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the rise of video conferencing platforms amidst the covid-19 pandemic

Lydia Hänninen, Emma Pettersson and Anne Torvinen

Academic Writing

Instructor: Sophia Butt

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# Introduction

The COVID-19 pandemic has acted as a catalyst in the rise of video conferencing platform companies. The market is led by key players: Skype, Zoom, Microsoft Teams and Google Meet. In spite of the competition against established major companies, Zoom was better strategically positioned than its competitors to seize the growth opportunity presented by the pandemic as work-from-home practices became the new norm. This is the result of Zoom’s simplicity, versatility and agility in reacting to changes in customer demands.

The report will address the growth of the video conferencing industry over the past decade as well as define opportunities presented by COVID-19 with specific references to the market. The role of the product itself as a driving factor in the growth of a company will be analysed, combined with an evaluation of potential hindrances to growth potential. In addition, the competitive environment of the video conferencing market shall be analysed by identifying the major competitive pressures and evaluating the extent of the interdependence of firms. Finally, the relevance of this case for other firms and implications for the future will be addressed.

# COVID-19 Opportunities

COVID-19 is expected to have a lasting impact on the business world. Companies from various industries worldwide have struggled to avoid bankruptcy; yet some companies have successfully seized the growth opportunity arising from the pandemic. Video conferencing is one of the industries that has benefitted from the pandemic. Notably, Zoom has shown immense growth as a result of being able to meet the increased demand during the pandemic.

## **2.1 Growth of Video Conferencing Platforms**

The demand for video conferencing has surged in the past decade. The value of the market is expected to grow at a rate of 9.9% between 2020 and 2027 (Grand View Research, 2020). As business necessitates fast decision-making and tight collaboration, video conferencing provides companies with a modern solution to take advantage of the effects of globalisation and implement remote working.

There has been a 140% increase in remote working between 2005 and 2019, indicating that the upwards trend existed prior to the COVID-19 pandemic (Scott, 2020). In addition to reducing costs related to management and travel, video conferencing improves productivity and has therefore become a beneficial asset for companies of all sizes (Grand View Research, 2020). In the past, video conferencing platforms have required extensive effort from IT departments, limiting their potential. The market has grown since and competition has urged video conferencing companies to advance their products to match customer needs. Cloud-based solutions have changed the market by replacing the physical hard drive, offloading the burden on IT departments and lowering the cost of storage. This has made video conferencing more accessible: anyone with a mobile device or laptop can host and participate in a meeting (Frost & Sullivan, n.d.).

COVID-19 has escalated the existing upwards trend of video conferencing. The pandemic has changed the market and created opportunities and challenges for all companies in the industry over a short period of time. Due to cancelled events and restricted face-to-face meetings, employers and employees alike have sought out virtual alternatives, resulting in the growth of the video conferencing market (Grand View Research, 2020). During the pandemic, video conferencing has become a part of the infrastructure rather than a choice; it is incorporated into both personal and professional lives.

## **2.2 History of Zoom**

The key players of the video conferencing market which are to be discussed in this report are Skype, Zoom, Microsoft Teams and Google Meet. Each platform has comparative advantages against other competitors in the market, but Zoom managed to best seize the opportunity presented by the pandemic.

From the beginning, according to the CEO of Zoom, Eric Yuan, the primary goal of the company was to ‘deliver happiness’ by giving customers an easy-to-use platform with a focus on high-quality video (Sarlin, 2020). From the time Yuan spent at WebEx, he had learnt that it is crucial to keep the service running at all times. This prepared the company to handle the growing traffic and unpredicted demand during the pandemic (ibid: 3).

The priorities of Zoom are the following: customers first, ease-of-use and high-quality video. This was achieved by replacing complex passwords with links, providing screen sharing and reducing friction (ibid: 3). The primary goal of the company was to make the service accessible in locations with unstable Internet coverage. An advanced technology approach provided Zoom with a comparative advantage in the market (Lev-Ram, 2020). Even though Zoom was unable to gain much attention, it still provided the simplest version of video conferencing.

Zoom used a freemium strategy as a way to gain more attraction from customers. The company provides 40 minutes of free usage to everyone as an easy method of testing the product. According to research conducted by Zoom, the optimal time for a conference call is 45 minutes. This is the time after which Zoom begins to charge its customers (Konrad, 2017). This means that people with different video conferencing platforms can experiment with Zoom without experiencing high switching costs, making it possible for Zoom to enter the saturated market (Sarlin, 2020).

In 2016, Zoom began to gain traction when the company saw a 300% increase in revenue. In 2017, the company had 450000 business customers. Zoom became well-known in Silicon Valley and six years after the launch of the company it reached a value of US$1 billion when a leading venture capital firm invested in Zoom (Konrad, 2017). After this milestone, COVID-19 helped the company become even more successful as those who had never used video conferencing platforms were forced to shift their work and social lives online. Video conferencing has always been the primary focus for Zoom and so it was able to meet customer needs and prove its reliability (Lev-Ram, 2020).

# Role of the Product in Growth

Zoom has shown immense growth during the COVID-19 pandemic. However, there is uncertainty regarding whether the company will continue to flourish after the economy reopens and the need for video conferencing platforms decreases.

## **3.1 Zoom’s Growth Potential**

The simplicity and versatility of the user interface provided by Zoom expands the target market of the platform beyond those of direct competitors. Zoom does not require extensive computer literacy as users are able to access video conferences through one link nor does it require an account to join a meeting. Compared to Skype and Google Meet, which both require the user to log in, the platform does not have a complicated set-up process. Regardless of the device being used, the platform can be accessed. Moreover, Zoom boasts diversity in its usage capabilities of being able to create breakout rooms, polls and enabling screen sharing (Hamilton, 2020). By offering a number of diverse free features, Zoom has established itself as a significant competitor to other video conferencing platforms in the market such as Google Meet and Microsoft Teams.

The versatile design of Zoom adds to the appeal of the platform which in turn brings a larger consumer base and creates more revenue creation possibilities. During the COVID-19 pandemic, Zoom has been implemented in schools, businesses and other official governmental practices, thus being able to capture a large portion of the market. The platform has been developed to support hundreds of users simultaneously in a single meeting, making it ideal for large audiences and in-house usage (ibid).

The company has shown agility when reacting to changing demands by listening to customer feedback and administering changes to improve the platform. During a security breach, Zoom temporarily froze the development of new features to fix an issue raised by customers. Zoom integrates well with third-party applications like PayPal and Slack and maintains communication between the businesses and external collaborators (ibid).

## **3.2 Privacy Issues as a Threat**

Despite the popularity of Zoom, the company has faced issues regarding its security and customer privacy (Chen, 2020). Cyberattacks, known as ‘Zoombombings,’ have increased and reports of hackers infiltrating Zoom calls and showing explicit content caused the value of the company to drop. Direct competitors of Zoom, such as Microsoft Teams and Google Meet, had better security encryptions and thus a competitive advantage. Zoom has tried to improve the privacy of its customers by creating waiting rooms in which unwanted guests cannot enter without the host accepting them first. The encryption of the software was also improved, among many other features, and most of the security issues have now been resolved (Parsons, 2020).

In addition, Zoom received negative publicity for sharing data with third parties like Facebook but has since removed this and updated its privacy policy in March 2020 (Hamilton, 2020). The backlash may cause damage to the image of Zoom and could result in a loss of customers and revenue to competitors. Arising security issues have even caused some countries to ban Zoom completely or limit its usability in certain departments (Sarlin, 2020).

## **3.3 Stock Value and Expectations**

At the beginning of the pandemic, the revenue of the company increased by over 367% and has been steadily rising ever since (Krause, 2020). However, shares fell following reports of the cyberattacks and the stock of Zoom decreased in its third-quarter earnings against the high expectations in October 2020 (ibid). Revenues are expected to decrease as the economy reopens. The future of the company depends on how well Zoom can sell its newest features, such as Zoom Phone, to the existing customer base and if the demand for video conferencing platforms will remain high after the pandemic.

# Competitive Environment

The competitive environment of a market has a significant influence on business. Through the identification of the major competitive forces and evaluation of the interdependence of firms in the global video conferencing market, the effect of the competitive environment on companies, such as Zoom, can be analysed.

## **4.1 Competitive Pressures**

The global video conferencing market, catalysed by the pandemic, is showing rapid growth. The market is projected to be worth US$10.92 billion by 2027; this is approximately double the market value of US$5.32 billion in 2019 (Fortune Business Insights, 2020). This growth can be seen as an indicator for highly competitive behaviour, particularly between key players such as Zoom, Microsoft Teams and Google Meet.

Through the use of Porter’s Five Forces Framework (1979), it can be deduced that the most significant competitive pressures in the video conferencing market are a high threat of substitutes and the significant bargaining power of buyers. This stems from very low switching costs for buyers, signalling that there is low commitment associated with switching to the product of a competitor. Furthermore, the number of substitutes is high due to the relatively homogenous nature of video conferencing platforms as products. It should also be noted that since Zoom, Microsoft Teams, Google Meet and Skype are all accessible without a payment, this effect is further strengthened. The nature of the competition between video conferencing platforms calls for constant product development and effective branding as a differentiation strategy to ensure the retention of a loyal customer base. This serves as an indicator to communication technology companies that the need to respond to and act upon customer criticism must be fulfilled.

The need to swiftly respond to changes in customer demands can be demonstrated through a brief examination of Skype. Following the acquisition of Skype by Microsoft in 2011, the company redesigned the platform in an attempt to compete against other non-video communication channels in the market (Stokel-Walker, 2020). By shifting the unique selling point of the platform away from providing reliable and stable video conferencing, users began to regard Skype as dated and redundant. As Skype struggled to retain customers, competitors such as Zoom were innovating new and relevant functions. The ongoing development of competing platforms catalysed the movement of users from Skype to its direct competitors. This case highlights the importance of constant product development to cater to current customer needs. This is particularly important in a market such as the digital technology market which is constantly evolving and innovating.

Responsiveness can be viewed as an attribute which can effectively contribute to creating a competitive advantage. This is showcased in Google’s response to the scrutiny Zoom was under for issues regarding user privacy and security. In their decision to change Google Meet from a premium service targeted at businesses to a free platform available to the general public, the company emphasised the security and privacy protections of their service (Eadicicco, 2020). This can be interpreted to have been made with the purpose to encourage customers to directly compare the security and privacy capabilities of Google Meet with those of Zoom as an attempt at creating a competitive edge.

## **4.2 Firm Interdependence**

The competitive environment in the video conferencing market as described in Section 4.1 prompts the expansion of operations into other sectors. Facilitated by the social distancing restrictions in place to contain the spread of COVID-19, distance learning has led to education becoming a new major sector for video conferencing. Furthermore, video banking is forecasted to be a driver in the growth of the market (Fortune Business Insights, 2020), suggesting that financial services will be another significant sector in targeted marketing and product innovation.

Zoom currently operates in four industries outside of business communication: financial services, education, healthcare and government (Zoom Video Communications, 2020). As a repercussion of the work-from-home phenomenon, research has been conducted to determine which attributes of Zoom contribute to the possibility of using the platform to perform qualitative research (Gray, et al., 2020). At this point in time, there is limited research into the potential of applying video conferencing platforms for research purposes. As many video conferencing companies have yet to enter this sector, if Zoom were to focus their product development and marketing to cater to the needs of this sector, the company will be able to expand their customer base. This will allow Zoom to enjoy first-mover advantages such as gaining a loyal customer base, thus building a competitive edge against competitors. However, due to the highly interdependent nature of the competition, other firms will quickly mimic this behaviour and penetrate this sector of the market.

# Implications for the Future

The case study of the success of Zoom during the COVID-19 pandemic can be applied in the future when similar circumstances arise. The analysis in this report highlights the importance of readiness for change: a company operating in a volatile market such as the digital technology market is required to have a certain degree of flexibility in their strategies so that changes can be accounted for without losing the overall strategic direction. Zoom has also demonstrated the importance of staying up-to-date with trends and tailoring the product development process to the needs of the customer. Finally, the nature of the competition in the market as a whole indicates to companies that there is a need for continued innovation and risk-taking in order to grow.

Zoom has also illustrated that it is possible for a firm to be years into development before surging into success. The company has been perfecting their platform to fit customer needs for a prolonged period of time and combined with their agility, the platform was able to flourish during the pandemic. When restrictions to contain the spread of COVID-19 became stricter, Zoom was prepared with years of experience in the market, good leadership skills and an existing customer base to seize the opportunity.

Despite recent complications, Zoom has continued to lead the video conferencing market (Kelly, 2020). In a modern world, technology companies struggle with maintaining high user security and privacy. This was a major conflict which Zoom experienced: the company struggled with ensuring that the software remained uncomplex whilst guaranteeing the data security of users (Chen, 2020). In spite of the negative publicity, Zoom invested considerable effort into fixing the issues it was being scrutinised for and focused on responding to customer feedback. The company hired multiple security companies to assess its product to make its data more transparent. Amid its 90-day feature freeze, Zoom was reprimanded due to its misleading marketing that forced Zoom to offer certain paid features for free (Kumar, 2020). Additionally, Zoom has implemented the securing of its services at the beginning of the designing process from which it plans to further expand upon. Knowing the vulnerabilities and having a good defence program against cyberattacks are the critical elements of possessing reasonable security measures. This body of evidence showcases to other businesses in the industry the importance of being agile, responsive and knowledgeable in the retention of a stable customer base, even if there are difficulties.

Zoom actively strived to fix its problems and listened to customers. From the mistakes of Zoom, new and existing companies can learn valuable lessons on how to improve their business strategy and overcome issues arising from unforeseen circumstances.

# Conclusion

The COVID-19 pandemic has acted as a catalyst in the rise of video conferencing platform companies, prompted by a sharp proliferation in the demand for robust communication channels. In spite of the competition against major established companies, Zoom emerged as a key player in the market. Zoom was better strategically positioned than its competitors to seize the growth opportunity presented by the pandemic as businesses shifted from the physical office to a virtual space due to work-from-home practices becoming the new norm. The implications outlined in this report provide companies with strategies to increase competitiveness and better seize opportunities presented by unforeseen circumstances. It should be noted that these are largely limited to the communications technology market, although some practices may be applied to other technology industries with discretion.

As a result of globalisation, employees of a single company have become increasingly dispersed around the world and thus the video conferencing market has experienced significant growth. This movement was further accelerated by the pandemic. A pivotal advantage which Zoom had against competitors was the capability to handle heavy traffic as well as their ease-of-use priority. Furthermore, their freemium strategy allowed them to enter the marketplace and capture a portion of the market.

The simplicity and versatility of the product as well as the agility of the company in responding to customer feedback, as seen in the security breach, created a competitive edge for Zoom, helping it seize the opportunity presented by the pandemic better than its competitors. However, a potential barrier to achieving the full growth potential of the company are the severe privacy issues. Zoom experienced steady rises in revenue and shares at the beginning of the pandemic, but these fell dramatically as a result of the cyberattacks. It is expected that revenues will decrease as the economy reopens and employees return to the physical office.

The competitive environment of the video conferencing market can also partly explain the success of Zoom. As the largest competitive pressures are the high threat of substitutes and high bargaining power of customers, the market necessitates responsiveness and constant product development to retain a loyal customer base. In addition, it should be noted that the high competitiveness of the market urges the expansion of operations into other sectors. However, due to the high interdependence of the firms in the market, competitors will quickly follow the behaviour of another firm. This serves as a reminder to companies that flexibility in strategies and agility in responding to change are imperative in successfully seizing opportunities arising from unforeseen circumstances.

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