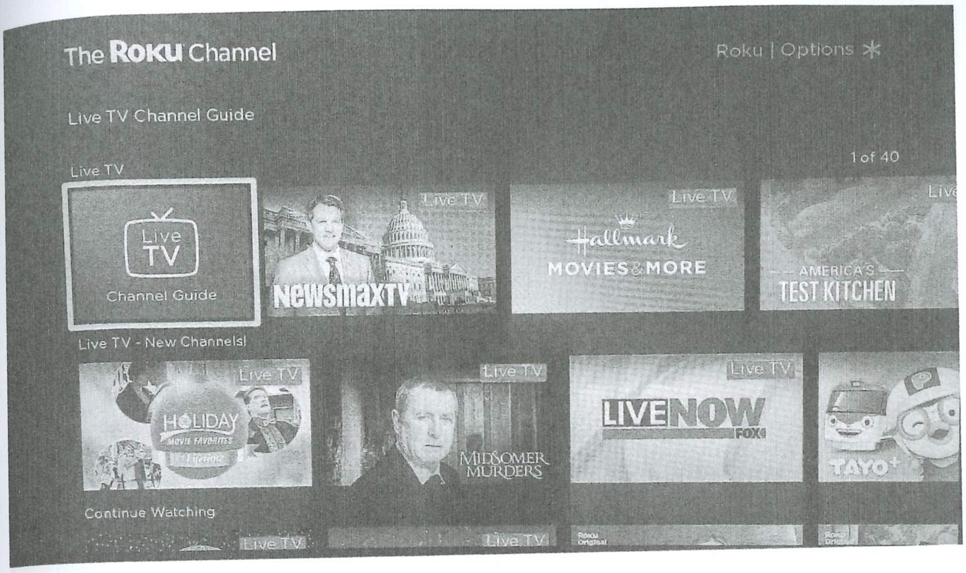

FIGURE 22.3 *The TRC home screen and its offering of "Live TV" and on-demand content.*

"hit the subscribe button," a subtle cue to viewers that this content is repurposed from Food 52's YouTube channel. There are Live Guide channels devoted to ongoing feeds of singular titles, such as *The Beverly Hillbillies, The Carol Burnett Show, Baywatch, Mystery Science Theatre 3000*, or *Nashville* (again, blurring the distinction between series and channel) alongside classic network sitcoms such as *Leave it to Beaver* and *Bewitched*, and procedurals like *Magnum PI*. These numerous "comfort television" (Godwin 2019) channels, consisting of nostalgic reruns, appear to be a central plank of Roku's FAST content strategy, alongside on-demand film titles and live news feeds.

More recently, Roku has begun to pursue a slightly more "prestige" strategy for TRC, adding premium subscriptions and original TRC-branded content. In 2019, Roku began offering Starz and Epix subscription offerings within the TRC channel (Lee 2020). From Roku's perspective, the addition of a premium content subscription option *within* its TRC channel adds another revenue stream through Roku Pay. This mirrors the design of Amazon's Channels Platform, which had by 2019 "become one of the most powerful resellers of standalone services from networks like HBO, Starz and Showtime" (Roettgers 2019), selling more than 50% of HBO subscriptions (Roettgers 2018c)—a trend followed by other providers like Apple TV which offer premium subscriptions within their platforms. This move by Apple, Amazon, and Roku to integrate premium subscriptions into their own "channel" or application further draws on the legacy cable model, and many of these premium pay-TV subscription services, like HBO, Epix, and Starz, are cable channels that have diversified into CTV subscriptions services.

Alongside this move to offer premium content through third-party subscriptions within TRC, Roku began acquiring exclusive premium content to further drive audiences towards its channel. With no production studio of its own as of 2021, Roku's strategy was to buy content originally developed by other services. Its first major investment

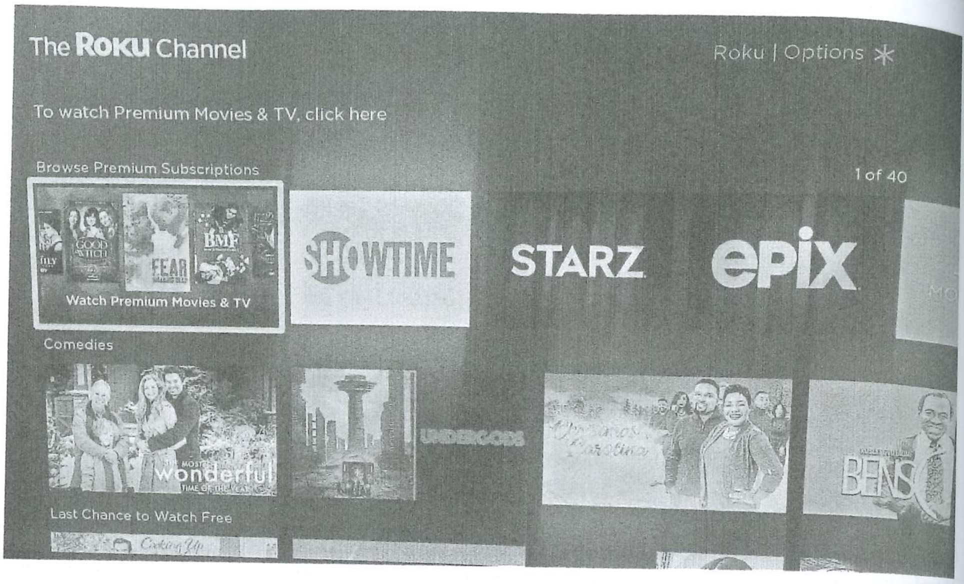

FIGURE 22.4 *Scrolling down TRC's home screen, users encounter buttons that allow them to easily subscribe to premium content providers within TRC's "channel."*

was the content library of Quibi, the failed $1.67 billion short-play streaming service, which it acquired for "well under $100M" in 2021 (Spangler 2021a). Quibi had produced a number of unreleased titles that were released in batches throughout 2021 as TRC Originals (Morfoot 2021). While Roku did not released ratings data, it stated that the Kevin Hart Quibi show *Die Hart* broke TRC viewing records, and was renewed for a second season on TRC, along with several other previous Quibi titles (Otterson 2021; Schneider 2021; Spangler 2021b). It is too early to tell whether Roku's experiment with exclusive content will be successful or otherwise—but the strategy reflects the company's ambitions to become an end-to-end platform spanning the spectrum of operations from production through to reception.

PLATFORM, CHANNEL, DISTRIBUTOR, GATEKEEPER

As our analysis suggests, Roku continues to follow a distinctive path through the internet-distributed television landscape. Its traditional hardware business may now be a loss-leader, but it remains an essential part of the company's overall vertical integration strategy encompassing programming, production, aggregation, distribution, and devices. The only sector absent from Roku's ambitions is an ISP (internet service provider) division. As Roku has moved up the value chain of television it has used its model of "simple, easy, and cheap" to gain advantage in a rapidly changing environment, and its dominance in the US CTV hardware market has sustained the wide reach of its advertising platform.

Now that Roku is firmly established as a television platform, it must maintain a delicate balance between openness and control in order to differentiate itself from its powerful competitors Apple, Amazon, and Google. Roku describes itself in press releases as "a neutral partner at the center of the streaming ecosystem" able to work with services that ostensibly compete with TRC, such as Netflix, Amazon Prime Video, Hulu, Disney+, Apple TV+, and others. Yet Roku's recent carriage disputes with HBO-Max, YouTube and Peacock—which resulted in Roku blocking these services from its platform due to contractual disagreements over ad-share and sales commissions[4]—suggests the company is willing to use the same kind of hardball tactics employed by its larger competitors. Roku is also conflicted in its dealings with FAST services such as Pluto TV, Xumo, and others because it offers its own FAST service in TRC. In this sense, it is competing for eyeballs with many of the services it hosts on its platform, meaning that the claim of "neutral partner" may be questionable. All this suggest an increasing level of gatekeeper brinkmanship amidst what Evens and Donders (2018) describe as the "platform power" age of television.

As CTV and FAST markets continue to grow, Roku's increased vertical integration may make it harder for the company to remain "neutral" in contract negotiations with content providers. Indeed, the more Roku becomes like legacy television operators, the less neutral it is likely to be as a CTV distribution platform. Although we have argued that Roku remediates many features of legacy TV, merging together channel, cable, and network organizing logics, Roku is also quite distinct. As a CTV company, it can accomplish what the legacy TV industries always desired and yet were unable to achieve: the ability to push dynamic addressable ads to precisely measured audience commodities that can be sold to advertisers in an almost regulation-free environment.

NOTES

1 Naming rights for these branded remote control buttons are typically sold to commercial partners for a negotiated fee, often as part of a package including preferential integrations and visibility across the Roku platform.

2 Roku licenses its platform to smart TV manufacturers, including several major Chinese electronics firms.

3 Google is one of the few publishers whose contract has not included the revenue or ad sharing components Roku asks of most other publishers (Roettgers 2018a), an arrangement Roku agreed to because of YouTube's popularity (Roettgers 2017a).

4 The conflict between Roku and Google began in May 2021, when YouTube's contract was expiring and negotiations over a new contract broke down (Fussell 2021). Roku openly accused Google of asking Roku to turn over audience data, use more expensive equipment to increase their hardware retail cost, and manipulate search results to give YouTube videos preferential visibility (Fussell 2021). The conflict has continued through 2021, and in October 2021, Google announced users would no longer be able to add YouTube or YouTube TV channels to their Roku devices after December 9, 2021 (Kovach 2021).

REFERENCES

Evens, Tom and Karen Donders. 2018. *Platform Power and Policy in Transforming Television Markets.* Basingstoke: Palgrave.

Fussel, Sidney. 2021. "Roku and YouTube Are Battling for Your Precious TV Data." *Wired*, May 20. Accessed October 10, 2021. www.wired.com/story/roku-youtube-battling-precious-tv-data/.

Godwin, Richard. 2019. "The Age of Comfort TV: Why People are Secretly Watching *Friends* and *The Office* on a Loop." *The Guardian*, August 21. Accessed October 25, 2021. www.theguardian.com/tv-and-radio/2019/aug/21/the-age-of-comfort-tv-why-people-are-secretly-watching-friends-and-the-office-on-a-loop.

Holt, Jennifer and Kevin Sanson. 2013. "Introduction: Mapping Connections." In *Connected Viewing: Selling, Streaming, & Sharing Media in the Digital Age*, edited by Jennifer Holt and Kevin Sanson, 1–15. New York: Routledge.

Jarvey, Natalie. 2018. "Roku Expands Free Programming Channel to Web." *The Hollywood Reporter*, August 8. Accessed October 10, 2021. www.hollywoodreporter.com/news/general-news/roku-channel-expands-free-programming-web-1133286/.

Kompare, Derek. 2005. *Rerun Nation: How Repeats Invented American Television.* New York: Routledge.

Kovach, Steve. 2021. "YouTube is About to Pull Its Apps from Roku, and the Fight Is Going All the Way to Congress." CNBC, October 22. Accessed March 21, 2022. www.cnbc.com/2021/10/22/google-to-remove-youtube-apps-from-roku.html.

Lee, Wendy. 2020. "Roku, a Streaming Fixture, Gets a Lift from Home-viewing Surge." *Los Angeles Times,* May 15. Accessed October 10, 2021. www.latimes.com/entertainment-arts/business/story/2020-05-15/roku-coronavirus-pandemic-streaming.

McAlone, Nathan. 2016. "Roku's CEO Tells Us Why He Thinks He Can Beat Google in the Battle for Your TV." *Business Insider*, May 26. Accessed March 21, 2022. www.businessinsider.com/interview-with-rokus-ceo-anthony-wood-2016-5.

Morfoot, Addie. 2021. "Marina Zenovich Previews 'What Happens in Hollywood': 'This Series Was Being Made at a Time of Reckoning." *Variety*, August 3. Accessed October 22, 2021.https://variety.com/2021/tv/news/marina-zenovich-what-happens-in-hollywood-roku-originals-quibi-1235033164/.

Otterson, Joe. 2021. "*Most Dangerous Game* with Christoph Waltz Renewed for Season 2 at *Roku Channel*, David Castañeda Joins Cast." *Variety*, August 23. Accessed Octobere 23, 2021. https://variety.com/2021/tv/news/most-dangerous-game-christoph-waltz-renewed-season-2-roku-channel-david-castaneda-1235045990/.

Peoples, Glenn. 2011. "The Billboard Q&A: Anthony Wood." *Billboard*, March 28. Accessed March 21, 2022. http:// https://www.billboard.com/music/music-news/the-billboard-qa-anthony-wood-1178654/.

Perez, Sarah. 2020. "The Roku Channel Expands to Include over 100 Live Channels, Adds a Live TV Guide." *Tech Crunch*, June 2. Accessed October 10, 2021. https://techcrunch.com/2020/06/02/the-roku-channel-expands-to-include-over-100-live-channels-adds-a-live-tv-guide/.

Roettger, Janko. 2017a. "Roku CEO Anthony Wood Talks IPO, Advertising and the Future of Streaming (Q&A)." *Variety*, September 29. Accessed October 10, 2021. https://variety.com/2017/digital/news/roku-ceo-anthony-wood-qa-1202576472/.

Roettger, Janko. 2017b. "Roku Wants to Start Streaming to Third-Party Devices." *Variety*, October 25. Accessed October 22, 2021. https://variety.com/2017/digital/news/roku-mobile-third-party-device-streaming-1202598964/.

Roettger, Janko. 2018a. "How Roku Morphed From a Quirky Hardware Startup to a TV Streaming Powerhouse." *Variety*, January 10. Accessed October 22, 2021. https://variety.com/2018/biz/features/roku-tv-streaming-1202658579/.

Roettger, Janko. 2018b. "Roku Earnings Beat Expectations as Ads, Services Surpass Hardware Revenue." *Variety*, May 9. Accessed October 22, 2021. https://variety.com/2018/digital/news/roku-q1-2018-earnings-1202804874/.

Roettger, Janko. 2018c. "Roku Plans to Launch Amazon Channels-Like Video Subscription Marketplace." *Variety*, June 18. Accessed October 20, 2021. https://variety.com/2018/digital/news/roku-streaming-channel-store-amazon-1202849670/.

Roettger, Janko. 2019. "Sling TV Debuts Free Tier on Roku, Starts Selling Channels a la Carte." *Variety*, January 14. Accessed October 20, 2021.https://variety.com/2019/digital/news/sling-tv-roku-free-1203107930/.

"The Roku Channel Adds New Linear Channels to Lineup." 2021. Roku Press Release, August 17. Accessed October 23, 2021. https://newsroom.roku.com/news/2021/08/the-roku-channel-adds-new-linear-channels-to-lineup/-g53mrkm-1629157907.

"Roku To Launch Streaming Players in Germany." 2021. Roku Press Release, September 6. Accessed October 23, 2021. https://newsroom.roku.com/news/2021/09/roku-to-launch-streaming-players-in-germany/edbukaxn-1631025343.

"Roku Learning: Become a Streamer First Advertiser." 2021. Roku Press Release. Accessed October 27, 2021. https://advertising.roku.com/resources/videos/roku-learning-become-a-streamer-first-advertiser.

"Roku Unveils OneView Ad Platform." 2020. Roku Press Release, May 5 Accessed October 27, 2021. https://newsroom.roku.com/news/2020/05/roku-unveils-oneview-ad-platform/f85qtyj9-1588642429.

Schneider, Michael. 2021. "Quibi Shows Gave Roku a Taste of the Emmys; Here's What's Next, Including More 'Reno 911' Episodes." *Variety*, August 18. Accessed October 23, 2021. https://variety.com/2021/tv/awards/roku-quibi-emmys-nominations-reno-911-kevin-hart-1235043307/.

Spangler, Todd. 2020. "The *Roku Channel* Lands on Amazon's Fire TV." *Variety*, October 8. Accessed October 23, 2021. https://variety.com/2020/digital/news/roku-channel-amazon-fire-tv-1234797803/.

Spangler, Todd. 2021a. "Quibi Is Dead but Its Shows — Which Live on via Roku — Just Got Eight Emmy Nominations." *Variety*, July 13. Accessed October 22, 2021. https://variety.com/2021/tv/news/quibi-emmys-nomations-roku-channel-1235018598/.

Spangler, Todd. 2021b. "Roku to Unleash 23 More Quibi Shows on Free Streaming Channel." *Variety*, August 9. Accessed October 22, 2021. https://variety.com/2021/digital/news/roku-quibi-shows-free-streaming-1235036522/.