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Action Camera Industry

A marketing strategy analysis

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Executive summary

The action camera industry was worth 3.2 billion USD in 2014 (Seitz, 2015) and is forecasted to grow until 2021 with CAGR of 15%. It is facing some opportunities including (1) more focus on professional uses such as TV production, wildlife research, law enforcement and security, (2) frequent technological breakthroughs which may lead to innovations serving customers better, and (3) growth in Asia Pacific region.

The industry witnessed several attempts in the last century to turn normal cameras into first-person viewpoint cameras which brings realistic and extreme feelings to audience. In this century, GoPro has pushed the industry to the next level. It is one of the leading companies in terms of quality and innovativeness. The company first targeted the quality-focused customers but later targets multiple segments by offering a budget line of action camera besides its high-end cameras. It positions its products as experiential products.

In the market, there are three competitors that GoPro needs to pay more attention to are Garmin, Sony, and SJCAM. Garmin has a differentiation strategy with innovative products at high prices. Sony offers quality but at flexible prices like GoPro's new target strategy. Meanwhile, SJCAM is a cost leader that is growing fast.

Despite being a dominant player in the market, GoPro has financial problems due to high costs of inventory, marketing, and R&D. It is also exposed to the threats that the whole action camera industry has to face including (1) potential substitution of smartphone cameras, (2) frequent technological breakthroughs which might lead to substitutes or current products being outdated, and (3) market saturation due to fierce competition and long shelf life of cameras.

Based on the problems, the opportunities and threats of GoPro, we give 5 suggestions. First, the company should keep its position of being the industry leader with differentiation strategy and the ability to keep up with the latest trends. Second, costs of inventory and distribution should be reduced by inventory management and online sales. This can be conducted by releasing limited edition of a better camera or an old camera with customization. Third, it should consider expanding to Asia Pacific in terms of physical distribution channels to raise brand awareness in this region. Fourth, professional use is also a market that is worth considering. To deal with problems resulted from different positioning strategy and values, GoPro can establish a new entity at arm's length. Finally, it should consider expanding to smartphone camera market to lower the risk of losing to this generic competitor.

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1. Introduction

The world is witnessing a high growth in adventure tourism due to increased disposable income, hence, increased spending on leisure activities, and a healthier and more active lifestyle. In fact, the adventure tourism is the fastest growing section in the tourism industry (Technavio, 2017). This is a demand driver for action cameras, which enable users to capture their moments of life in high definition while doing their favorite sports. The action camera was worth \$3.2 billion in 2014 (Seitz, 2015) and is expected to grow until 2021 with CAGR of 15% (Technavio, 2017).

In this market, GoPro is a dominant player offering high quality products. It has interesting effective strategies such as targeting multiple market segments and using user generated content promotion. However, the company is operating in a fierce competition and exposed to threats brought by technological advancements, which leads to its low performance last year, 2016. This report will, hence, (1) analyze the market and competition in which Gopro operates in, (2) analyze and evaluate its marketing strategy, and (3) give recommendations on its marketing strategy.

2. What is an action camera?

An action camera is a camera designed for capturing and filming action, often in a first-person viewpoint. Action cameras are often associated with outdoor sports and extreme sports. However, they can be applied in different fields such as wildlife study and TV production. The action camera emerged from the need to capture the moments in the most realistic and quality way. Through the years from its creation, companies have improved technologies to get photos and videos of much higher quality than years ago.

3. Evolution of action cameras

In 1960s, a skydiver, Bob Sinclair, mounted a camera on his helmet to create less shaky and more realistic and extreme videos from his dives. Around the same time, NASA modified cameras to make them workable on moon, which was easy to use for astronauts with gigantic gloves and suits on. In 1987, Mark Schulze, considered a pioneer in action camera industry, mounted a VHS camera on his helmet connected with a videocassette recorder connected with a RCA cable in his backpack. In 1986, biologist and filmmaker Greg Marshall developed Crittercam to record the life of animals in their natural habitats without the presence of human. This camera has been being developed even today. Besides recording, it can now collect data of the environment such as temperature and acceleration.

Those are some of multiple attempts with the early form of action cameras. However, the industry was pushed to the next level by GoPro which produces cameras that are specifically designed for the purpose of capturing and filming actions. After the company's success, other camera companies have joined in the competition. Nowadays, action cameras are compact, lightweight and mountable. Besides, most action cameras, if not all, offer HD quality, an LCD screen, Wi-Fi connection and waterproofing features.

4. GoPro's background and history

GoPro, founded in 2002 in the United States by Nicholas Woodman, is a company specialized in action cameras and related equipment, accessories, and software. Its products are known for high quality and innovativeness. Today, GoPro has sold more than 26 million cameras in over 100 countries by both online and offline channels. Its cameras are available in 45,000 brick-and-mortar stores (GoPro, 2017) mainly in North America and Europe.

However, the company does not own any of those stores. They are big retail chains such as Walmart and Target, mid-market retail chain like Apple store, and special need store like QuikSilver.

It started out with action cameras. This resulted from the fact that Nick is a surfer while cameras at that time were mainly not waterproof and could not capture action in good quality. Therefore, he came up with the idea of developing a durable camera that could capture the moments of his friends and family while doing sports.

In 2005, the company sold its first camera, the Hero 35mm 0001, at the price of US\$20. It was a camera with a 35mm film, which could only take a limited amount of photos and could not even film a video. However, it was innovative because it had a waterproof case and a wrist strap convenient for sports and fitting everyone, and was at a very friendly price. This low price is contrasting to previous action cameras for commercial which were priced around \$2,000.

In 2007, the company introduced its first digital camera. In 2010, it successfully moved to HD cameras. In October last year, 2016, it introduced its first drone, KARMA, catching up with the latest trend in the industry. However, one month later, it had to recall the released 2,500 drones with full refunds due to a faulty electrical power loss which caused random fall from the sky. This resulted in the high costs in the final quarter of GoPro's 2016. In the beginning of 2017, it released Omni, a 360 camera that plays back in the form of virtual reality. In July 2017, GoPro introduced QuikStories, a new feature for its video-editing app that pulls videos of a HERO5 or HERO6 to create a Quik Story on mobile phones.

Financially, the whole year of 2016 was a bad year for the company with losses or very low income in every quarter. Factors contributing to the high costs include spending on R&D and marketing, and the high inventory costs. GoPro's research and development costs were

around \$90 million in Q4, 2016 (Gensler, 2017). Sales and marketing costs expenses were \$112.7 million. Moreover, on average, its inventory cost is \$150 million per quarter (ibid.).

5. Action Camera Market Assessment

5.1. Size & Growth

The action camera market was worth \$3.2billion in 2014 with consumer uses accounting for 86% of the market and professional uses such as TV production and wildlife research accounting for 14% (Seitz, 2015). It is expected to grow steadily until 2021 with CAGR of 15% (Technavio, 2017). A demand driver for this growth is the high growth in adventure tourism which is one of the fastest-growing segments of the tourism industry and was valued at more than USD 430 billion in 2016 (ibid.).

5.2. Geography & economy

North America is the dominant contributor to the consumption of the action camera market. The reasons for this include the larger number of sports enthusiasts in North America than anywhere else, high standards of living and high spending. Also, the latest technologically advanced products are often introduced in North America first, which makes consumers of this region probably more comfortable with and willing to try innovations. Europe is also a big contributor to the consumption of action camera due to similar reasons. Meanwhile, Asia Pacific is witnessing a growth in the action camera due to the growth in disposable income, hence, higher spending on leisure and sports activities. According to Seitz (2015), unit sales in North America rose 38% in 2014 while that in Asia Pacific rose 114%.

5.3. Socio-Culture

Consumers' lifestyle has changed to be more active and healthy which can be seen through the high growth in adventure tourism. This is a demand driver for action camera sales. However, it is seasonal because the activities, which lead to the need of action cameras, usually occur in the summer and the winter. A second lifestyle that affects the action camera industry, one of the many affected industries, is the sharing of photos and videos of consumers in social media. Along with the increased popularity of social networks and technology, consumers want to update their friends on what they are doing through vivid ways as photos and videos. GoPro is very capable of catching the latest trends as it develops apps for video editing and sharing. The company also emphasizes sharing the experience among customers and bringing inspiration. That is a factor why its Youtube channel is among the top 10 biggest ones.

The third factor is the use of social media in China. China is the biggest country in terms of population with 1.4 billion people. It is a fast growing developing country with its citizens having increased disposable income. In general, it is a huge and full-of-potential market. However, Youtube and other social networks, which are popular to other parts of the world and on which GoPro is present, like Facebook are blocked in this country. An alternative site to Youtube is Bilibili. However, it is not as extensive as Youtube as a video social network. Normally, Chinese internet users have to go to different websites for different content. This might hinder the strength resulting from the unique user-generated-content model of GoPro in China.

5.4. Technology

Technological breakthroughs have been increasingly frequent recently. With the development of education, cumulative expertise and higher spending on R&D, innovations come to real life in a fast pace. Many of the innovations, at first aimed for a specific industry, can be

applied in others. For example, LCD screen and touch screen at first were introduced in TV screen and mobile phone industry. Now GoPro has integrated them in its latest products, HERO5 and HERO6. This flexibility in application forced companies to pay attention to breakthroughs not only in their industries but also in other (potentially) related ones. Another factor in technology, which might be a threat for action camera industry is the excellent-quality built-in camera of smartphones. The quality of the built-in camera has been being improved rapidly. With smartphones nowadays, consumers can easily take pictures or film videos in relatively high definition. Moreover, it saves money and space to have a smartphone than to have a smartphone and an action camera.

5.5. Opportunities and Threats for the Action Camera industry

Through the market assessment, we identified opportunities and threats for the action camera industry.

Opportunities	Threats
<ul style="list-style-type: none"> • Expansion to professional use • Frequent technological breakthroughs • Asia Pacific market 	<ul style="list-style-type: none"> • Smartphones with built-in excellent-quality cameras • Frequent technological breakthroughs • Market saturation (competition, shelf life)

6. Competition assessment

GoPro offers high-quality products mostly at high prices. It introduced a budget line of camera only recently to target another market segment. Therefore, for brand competitors, we have identified Garmin and Sony which have relatively the same positioning strategy with

high quality and highly-priced products. For products competitors, we identified companies that offer action cameras with lower quality at low prices. These include iON, Drift, Polaroid, SJCAM, and again, Sony. For generic competitors, we identified products that can be substitutes to action cameras, including smartphones, tablets, and normal digital cameras. Since Sony has a much diversified product portfolio, it is also a generic competitor. Finally, everything else such as food and housing are GoPro's total budget competitors.

Among the competitors, we picked Garmin, Sony, and SJCAM to be the ones to focus on in this report because Garmin and Sony are very strong competitors with their expertise, diversified product portfolio and brand awareness. Meanwhile, SJCAM is a less strong competitor following cost leadership strategy and is growing very fast.

6.1. Garmin

Garmin, founded in Kansas in the United States in 1989, is an American multinational technology company. Its revenue in 2016 was \$3 billion and its current share price is around \$61. The company is well-known for its GPS technology in automotive, aviation, marine, and sports utilities. It has expanded to manufacturing action cameras with high quality at high prices. Today, Garmin has two action cameras, priced at \$400 and \$800 respectively.

6.2. Sony

Sony was founded in 1946 with its headquarter based in Tokyo. The company is now worth approximately 7.7 billion USD. Its total revenue in the fiscal year 2017 ending in March was around \$70 billion (Statista, 2017). The company is diversified with its products including Consumer electronics, Game & network Services, Music, Pictures, Financial services and Professional cameras. In action camera category, it offers products at a wide range of prices from low to high.

6.3. SJCAM

SJCAM, founded in 2010, is a Chinese Shenzhen-based company. It originally produced toys and equipments but later moved totally to manufacturing and selling action cameras. It is now following cost leadership strategy, offering cameras at low prices to gain more market share. Its cameras have been sold in more than 60 countries in Europe, North America, South America, Middle East, and Southeast Asia.

6.4. Strengths and weaknesses of GoPro, Garmin, Sony, and SJCAM

	Strengths	Weaknesses
GoPro	<ul style="list-style-type: none"> • Strong presence in North America • Brand awareness • Brand equity (quality, durability) 	<ul style="list-style-type: none"> • Financial issues (high costs)
Garmin	<ul style="list-style-type: none"> • Brand equity (quality, durability) • Diversified portfolio 	<ul style="list-style-type: none"> • Limited choice in action camera category with only 2 types
Sony	<ul style="list-style-type: none"> • Brand equity (quality, durability) • Brand awareness (wide product portfolio) • Diversified portfolio makes it easier to expand to other industries 	<ul style="list-style-type: none"> • Lower market share in action camera market • Less visibility in the action camera market, better known for consumer electronics and smartphones
SJCAM	<ul style="list-style-type: none"> • Strategy matches Asia Pacific market's preference for low-priced products 	<ul style="list-style-type: none"> • Low brand awareness

7. Marketing strategies of GoPro, Garmin, Sony, and SJCAM

7.1. GoPro – multiple segments, experiential products

Targeting multiple segments

Take a view at Gopro's products, originally, GoPro only offers high-end choices like Hero 5 and Hero 6 for those quality focused customers. However, as more and more manufactures squeeze into this industry for potential sales promotion, they have realized the importance of market penetration and provide lower price product like Hero session (\$149 compared to Hero 5 \$399 or Hero 6 \$499) for price sensitive customers. In terms of size, Hero 5 session, a 1cm-1cm-1cm cubic, suits the situation that a more compact product is needed, especially for those sports-lovers.

Positioning as an experiential product

Back to the first day that Nick woodman created the name "Gopro", the pursuit of capturing and sharing images has led the growth of Gopro all the way to the position it holds today. Under the mission "capture and share your life", different accessories are invented for different situations, such as surfing, skiing or cycling. In 2016, Quik, an on-hand video editing app came out so that users can adjust and share their work on social media platforms more easily.

Marketing mix strategies

Smart use of user-generated content is a unique feature of Gopro. Instead of paying for expensive advertisement, they gave the keys of their brand to their customers. By involving and inspiring their users to upload videos online, they successfully develop the most authentic relationship that other online retailers are jealous of. Gradually, Gopro is not only action camera, a tool, but also a creativity fountain. Besides that, they sponsor famous athletes and outdoor activities to enlarge their brand influence power.

For distribution strategy, they flexibly take advantage of existing online and offline channels by working with large retailers such as Amazon and Walmart, electronics stores and specialty stores. Customers can also order directly on the official website. Avoiding self-owned retail stores helps them save money and devote to R&D and marketing.

7.2. Garmin - high active price strategy

Garmin is more than an action camera company. It's a multinational technology company competing in wearable devices industry, known for specialization in GPS technology development for extensive uses, such as automotive, aviation, marine, outdoor utilities. In action camera area, its product, VIRB Ultra 30, features voice control to free your hands and GPS to record your motion track, speed or altitude. Their products are sold online and offline with self-owned stores. Compared to Gopro, it has smaller market share mainly because of less-known brand name.

7.3. Sony - high active price strategy, multiple segments

Needless to say, Sony, the old brother in camera area never misses one single chance to keep up or lead the tide. Its best-selling action camera, FDR-X3000, shaped like a cylinder, is a little bit clunky when compared with Hero series but better in image quality and stabilization. However, Sony also has other action camera lines at lower prices. Like Garmin, they have their own retail stores and online website.

7.4. SJCAM - low active price strategy

SJCAM versus Gopro is like Xiaomi versus Iphone in action camera area. The only feature of SJCAM is its affordable price with similar but less powerful functions contrasting with Hero series. Customers can buy their products on their website or in some sports equipment stores.

8. Evaluation of GoPro's strategy

Being a dominant in action camera market, Gopro's revenue growth by quarter once reached as high as over 70%, also plunged as low as -49% in quarter 1, 2016. Its stock price touched the peak of over \$80 in 2014 and now stabilizes at around \$10. They created a legend but also fell down to the earth, telling us the truth in business. Facing the huge loss in 2016, they determined to reposition as an end-end hardware and software storytelling solution, balancing the weight between hardware and software. One thing matters is that they actualized consistency during their repositioning process, creating a sense of continuity. They still hold on to their mission "capture and share your life" with a better solution.

9. Recommendations

The first recommendation we have for GoPro is to always catch up with the latest trends and to invest in R&D to be the industry leader and get the first mover advantage. GoPro has been successful due to its ability to keep up with the latest trends in both hardware and software. For hardware, the company has been the industry leader in the quality and the innovativeness of cameras. It also expanded to drones and 360-degree camera and virtual reality very early in the industry. For software, it leverages well the social popularity of sharing photos and videos of internet users for promotion purpose.

Second, since the company is having financial issues due to high costs, GoPro should cut costs through inventory management and marketing. Since the inventory costs are relatively high, sometimes even higher than sales or R&D costs quarterly, inventory management is a must. This inventory costs include costs to have its products displayed in stores. Therefore, marketing costs can be cut down by moving sales of some later products totally to online

sales. This can be conducted by releasing limited edition of a more developed or a whole new camera, or even with customization.

Since the action camera market is reaching the saturation point, GoPro should definitely expand to new areas. The expansion can be geographically, for example, to Asia Pacific region. Since this market is witnessing growth and the company has not had retail locations in Asia yet, GoPro should consider entering this market through physical distribution instead of only using online sales. The rationale behind this is to increase the brand awareness.

Fourth, the company should consider expanding to professional uses including TV production, wildlife research, law enforcement and security because these uses only account for 14% of the action camera market. Implementing this idea can be quite complicated because it will change the way GoPro positions itself as a company focusing on the experience and sharing the moments. However, it can establish another entity and keep it at arm's length so not to confuse customers with different positioning strategies and lose its original values.

Finally, GoPro should also consider expanding to smartphone camera industry. Because smartphone is an alternative to action camera, GoPro has to either outperform smartphones or diversify itself into the smartphone camera market, or do both of the options. The company can keep offering action cameras with differentiation while steadily investing in this "potential substitute". It should partner with smartphone brand(s) to have its new camera integrated into smartphones. To leverage this expansion, the company can negotiate to have its brand name listed on the phone, near the camera to increase brand exposure. This strategy actually has been used by Leica Camera AG, the famous German company that manufactures optics and high-end cameras. An example is the Huawei P9 with Leica's name on the back of the phone.

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Appendix

GOPRO'S QUARTERLY REVENUE AND NET INCOME

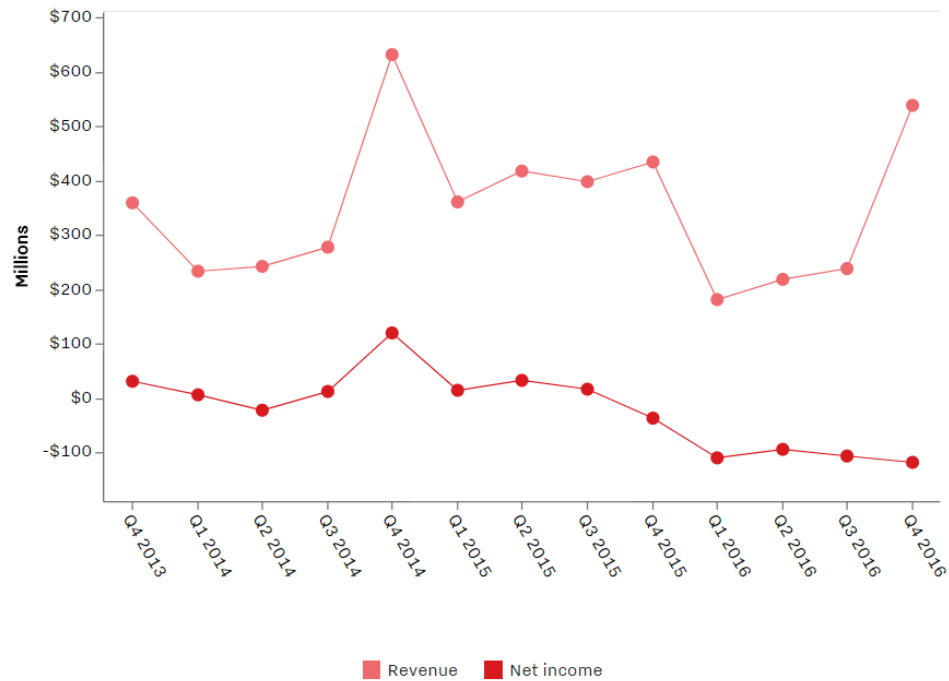


Figure 1. GoPro's quarterly revenue and net income (O'kane, 2017)

(\$ in millions)	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Cash, cash equivalents and marketable securities	\$ 196.6	\$ 149.8	\$ 74.9	\$ 218.0	\$ 224.9	\$ 279.2	\$ 388.7	\$ 474.1	\$ 513.1
Days sales outstanding	27	29	23	27	35	27	23	30	27
Inventory	\$ 177.2	\$ 126.7	\$ 207.7	\$ 167.2	\$ 145.2	\$ 89.9	\$ 139.7	\$ 188.2	\$ 289.5
Annualized inventory turns	5.2x	4.5x	3.2x	8.4x	4.9x	4.4x	3.0x	5.1x	3.4x
Inventory days	81	60	126	46	92	64	102	55	122

Figure 2. GoPro's quarterly inventory costs 2015-2017 (GoPro, 2017)

GPRO Revenue (in millions \$)		FY 2017	FY 2016	FY 2015	FY 2014
IV Quarter	December	-	540.62	436.60	-750.34
III Quarter	September	329.81	240.57	400.34	279.97
II Quarter	June	296.53	220.76	419.92	244.61
I Quarter	March	218.61	183.54	363.11	0.00
FY		844.95	1,185.49	1,619.97	-225.7

Figure 3. GoPro revenue 2014-2017 (CSIMarket, 2017)

GPRO Revenue (Y/Y Growth %)		FY2017	FY2016	FY2015	FY2014
IV Quarter	December	-	23.83 %	-	-
III Quarter	September	37.09 %	-39.91 %	42.99 %	-
II Quarter	June	34.32 %	-47.43 %	71.67 %	-
I Quarter	March	19.11 %	-49.45 %	-	-
FY		-	-26.82 %	-	-

Figure 4. Gopro revenue growth 2014-2017 (CSIMarket, 2017)