Boxee: A Revolution For Your TV

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Boxee's Business

Company History

Boxee is a relatively young company, but there are still many helpful facts that can be learned from an examination of its history. The Boxee software is actually based on the XBMC Media Center project. Originally called Xbox Media Center, XBMC is an open-source application created to bring media center features to the original Microsoft Xbox game console. A large number of Xbox owners felt that the game console would be an ideal device to watch DVD's, play video files, and watch online video. This seemed like a logical use for the Xbox, since it had a sizable hard drive, fast processor, ethernet cable connection, and was already hooked to its owners television sets. However, the Xbox lacked the functionality to play many types of video and audio content.

To address this issue, a small number of home theater enthusiasts and programmers banded together to create the Xbox Media Player software, which was released in December of 2002. The software was completely free and open source, meaning the code was freely available to view and modify. Xbox Media Player could be installed on an Xbox game console through a somewhat complex series of hacks. This software later evolved into XBMC, which was released in June of 2004. Over the following years, XBMC grew to support other platforms, including Microsoft Windows, Apple's OS X, and Linux. (Wikipedia, XBMC)

Boxee was founded in 2007 (BusinessWeek, 2009) by a group of entrepreneurs who were also XBMC enthusiasts. The company forked their software code off from the XBMC project and began adding their own features and creating their own user interface. In keeping with the ethic of open source software, Boxee decided to maintain most of their code as open source, as well as contribute many features and fixes back upstream to the XBMC project. In this way, Boxee followed a established model for private companies utilizing open source software, similar to the relationship between Firefox and Mozilla or Red Hat and Linux. (Gamester17, 2008)

The first public version of Boxee to be released was in June of 2008. This version was classified as an "alpha", meaning that it was still in the experimental stages. Also, this initial version of the software was only made available for Mac OS X. (Wikipedia, Boxee) In June of 2009, Boxee was released for Windows, significantly expanding its potential user base. (Lawler,

2009) Currently, the software is available for a number of additional platforms, including Linux and Apple TV.

Management and Team

The management team of Boxee resembles that of many other high tech startup companies. The company's co-founder and CEO is Avner Ronen, an Israeli entrepreneur with a history in technology startups. In 1998, Ronen established an instant messaging software company called Odigo. When they were acquired by a larger telecom company called Comverse in 2002, Ronen became the head of corporate development focusing mergers and acquisitions at Comverse. In this role, he helped facilitate acquisitions valued at $450 million. Prior to Odigo, Ronen served 4 years in a special computer unit of the Israeli Defense Forces. (Paley Center)

A recent addition to Boxee's team is Zach Klein. On September 16, 2009, Boxee announced that Klein was joining the company as Product Manager. Klein was previously part of the founding team that created CollegeHumor, Busted Tees, and the video sharing site Vimeo. These properties are all subsidiaries of the much larger companies Connected Ventures and IAC. Klein's role at Boxee will be to conduct talks with hardware manufacturers, with the goal of moving the software from cult status into the mainstream. (Reagan, 2009)

The total Boxee team now consists of 19 members. These employees are spread between offices in New York, NY and Tel Aviv, Israel. The company has stated that they intend to remain small for the time being, in order to maintain nimbleness and keep costs down. (Ronen, Sept 16, 2009)

Business Model

Boxee's business model and plans for monetizing the software are a fascinating point of discussion. Currently, the software and services the company offers are completely free and they have no plans to charge end users in the future. Also, the company is clearly in a startup phase of development, since they have publicly stated that Boxee will be "zero revenue" for 2009. (Kafka, 2009)

However, the company has discussed a few ideas for how they might earn revenue in the future. One possibility is that they could charge a license fee to hardware manufacturers to include this software on their devices. The Boxee software could be beneficial on a range of

devices, including TV's, DVD players, BluRay players, DVR's, cable boxes, and game consoles. For example, a company like Samsung might choose to include Boxee on their TV's as a built in feature. This would make the adoption of Boxee's software by users a far more simple process, and vastly increase the functionality of the TV. If enough TV's or other devices were sold with the software built-in, and there was a small license fee attached to each device, that could add up to substantial revenue for the company. (Lawler, 2009)

Another monetization idea Boxee has discussed is the possibility of charging content creators a small fee if a user watches a video that was recommended by the software. The fee could either be a flat amount per video clip of just a few cents. (Abels, 2008) Alternatively, the fee might be a share of the ad revenue received by the content creator associated with that particular video clip. Also, Boxee has mentioned the idea of selling add-on applications within their software and taking a portion of the revenue, similar to Apple's App Store. (Lawler, 2009) Clearly, content creators or application developers might be hesitant about giving up a portion of their revenues under such an arrangement. However, if Boxee reaches a critical mass of users and can deliver a very large audience, then the fees may be deemed a worthy trade-off.

Finally, another possible source of revenue mentioned by Boxee is the idea of creating their own hardware device. This device could be a box that hooks up to a consumer's television and allows them to access the Boxee software and services. (Ronen, Jan 16, 2009) However, this idea is only in the early formative stages and it offers both advantages and disadvantages to Boxee. On the positive side, this would allow users a very convenient way to access Boxee's software and services, without having to attach a computer to their television. However, a negative aspect of this plan is that it would require Boxee to hire employees with expertise in manufacturing, physical distribution, and retail. Also, this device could be seen by other hardware manufacturers as a competitor and make them less likely to embrace the software for their own devices.

Investors / Board of Directors

Despite this lack of a clear business model, Boxee has a number of investors who have expressed confidence in the company. In a recent interview, the investors emphasized that patience is key and that the company currently has a very low "burn rate", meaning their expenses are quite low. They believe the focus at this time should be on building the software

product and growing the user base. Investor and board member Neil Sequeira stated "Too often companies can get themselves focused too early on a specific business model, which then constrains them." (Richmond, 2009)

To date, Boxee has received two rounds of venture capital funding totaling $10 million. They received their first round of funding in November of 2008 for $4 million. The investors at this time were Spark Capital and Union Square Ventures. (Wauters, 2008) Boxee's second round of funding came in August of 2009 for $6 million. The previous two investors also contributed to this round, along with a new venture capital fund, General Catalyst Partners. It is worth noting that both of these rounds of funding were received in the middle of a financial crisis and severe recession, so it clearly shows that the investors had a high degree of confidence in Boxee. (Richmond, 2009)

There were several things that attracted the investors who have contributed to Boxee's funding. Neil Sequeira from General Catalyst Partners stated that they were excited about "The boxee team, the market opportunity and our ability to be a great partner." Also, Bijan Sabet from Spark Capital said "We're convinced the time is right for something like this. Boxee has the right ingredients: it is open source and includes social media capabilities, an app store and a huge community of users/developers." (Richmond, 2009)

As is commonly the case when startup companies receive venture capital funding, individuals from these various venture capital funds have joined Boxee's board of directors. This should also prove helpful to the company, since these new board members have extensive experience in the worlds of cable, television, and online video. One board member is Neil Sequeira from General Catalyst Partners. He is a veteran of the cable TV industry and most recently served as Managing Director of Technology at AOL Time Warner Ventures. Meanwhile, Bijan Sabet from Spark Capital also joined the board. He has a high level of familiarity with cable and satellite operators, having previously worked at Moxi, WebTV, and Apple. (Richmond, 2009) Finally, Fred Wilson from Union Square Ventures is also on Boxee's board. He is a well-known blogger from New York City, and has invested in many successful high-tech startups, including Twitter, del.icio.us, Etsy, and Feedburner. (Wikipedia, Fred Wilson)

Partnerships

One area of particular promise for Boxee is the many partnerships it has been able to form. Most notably, the company has entered into agreements with several high profile content providers to offer their video or audio content within the Boxee interface. In June of 2009, they announced an agreement with Major League Baseball whereby all MLB.tv premium subscribers can watch games within Boxee. Of course, in order for this to work, a user must have an MLB.tv subscription and log in to their account within Boxee. Therefore, both MLB and the company benefit equally from this arrangement. (Albrecht, 2009)

Boxee also has partnerships with many other content providers. For example, they offer programming from CurrentTV, the web video journalism project founded by Al Gore. Also, Digg developed an application that allows Boxee users to browse the most popular videos from that site. The highly regarded blog Boing Boing offers an application showcasing videos from their site. Boxee has partnerships with several online video ventures, including Joost, Revision3, Next New, and On Networks. Also, popular internet radio stations like Pandora and Last.fm can be streamed from directly within the Boxee interface. Plus, the company offers content from a number of web stars who became hits on YouTube or through other memes, such as Justin.tv, Auto-Tune The News, The Guild, and LOLcats. Some of these content providers may not be well-known mainstream hits, but collectively they have millions of fans and viewers.

In addition to these official partnerships, Boxee also offers content from a number of other third party sites in an unofficial capacity. For example, they developed an app that allows Netflix subscribers to view streaming video from directly within the Boxee interface. Similar to the MLB.tv arrangement, a user must be a paid subscriber to Netflix for the video content to function play. Therefore, it seems equally beneficial to both companies and Netflix has not raised any concerns about this offering. Some of the other unofficial apps that Boxee offers include YouTube, Hulu, MTV, NPR, NASA, WhiteHouse.gov, TED Talks, Open University, Vimeo, Wired, Associated Press, Amie Street, BBC, Comedy Central, Flickr, Facebook Photos, CNN, WB, MySpace Video, and Twitter. (GeekTonic, 2009)

One of the other partnerships that has proven beneficial to Boxee is the strong relationship is has with developers. The company has intentionally made it very easy for any programmer to create an add-on application for their software. Therefore, if an individual's favorite content is unavailable on Boxee, it is relatively easy for them to create an application to

address this issue and share it with the community of users. As a result, many of the unofficial applications on Boxee are very high quality and difficult to distinguish from the official ones, and there is a large amount of content available that otherwise may not be.

Another relationship that is helpful to Boxee is their development of an iPhone application. This application is completely free and available to download from Apple's App Store. It allows iPhone or iPod Touch owners to use their portable device as a remote control for the Boxee software. The application operates over WiFi and gives users a convenient way to interact with the software in a living room setting. (Ronen, Mar 15, 2009)

A similar but slightly more subversive relationship that Boxee enjoys is the unique ability to be installed on an AppleTV. This is a device designed to hook up to your television and play videos purchased from Apple's iTunes video store. Many AppleTV owners have expressed frustration with the device's limited functionality. Therefore, Boxee developed a method where users can install their software on an AppleTV using a series of hacks. This process is definitely not supported or condoned by Apple. Despite this, many users have said that Boxee dramatically improves the usefulness of the device. This stands as further evidence that making Boxee available on a retail hardware device would be quite popular with consumers. (Wikipedia, Boxee)

Legal Issues

Due to the fact that Boxee is a trailblazing service that interacts with a large number of players in content, software, and hardware, the company faces many unique legal issues. One legal issue is that Boxee uses what is termed an "over-the-top" service model, meaning that their data is transferred over the broadband network, but they do not require any business or legal affiliations with that network. This model leads to what is called disintermediation; i.e. cutting out the middle man in the traditional distribution chain. (Ellis 2005) As a result, Boxee is a significant threat to cable operators, since it simultaneously uses their data network and potentially subverts their traditional paid TV business.

Therefore, network neutrality is definitely an important issue for Boxee. They believe that without enforcement of this principle, cable operators may take steps to limit or slow down the transfer of streaming video on their broadband networks. This would be a logical move for cable operators, since it would both alleviate network congestion and reduce a competitive

threat. In order to avoid this outcome, Boxee strongly supports the concept of net neutrality. Prior to the recent FCC announcement on this subject, Boxee made a statement in its blog supporting the establishment of laws or regulations to ensure net neutrality. Company CEO Avner Ronen wrote "Net Neutrality is crucial for the future of the Internet and the role of the US in a global economy." (Ronen, Sept 21, 2009)

Another legal issue facing Boxee is that they are aggregating video and audio from third party content creators, often without their express permission. This means that these content creators are potentially losing some control over their relationship with the audience. For example, if the user chooses to watch Comedy Central videos in Boxee, then they may visit the Comedy Central website less often, and therefore be less likely to experience the branding, interface, and banner ads that on that site. Thus, Boxee is clearly a disruptive technology and several content creators have taken issue with the company displaying their streaming video or audio within the software interface.

A particular example of this conflict is what recently occurred with the video streaming site Hulu, which is jointly owned by NBC Universal, Fox, and ABC. Hulu requested that Boxee cease to display their videos within the Boxee interface and took steps to block the software from being able to access their video content. In response, Boxee made adjustments to their software to restore Hulu streaming functionality. Hulu then made further changes to their site that once again blocked Boxee users from viewing their videos. (Purdy 2009) Finally, Boxee tweaked their software yet again, this time choosing to emulate the Firefox web browser in order to "trick" Hulu and hopefully avoid any further blockages. Hulu has stated that they are investigating further steps that they might take to block Boxee access. (Frommer, 2009)

This incident illustrates that some content creators and media companies consider Boxee a threat. Hulu stated that they blocked Boxee at the request of their content providers. (Kilar 2009) It is likely that the corporate owners of Hulu and other content providers would prefer that consumers watch their traditional television stations on TV rather than streaming web content, since ad revenues from TV are much higher. Also, it is possible that Hulu would prefer to be a content portal, rather than allowing their content to be viewed within another company's interface.

The final major legal issue facing Boxee is that of piracy and DRM. In addition to streaming web video, the Boxee software can also play video files off the user's hard drive.

Therefore, many people use the software to view illegally downloaded video or movie files that were obtained on Bittorrent or from other sources. This fact may be another reason why established content creators are hesitant to partner with Boxee. They may want to avoid having their subscription-based or ad-based streaming content compete directly with free pirated content from within the same interface. Also, Boxee is unable to play videos that are encoded with Digital Rights Management (DRM), which means that files purchased from sites like iTunes will not work. This also creates a disincentive for content creators to partner with Boxee, since their legally distributed downloadable content is incompatible with the software.

SWOT Analysis

To summarize Boxee's environment and business, it may be helpful to view an analysis of their Strengths, Weaknesses, Opportunities, and Threats. This is provided in list form below:

Strengths

- Ability to play a wide range of media
- Content partnerships
- Strong developer community
- Strong venture capital funding
- Easy to use interface
- Unique product offering
- Free business model
- Social networking element

Weaknesses

- No mobile strategy
- No recording of video
- Can't play files encrypted with DRM (iTunes purchased videos, etc)
- Still unstable due to alpha software status
- Lack of clear business model

Opportunities

- Partnerships with hardware manufacturers
- Partnerships with content providers

- Development of their own hardware device

Threats

- Potential for blocking of content from 3rd party sites (Hulu)
- Competition from tech industry players (Apple, Microsoft, YouTube)
- Competition from big media companies
- Lack of net neutrality enforcement

Key Issues

        As a startup company with no clear business model and an early alpha softare release, Boxee clearly faces a number of pressing issues. However, we believe that the most essential issue facing the company at the present is to increase their user base. If they are able to successfully achieve this goal, then we believe a profitable outcome will inevitably follow. They have some innovative ideas for how to monetize that seem like viable options. However, these would only be successful with a critical mass of users. Also, if they have more users, then more content companies will likely be open to negotiating partnerships with them. Finally, with a large user base, they may become a more appealing acquisition target by a larger, more established tech or media company.

Recommendations

        We have several recommendations for how Boxee might achieve the goal of increasing their user base. First, it is obviously important for them to release the Beta version of their software. This version promises to add many new features, along with a more streamlined user interface. More users are likely to adopt the software if it is more complete and smoothly integrated. Also, more companies are likely to be open to partnering with Boxee if the company can offer a more compelling user experience.

        Secondly, we recommend that Boxee focus intently on establishing partnerships with hardware manufacturers. The company has done an excellent job of appealing to tech savvy early adopters offering a software-only solution. However, in order to expand beyond this limited user base, it is essential that they offer their software on one or many physical devices. The easier it is for users to adopt the software, the more likely they will be to do so.

Third, we recommend that the company engage in an advertising push to expand awareness of the product. Currently, Boxee is very familiar to followers of new media and consumer electronics developments. However, the company needs to become a more widely known mainstream brand. To achieve this goal, we recommend they advertise on sites that currently show many online videos, including YouTube, Vimeo, Comedy Central, and MTV. These sites are likely to be frequented by consumers who already spend a great deal of time watching online video and a product like Boxee would likely have great appeal for them.

Lastly, we recommend that Boxee strive to improve its social networking functionality. Currently, when new users sign up for the service, they are given the option to pull contacts from other social media sites. Unfortunately, the list of sites that users can access is limited to Gmail, Twitter, and FriendFeed. Boxee should try to include sites like Facebook in this list, since this is a primary method for many people to connect to friends online. Also, Boxee should take a more active role in encouraging users to grow their friend networks once they have signed up. For example, they could adopt "suggested friend" features, similar to what is offered in other social networking sites like Facebook and Last.fm. We believe these enhanced social networking features would help encourage the growth of friend networks within Boxee and increase its relevance and value for end-users.

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