Streaming will change how TV advertising works

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Roku's CEO tells us why he thinks he can beat Google in the battle for your TV

Roku has built most of its reputation on making high-quality "streaming boxes" that plug into your TV to let you watch apps like Netflix.

But that's not the company's future, **CEO Anthony Wood** tells Business Insider.

"We sell more streaming players than anyone, but it's also probably not the most important part of our business. The most important part of our distribution business is TV licensing."

Wood is talking about his company's "**Roku** TV" program, which consists of a series of partnerships **Roku** has made with TV makers, such as **Haier** and Chinese heavyweight **TCL**. **Roku** provides a blueprint that lets TV makers bake **Roku**’s technology, including its slick operating system, into its smart TVs in return for a licensing fee.

Wood believes that all TVs will soon be powered by an advanced TV operating system. And he wants **Roku** to win that market.

His main opponent in this battle is **Google**, which has introduced two competitors to **Roku** TV: **Google** Cast, which puts Chromecast technology inside TVs from companies like Vizio and Polaroid, and **Android** TV, a more robust operating system that has TV partners like Sony.

We caught up with Wood to talk about how **Roku** got into the licensing business, how the company makes money, and whether **Amazon** will ever be a TV operating system player.

Business Insider: When did you realize TV licensing was the way to go?

Anthony Wood: We'd been actively engaged in the business for roughly three years, and before that we were debating what the best strategy would be. For a while I thought, "TVs should really just be monitors," because people keep their nice screens for 7 years. So it seemed to me that the best way for the TV business to evolve would be that a TV is just a monitor. And then you would get your little box [like a **Roku**], and you would replace that every few years.

But that just never happened.

The dynamics of the market are such that, first of all, you can't call it a "TV" unless there's a tuner built in. That's the law. Retailers have done experiments trying to sell a TV without a tuner [but] it's hard for retailers to sell them. So the dynamics of the industry are such that streaming is becoming a standard feature in TVs.

Once we decided that was going be the trend, that's when we decided to start licensing. We are by far the leading licensor to TVs and one of the main reasons is our cost structure. We provide a very great low-cost reference **design**, our software uses less memory, less CPU power than competitive products. Our focus on cost means it's actually cheaper for them to use a **Roku** solution [than build their own smart TV operating system].

BI: What are your thoughts about competition with Google [which recently entered the TV licensing business]?

Wood: In licensing, really the only competitor is **Google**. Apple doesn't license, **Amazon** doesn't license. So they're our biggest competitor for TVs. In the licensing business, we're by far ahead, and there's a couple of reasons. One is our neutral positioning. We're **Roku**, we're not threatening, we also take all content. We have **Google** Play and **Amazon** Instant Video, so we have this open, neutral position. And also our cost is lower. It's just cheaper to build a **Roku** TV than an **Android** TV.

BI: But does it worry you that Google might not need to make any money off of licensing to see it as a success?

Wood: That's the way we see it as well. Our licensing fee is nominal.

BI: So you make money from the advertising?

Wood: We have a gross profit stream from hardware, and our bigger gross profit stream is what we call our “media licensing business.” And that's primarily **advertising** and billing. The licensing part is pretty tiny. When you sign up for Hulu on **Roku**, through **Roku** billing, we get a revenue share for the life of that customer. When you watch an ad-supported channel on **Roku**, some of that ad inventory is controlled by **Roku**, and we have an ad sales team in New York that sells ads. So those revenue streams are our biggest source of gross profit. And we view TVs as another way to expand our active installed base. We have 10 million active customers, and increasingly, that growth is coming from TVs.

BI: How do you think the TV operating system market will shake out?

Wood: I think it's going to be **Android** and **Roku**, and we'll be the leader.

BI: Any others?

Wood: I think **Amazon** will always have some piece of the business because they'll sell Fire [TV], just like they sell Fire Tablets, so they own a percentage of the tablet business. They'll sell Fire TV product so they'll have some piece of it. And I guess Apple will keep selling Apple TVs, but they're becoming a pretty small part of the market.

BI: You don't see Amazon getting into the licensing business?

Wood: I think they'll try, but they won't being successful. Because no retailers will carry **Amazon** products.

BI: Why?

Wood: Because they hate **Amazon**. **Walmart** is never going to carry an **Amazon** TV, ever.

BI: So they'd have to sell it themselves.

Wood: Yeah, just like they have Tablets and Fire TV sticks, they might have **Amazon** "Fire TV TVs" on **Amazon**. But 30% of all TVs sold in the US are sold through **Walmart**. Only a small percent buy through **Amazon**. Because TVs are one of those few things that people still want to look at it before they buy it.

BI: Are there things people don't understand about Roku and the market?

Wood: Absolutely. First of all, generally **Roku** is perceived as a company that makes boxes and sticks, like a hardware company. But almost all our engineers are software engineers. We're a platform company. Advertising is our biggest business. I don't think people understand how we make money, that it's a platform we distribute, we license, and then we monetize our installed base. That's not really well-understood.

I think people are starting to appreciate that all TV is going to be streamed, but that means all ads are going be steamed. That means the entire ad industry for TV is going to change. Right now, all TV ads are all based on Nielsen ratings. That's all going to move to internet-style **advertising**. Targeting, measured, interactive, that sort of thing.

BI: Are there apps that are popular on Roku that might not be popular elsewhere?

Wood: Church, there are a lot of church apps on **Roku**. The Mormon church app is popular. International content, like Indian language programming, Korean language programming. Nichey content is very popular. Music is very popular, both Spotify, as well as music videos [and] Vevo. The anime channel Crunchyroll is very popular. Fitness. There's a long, long tail.

Roku has higher streaming hours than any other platform per user. So there's a lot more they do on **Roku**. It's 2 to 3 times Apple TV, Chromecast, and Fire.

BI: Do you have a theory on why?

Wood: Yeah, we have more serious streamers. I think we have more cord-cutters. Basically, if you're an Apple fan, you're probably going to get an Apple TV, but that doesn't mean you're going use it. But if you want to cut the cord, and get great content for a lower cost, you look at reviews. We get the best reviews, and you buy a **Roku**. I think active streamers self-select into **Roku**. Also, our user interface being very simple results in more streaming as well.

This interview has been edited and condensed for clarity.