NEW INDUSTRY ENTRANT AND THE SUPPLIER BARGAINING POWER: THE CASE OF NETFLIX IN KOREAN OTT MARKET

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ABSTRACT

After Netflix launched its OTT service in Korea, the competitive dynamics of Korean OTT industry has been significantly changed. This paper analyses the changes caused by Netflix. We proposed two possible hypotheses. First, we hypothesized that if more competitors enter an industry, then the bargaining power of the supplier will increase, ceteris paribus. Our second hypothesis is if most of the new entrants are powerful companies controlling huge resources, then supplier's bargaining power may be limited even though the number of its downstream customers is increased. A detailed analysis of Korean OTT market was performed in this paper and it concludes that the second hypothesis is in line with Korean OTT market.

Keywords: *OTT, Netflix, Supplier Bargaining Power*

1. INTRODUCTION

An innovative entrant can create new competitive dynamics in an industry in various ways. For example, it can position itself as either a low-cost leader or a creative differentiator to compete against existing industry incumbents. It is commonly assumed that new entrants are small innovative firms. However, this is not always the case. In many industries, new entrants are big firms with substantial resources and organizational capabilities (Igami, 2011; Parenti, 2018). Since they control a large amount of resources comparing to the traditional entrants, they usually follow both low cost and differentiation strategy, contrary to the widely accepted wisdom in business strategy (Porter, 1980). This seemingly contradictory competitive rivalries exist in some high growth, high-tech industries characterized by large amounts of capital and technological resources. Competition in space industry is one example. In space industry, new entrants such as SpaceX, Blue Origin, and Virgin Galactic were formed by billionaires with abundant financial and technological resources as well as celebrity-like popularity. OTT(Over-the-top) industry is also a good example which proves that new industry entrants need not be small and nimble.

Pioneered by Netflix, OTT industry gained momentum due to 'cord cutting' advantage it offered to consumers who weren't even satisfied with 'skinny bundle' alternatives. Due to the Covid-19 pandemic, OTT industry has grown rapidly, as people had more time to spend at home. Instead of previous content consumption patterns such as visiting movie theaters, concert halls and theme parks, consumers turned to OTT. <Figure 1> shows rapid growth in global OTT market since Covid-19 pandemic. Soon after Netflix and Amazon Prime Video created success in OTT industry, new competitors such as Disney (with Disney+), Apple (with Apple TV+), HBO (with HBO Max), Paramount (with Paramount +) entered the OTT market and followed suit.

However, these new entrants in OTT market are not small and nimble startups. These new competitors are huge in size with long and glorious history, and they were highly diversified in both related and unrelated industries. One might doubt whether such big and powerful new entrants contribute to the social welfare even though the number of competing firms in an industry are increased. Although it is an important question, which attracted empirical research with mixed empirical results (Pan & Hanazono, 2018; Shimomura & Thisse, 2012), the focus of this paper is not on the social aspect of this competition but on the competitive dynamics caused by such big and powerful entrants. More specifically, this paper investigates how the vertical structure of the industry is influenced by the entrance of such strong competitors.

Comparing to Netflix and Amazon Prime Video, later entrants such as Disney, Apple, and Paramount already possess enormous Intellectual Property (IP) resources with substantial amount of creative talent. When such