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Content delivery: find your partners!

During our visit to Streaming Media East last week, we had a chance to tour the exhibit hall. We found there a host of Content Delivery Networks (i.e. the companies providing the distribution infrastructure for streaming video and audio, such as Akamai, Limelight and others), all competing for content aggregators' and owners' business. While there was definite differentiation in terms of bundled services (i.e. DRM, usage metrics, ad insertion, billing and other capabilities), we were struck more by the sameness than the differentiation these competitors were trying so hard to achieve.

The overall rapid growth of the content delivery industry (and especially leader Akamai), which continues unabated at present is being driven by growth at content aggregators such as Hulu, YouTube and others. For a while this will for a time allow smaller players to stay in the game, as the pie eventually starts growing more slowly, these firms are going to start to have to steal each other's lunches to grow themselves. When this relative commoditization is combined with the vast array of market participants, and the continued flux of new entrants, this banker's deal senses start to think: it's time to consolidate!

Consider the advantages to scale in the CDN industry:

- Cost advantages
 - Low cost access to bandwidth
 - Can amortize software development expenses over large base
 - Branding, marketing and advertising
- Negotiating leverage with similarly consolidated media counterparties
- Access to industry talent (i.e. people want to work for the leaders)
- Cheaper access to capital

So, while technology and intellectual property provide some barrier to entry (as demonstrated by the successful Akamai suit against Limelight), the really sustainable competitive advantage is size itself.

When commoditization is combined with a vast array of market participants and a continued flux of new entrants, it's time to consolidate!

The CDN industry consists of the whale Akamai, a few big Tuna (i.e. AT&T, Limelight, Level 3 and perhaps Internap's VitalStream) and a lot of minnows.



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Today, the CDN industry consists of the whale Akamai, a few big Tuna (i.e. AT&T, Limelight, Level 3 and perhaps Internap's VitalStream) and a lot of minnows. If you're one of the little guys, it's going to take a few decades of organic growth to get to par with the big guys, and realistically there isn't enough time for that (or patience on the part of their investors, who always keep an eye on the exit). So, we expect the management and owners of these smaller CDNs to realize that to get to a competitive scale, M&A isn't the best choice, it's the only choice. I don't mean to suggest that there isn't a role in the marketplace for smaller CDNs – there will always be a role for smaller firms that provide more specialized marketing or bundled services for niche or regional markets that large firms can't address economically. However, these firms are likely to operate at the margin and be of decreasing overall importance going forward.

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