

Is OTT Disrupting Television?

A case study on OTT's impact on the Swedish Television value chain

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Abstract

This thesis uses value chain analysis to investigate the recent OTT (over-the-top) developments' influences, consequences and strategic implications on the Swedish television value chain. The purpose of this study is to provide a better understanding of the recent OTT developments in the Swedish television industry, and thereby give industry actors (primarily broadcasters) a “road map” to support strategic choices for future investments. A case study research design is used and empirical data was collected from interviews with employees of Sweden's largest commercial TV company TV4-Gruppen. Several influences, consequences and strategic implications for members of the entire television value chain are found and analyzed using theories from three areas: value chains, disruptive innovation and strategy, and IT impact on strategy. The main conclusions are focus around that the OTT development is substantially different to other historical technological advancements in the television industry, in that it is separated from traditional distribution infrastructure. It thus has a direct impact on the structure of, and power in the television value chain, as it opens up for disruptive innovation in some parts of it.

Keywords: Television; Television industry; Disruption; Disruptive innovation; Value chain; Value chain analysis; Strategy; Over-the-top; Case studies; Digital media

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1. Introduction

The television industry has through the years undergone many technological changes. Betamax, VHS and DVR are just some of the many technologies that have challenged its business models. In addition, the ways to distribute linear television have been altered many times – moving from analogue broadcasting, to cable, to satellite, to digital broadcasting, to IPTV. Through all of these changes the television industry have stood tall. The talks of threats to the media industries' traditional business models that have been around for almost 40 years have been shot down by successful examples over and over again. However, this time the circumstances have changed and television might be on the verge of an important transformation.

The internet has caused disruptive changes to many media industries in its rather short life time. The music industry is one of the most commonly used examples. Classic distribution systems were turned upside down, forcing some record labels to have to fundamentally rethink their business models and many brick-and-mortar distributors to disappear. Another industry that has been hit by disruption as a consequence of the internet is the newspaper business. Paper after paper moved online in desperate moves to follow the changing consumer behaviors, while forgetting to introduce proper business models that did not “change dollars for cents”. Recent years have just in Sweden brought job cuts (e.g. SvD) and desperate efforts to increase ARPUs online (e.g. Sydsvenskan).

The next industry to be disrupted by the force of the internet is by many said to be television (Brode, 2012, p.1). And many signs point towards such a development. In the fall of 2012, Swedish television viewers were suddenly bombarded by advertising messages announcing that television, films and sports could now be watched online. Local actors like the TV4-Gruppen and Viasat launched or relaunched video streaming services targeted directly at the consumers. New players, national and international alike, did the same and in just a couple of months the viewers could choose between brand new services like Netflix, Magine and HBO Nordic. All of these services had one thing in common – they were all distributed over the internet. Any consumer

with an internet connection could now watch TV series, shows, films and sports online on their computer, tablet, smartphone, game console or even – on their TV set. The expression “anytime, anywhere” where at the heart of this development and could soon be seen “every time, everywhere”.

This trend has had a major impact on the Swedish television industry. Actors from all over the television value chain are now battling for the consumers’ wallets and moving from one business model to the next. Everything is moving faster by each day that passes and the only constant in the industry today is change. At the same time, no one seems to have a clue about what will really happen to television as we know it. Is linear television about to die? What kind of distribution will prevail? What kind of services? And maybe most importantly: Who will win and who will lose in this transformation?

1.1 The problem

New technology, rooted in the internet, has made distribution of audiovisual content less complicated in recent years. The oft-repeated mantra that “‘while content is king’ it is ‘distribution that’s the emperor’” (Forrester, 2011, p.8), suggesting that strongly-capitalized operators that are in control of their own cable networks (or the-like) are the winners in the television industry, is starting to lose its relevance as the open internet gradually starts to replace traditional managed distribution for many consumers. This development is altering the playing field for many of the actors in the television value chain. The following parts of this section will try to explain the technological advancements that are at the heart of this development, in order for the reader to fully understand its different constituents. Also, the television value chain will be explained for the reader.

1.1.1 Over-the-top (OTT) distribution

Television distributed over the open internet is often dubbed “OTT” or “over-the-top” distribution. The typical definition of OTT usually refers to the fact that the distribution does not go *through* a multiple-service operator (“MSO”, e.g. *Com hem* in Sweden, or *Comcast* in the

US), but “*on top of*” the existing infrastructure. Typically, a MSO delivers the internet connection over a managed infrastructure (e.g. a cable network) while an OTT content provider “bypasses the operator content offerings and runs over the broadband connection supplied by that same operator” (TDG Research, 2011). The viewer simply logs in to a website on their computer (or an app on their tablet, smartphone or Smart TV) in order to view their requested video. Today, most Swedish television broadcasters offer all or part of their programs online (through their so called ‘*Play*’ services) and actors like Netflix, HBO Nordic, Viaplay and Filmnet have introduced platforms for films, TV series, shows and sports. Even operators like Telia, Com hem and Canal Digital have made content available online through OTT services.

The growing consumer interest of OTT television will, according to several industry analysts, give rise to a multi-billion dollar industry in just a few years. It has been suggested (Digital TV Research, 2012) that “the over-the-top TV sector is on the brink of a huge takeoff as the key players expand globally, companies consolidate and as new partnerships are announced on a daily basis.” Even though some analysts does not believe that OTT television services may explicitly replace traditional managed distribution in the typical 4-5 year forecast time horizon, they do suggest that these services instead will have “a significant presence as secondary TV services, [...] complementing a traditional pay-tv services”. (Analysys Mason, 2012). Other analysts suggest the opposite – that the rising online TV consumption and amount of video content available online has the potential to dramatically alter the way how consumers subscribe to TV services. According to KPMG research, in 2010 36% of respondents said that the reason for the cancelling their home TV subscription was because they were “happy with video content on the Internet”. In 2011 the respondents had almost doubled, to 61 % thus becoming the number one reason for eliminating TV subscriptions (KPMG International, 2011).

1.1.2 The television value chain

The traditional television/video value chain can be illustrated as done in Figure 1 below (Wang, 2006). Right owners, studios and production companies are some of the actors that make up the *content creator* category in this value chain, and these can be both local and international. Here,

e.g. sports associations sell broadcasting rights, television studios offer high-end drama productions, and production companies commission rights to various television formats (or simply act as production partners for such formats). The *content packaging* category is made up of actors that purchase various television rights and packages them into branded “products” for sale. Examples of these are traditional television broadcasters (e.g. Viasat Broadcasting or TV4-Gruppen in Sweden) and newer streaming media/OTT service providers (e.g. Netflix or Amazon). The *content distributors* are actors that provide a managed distribution infrastructure. Cable or satellite operators, and MSOs make up this category. Before the finished “television product” reach the end consumer (or “viewer”), s/he need a user interface to display it. Traditionally this has of course been a classic television set, but in recent years CE companies have also rolled out a wide array of devices that are capable of showing video.

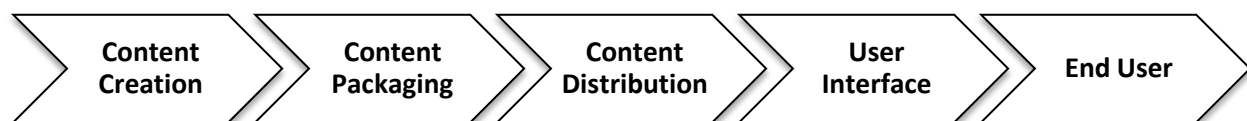


Figure 1. The television/video value chain

1.1.3 Industry complications

The attentive reader might have already come to the conclusion that the OTT development explained above have the potential to disrupt this television value chain, as we know it today. This study will try to investigate this issue further in the coming pages. What can be said with some certainty already however, is that the business environment in the television industry is increasingly becoming more complicated for each day that passes, and that questions are now frequently being raised about where investments should be made to secure a strategic position for the future. Hopefully, this study can come to shed more light into this matter – which brings us to the purpose and research questions of this thesis.

1.2 Purpose and research questions

The purpose of this study is to provide a better understanding of the recent OTT developments in the Swedish television industry, the possible consequences and implications of this development, and thereby give industry actors (primarily broadcasters) a “road map” to support strategic choices for future investments.

In order to fulfill this purpose, I have chosen the following research questions (RQ) to be answered in this thesis:

- *RQ1: How are the recent OTT developments influencing the Swedish television value chain?*
- *RQ2: What consequences will this influence have for the members of the television value chain?*
- *RQ3: What are the strategic implications for the value chain members, given these consequences?*

1.3 Delimitations

This thesis will be delimited to the Swedish television industry, with a starting point in the value chain explained above. Similar technological developments and changes can be observed in other media industries as well, but an examination of them all would result in a much too wide research angle. The study is also geographically delimited to the Swedish market. The reason behind this is that the thesis is done as a research assignment from a Swedish company. I will however give mention to various global trends in this thesis, as well as give an account of research done in other markets, as this will still be relevant for the developments in the Swedish market. A further delimitation is that this thesis will take a broadcaster perspective when examining and analyzing the above mentioned value chain influence. This is a consequence of the nature of the research assignment that I have been given.

1.4 Terminology and definitions

For when the wordings or abbreviations in this thesis become too complicated or technical, here is a list of definitions meant to clarify various derivations and industry concepts.

DVR; Digital Video Recorder. A consumer electronics device that records video in digital format, usually to a built-in hard drive.

IPTV; Internet Protocol Television. A system through which television services are distributed over the internet instead of e.g. terrestrial or satellite, but within a virtual managed infrastructure controlled by the distributor.

OTT; Over-The-Top. Refers to the delivery of a specific service over the internet, but without a multiple service operator involved in the control or the distribution of that service.

Smart TV; Television sets with integrated internet connections and often user interface software, allowing the delivery of internet browsers, on-demand video services, games, etc. on the TV set.

TV Everywhere (TVE); An authentication system allowing television to be accessible online via a display devices such as PC, mobile phones, tablets etc. to subscribers of multi-service operators/television distributors.

1.5 Disposition

This study will from this point be structured as follows: First, chapter 2 presents the theoretical framework that has been used to analyze the empirical findings in this study. Then, chapter 3 summarizes some relevant literature that has been written on this subject, or closely related subjects. Chapter 4 describes the method used to obtain data and analyze it. Chapter 5 then presents the empirical data by first describing the case company and then summarizing the findings related to the research questions. In chapter 6 my empirical findings are analyzed, and in chapter 7 conclusions of that analysis are presented and the research questions answered. Finally

in chapter 8, I conclude with a discussion on contribution, critical reflections and suggestions for future research.

2. Theoretical framework

This section will present the theoretical perspectives to the research questions above. Three theoretical areas will be covered – *value chains*, *disruptive innovation and strategy* and *IT impact on value chains* – as I believe that these are the most relevant for the topic at hand.

The area of value chains have been chosen mainly because of its usefulness in industry and strategy analysis, as have been suggested by many researchers (Loebbecke and Powell, 2002, p.309) (Magretta in Allio and Fahey, 2012, p.5). It has also grown to become a quite popular tool for marketers outside of the academic world, especially in the technology intensive television business where new technology is constantly keeping the industry unpredictable. As such, I have chosen to investigate this particular area, in favor of other approaches to industry analysis (such as Normann and Ramirez’ “Value constellation” theory).

Major technological breakthroughs often give rise to *disruptive innovations*, which have the power to overturn established business models or even entire industries. The internet can most definitely be said to be such a technological breakthrough and in recent years, some have dubbed the OTT developments in the television industry as a typical disruptive innovation (Wessel, 2012). As such, the theoretical area of *disruptive innovation* will be examined in this thesis. As I believe that strategy will be key in an industry facing disruption, a closer look on strategy in relation to technology has been chosen to complement it.

The final theoretical area that I have chosen to investigate further in this thesis is information technology’s impact on the value chain. I believe this area can contribute to the understanding of how and why the television value chain is affected by technology and disruptive innovation, which thus should provide a solid theoretical foundation for analysis.

2.1 Value chain

Michael Porter was first to describe the concept of value chains in his 1985 book *Competitive Advantage*. In this book he describes the value chain as “a way of examining all the activities a firm performs and how they interact” (Porter, 1985, p.33). The basic idea with the concept of value chains, he explains is provide a framework for analyzing the sources of competitive advantage. Each of the firm’s different activities, like producing, marketing, delivering, etc., contributes to its relative cost position and its ability to differentiate itself. They are building blocks that the firm uses in order to create a valuable offering for its customers. The idea of the value chain model is thus to “disassemble” the firm into strategically relevant activities, in order to examine and understand “the behavior of costs and the existing and potential sources of differentiation” (*ibid*). Figure 2 shows how Porter illustrated the value chain and these different activities.



Figure 2. Porter's Generic Value Chain (Porter, 1985, p.37)

In his book, Porter further elaborated on his value chain model by explaining that each firm's value chain is a part of a larger industry stream of activities that he decided to term the *value system*. Suppliers' value chains upstream from the firm and customers' value chains downstream from it, together form this value system that essentially explains how a generic industry work.

Figure 3 illustrates Porter's value system. A generic product moves from left to right in the value system, from value chain to value chain, eventually ending up in the buyer's value chain. Porter further explained that "gaining and sustaining competitive advantage depends on understanding not only a firm's value chain but how the firm fits in the overall value system" (Porter, 1985, p.34). As such, it is essential for firms to understand how the value system is constructed, and any attempt to analyze how the industry function must take this perspective into consideration.

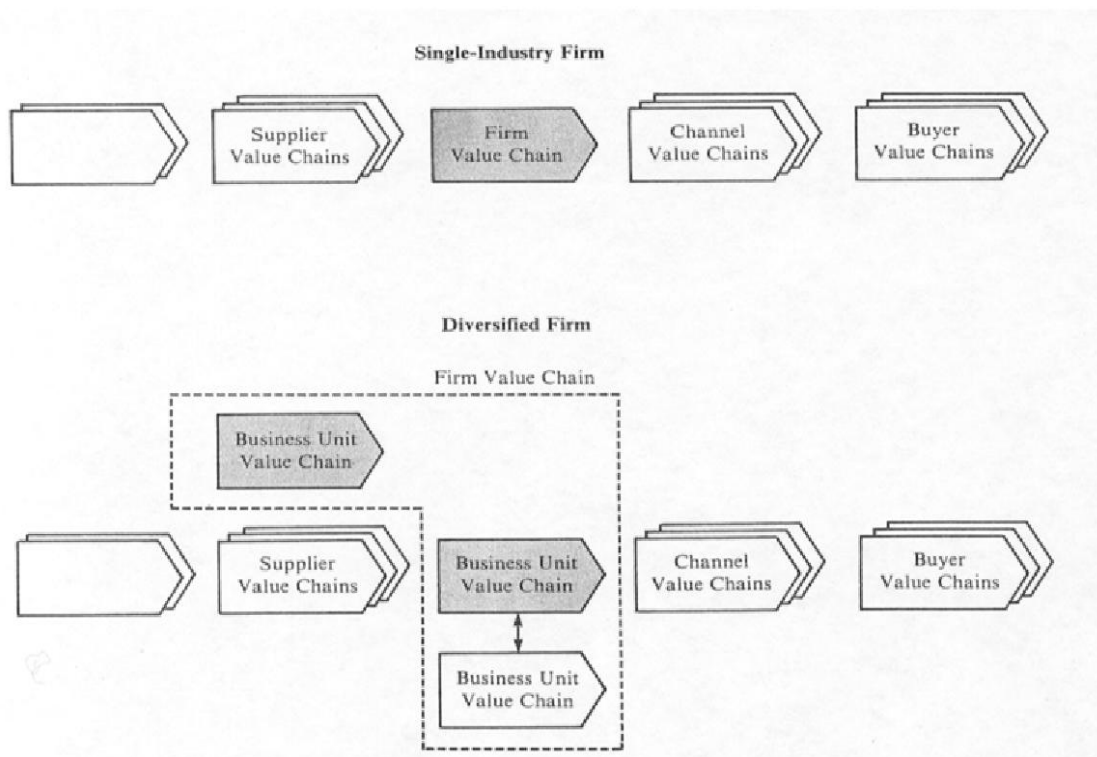


Figure 3. Porter's Value system (Porter, 1985, p.35)

As an extension of the concept of strategic cost analysis, the authors John K. Shank and Vijay Govindarajan applied Porter's above explained ideas on value systems, into their research on strategic cost management. In their 1992 article *Strategic Cost Management: The Value Chain Perspective* they explained that strategic cost management needed a broad focus that is external to the firm, which led them to use Porter's value chain model. However, they decided to rename

Porter's term *value system* by instead calling it *value chain*; "The "Value chain" for any firm in any business is the linked set of value-creating activities all the way from basic raw material sources through to the ultimate end-use product delivered into the final consumers' hands. This focus is *external* to the firm, seeing each firm in the context of the overall chain of value-creating activities of which it is very probably only a part" (Shank and Govindarajan, 1992, p.179). Even though it may not be entirely attributable to only Shank and Govindarajan, this renaming maneuver seems to have had quite an impact as today's industry analysts often use the latter term when trying to explain how an industry is constructed – rather than when analyzing competitive advantage by examining firm activities. As Shank and Govindarajan provides useful insight into how Porter's value system can be used to analyze industry construction, which is also the purpose of this thesis (rather than examining internal firm activities in order to analyze a firm's cost positions or sources of differentiation, as Porter's definition of *value chain* is intended for), I have decided to use the same expression in this thesis and will thus from this point on refer to Porter's value system with the term *value chain*.

Shank and Govindarajan suggested that an important aspect of the value chain is the understanding that suppliers and customers are not merely parts of a simple supply chain, but rather have an important impact on the strategic positioning of a firm. "Suppliers not only produce and deliver inputs used in a firm's value activities, but they importantly influence the firm's cost/differentiation position. [...] Similarly, customer's actions can have a significant impact on the firm's value activities" (*ibid.*, p.180). As will be discussed below, understanding the entire value creation system and not *only* a firm's position within the value chain in which it participates, have been shown to be quite relevant in the multimedia value chain in recent years. And in a more general sense, successful creation of firm strategy is closely connected to this issue, as "investment decisions can be viewed from the perspective of their impact on the overall chain and the firm's position within it" (*ibid.*, p.197).

2.2 Disruptive innovation and Strategy

2.2.1 Disruptive innovation

Disruptive technology became a popular term after Joseph L. Bower and Clayton M. Christensen coined it in their article *Disruptive Technology: Catching the Wave* in 1995 (Bower and Christensen, 1995). After the breakthrough of the internet, and after seeing what that technology have done to entire industries, disruptive technology became buzz words in the business world and most definitely still is today. Christensen and Raynor renamed the concept *disruptive innovation* in their book *The Innovators's Solution* as they acknowledged that “few technologies are intrinsically [...] disruptive in character” (Christensen and Raynor, 2003, p.32). Instead they explained that the disruptive impact of a technology must be shaped into strategy and implemented before it can really result in competitive success and an industry effect. The authors define disruptive innovation as products and services that not necessarily need to be better than the existing ones, but innovations that are more convenient, simpler and less expensive than existing items (*ibid.*, p.34). What characterizes these innovations even better, is that they often come to paralyze incumbent market-leaders, as these are accustomed to a more traditional approach to innovation – while slowly creating better performing products than the ones already available (dubbed sustaining innovation by the authors).

In December 2012, Christensen teamed up with Maxwell Wessel to elaborate on the concept of disruptive innovation in their article *Surviving Disruption* (Wessel and Christensen, 2012). Here they call disruptive innovations “missiles launched at your business”, but simultaneously point out that “disruption is less a single event than a process that plays out over time, sometimes quickly and completely, but other times slowly and incompletely” (*ibid.*, p.58). However, this article is mainly focused on figuring out whether these missiles will hit a business dead on, or if they will pass it unnoticed. To determine this, the authors present a simple framework to guide managers. Firstly, incumbent companies need do three things:

- Identify the strengths of the disrupter's business model;
- Identify own relative advantages;
- Evaluate the conditions that would help or hinder the disrupter from co-opting those advantages in the future.

To do the first, the authors introduce a concept they call the *extendable core*. This is “the aspect of [the disrupter's] business model that allow [it] to maintain its performance advantage as it creeps upmarket in search of more and more customers”. Second, in order to figure out the own relative advantages, management must understand “what jobs people want you to do for them – and what jobs the disrupter could do better with its extendable core”. Finally, defining what barriers a disrupter will need to overcome to undermine the incumbent business in the future will help it evaluate whether or not a disruption is imminent (*ibid.*).

The authors describe disruptive innovation as always stemming from an advantage in either technology or a business model. What characterizes disruption however is that this advantage can scale as the disrupter grows its customer base. This advantage is what enable the extendable core, and provides a clear distinction between disruption and mere price competition. As a result, the disrupter can *keep* its advantage while it improves performance and grows (*ibid.*, p.58).

Identifying the disrupter's extendable core is imperative in order to understand what customers it can come to attract. Next, the incumbent business needs to analyze their own customers, and estimate how many of them the disrupter might be able to attract. To do that, the authors explain that “the jobs” that the customers use the company to do for them need to be analyzed. A disrupter will always aim at doing these jobs more easily, conveniently, or affordable. The effectiveness of the disrupter of doing these jobs will determine the most vulnerable segments of the incumbent company's core business, and also its biggest sustainable advantages. It is however important to always remember that, to different degrees, disrupters will have disadvantages. The combination of the effectiveness of performing the jobs asked by customers,

and the seriousness of these disadvantages will determine how swift and complete the industry disruption will be. (*ibid.*, p.60).

Finally, incumbent companies must determine what barriers the disrupter faces, before it can dissolve the own current advantages. The authors believe that there are five such barriers to disruption. From easiest to hardest to overcome, these are (*ibid.*):

- 1) The momentum barrier (customers are used to the status quo)
- 2) The tech-implementation barrier (which could be overcome using existing technology)
- 3) The ecosystem barrier (which would require a change in the business environment to overcome)
- 4) The new-technologies barrier (the technology needed to change the competitive landscape does not yet exist)
- 5) The business model barrier (the disrupter would have to adopt the cost structure of the incumbent companies)

According to the authors, whether or not the customers will remain with the incumbents is dependent on how difficult the barrier is, or how many barriers the disrupter is facing.

Wessel and Christensen claim that this framework will help companies assess how severe the disruption will be to their business and identify what needs to be done to overcome the threat, should it be serious. On this note the authors point out that “overestimating a threat can be as costly as ignoring it” (*ibid.*, p.60).

2.2.2 Strategy and IT

Although slightly outdated in some regards, Porter’s article *Strategy and the Internet* from 2001 covers many valuable thoughts on how companies should distinguish themselves through strategy, in a business environment influenced by the internet. Going against a common opinion at that time, that the internet renders strategy obsolete, Porter argues that strategy is in fact more

essential than ever when it comes to industries that are seemingly becoming reshaped by the forces of the internet. According to his line of reasoning, “[the internet] rarely nullifies the most important sources of competitive advantage in an industry; in many cases it actually makes those sources even more important” (Porter, 2001, p.78). He argues that “internet technology provides better opportunities for companies to establish distinctive strategic positionings than did previous generations of information technology” (*ibid.*, p.64). However, he points out that the internet in itself is not a competitive advantage in an environment where it is embraced by all of a company’s competitors. All companies will eventually need to implement the internet in their business practices to some extent, but the fact that they do can never set them apart from the competition. Instead he claims that “established companies will be most successful when they deploy Internet technology to reconfigure traditional activities or when they find new combinations of Internet and traditional approaches” (*ibid.*, p.78).

Porter’s earlier book *Competitive Advantage*, in which his ideas on value chains were introduced, touched upon many of the ideas that he later elaborated on in this 2001 article. For example, back in 1985 he pointed out the “the potential effect of technological change on industry structure means that a firm cannot set technology strategy without considering the structural impacts” (Porter, 1985, p.172). This idea was developed in 2001, but with much more detail. For example, Porter thus believes that the internet can help established companies if the use of it is well thought through: “the Internet tends to dampen the bargaining power of channels by providing companies with new, more direct avenues to customers” (Porter, 2001, p.66). Nevertheless, he does warn the reader about increased competition as a direct consequence of an open technology like the internet. “By enabling new approaches to meeting needs and performing functions, [Internet technology] creates new substitutes. Because it is an open system, companies have more difficulty maintaining proprietary offerings, thus intensifying the rivalry among competitors” (*ibid.*). Again, this points to his idea that strategy is more important than ever. Looking at what has happened in other media industries where the internet have led to serious disruptions, such as the newspaper business, this does seem to have bearing. However, he also points out that “in many cases, the Internet complements, rather than cannibalizes,

companies' traditional activities and ways of competing" (Porter, 2001, p.73). Whether this can be said to have been true for the newspaper industry is hard to say, but it may hold for other media industries.

2.3 IT impact on value chains

In Walid Mougayar's book *Opening Digital Markets: Battle Plans and Business Strategies for Internet Commerce*, he explains in what ways value chains might change when entering a digital world. He presents three different scenarios that can occur in any value chain: Firstly, "the old value chain can become smaller and therefore more efficient" (Mougayar, 1998, p.87). The chain becomes smaller as new possibilities to reach end customers are introduced. Instead of having to go through middlemen to reach the end customer, manufacturers can now do so themselves. They are thus bypassing one or more layers of the old value chain, making the intermediaries obsolete. This is depicted in Figure 4 below.

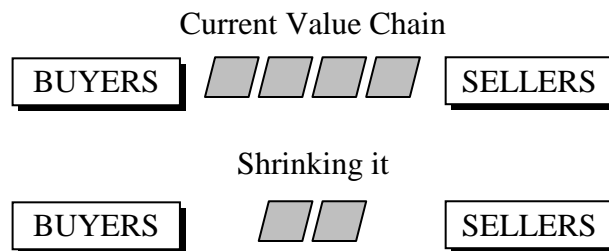


Figure 4. The value chain shrinks: players move out (Mougayar 1998, p.89)

In Mougayar's second scenario the value chain gets redefined. Instead of the old intermediaries simply getting disintermediated, "newer types of intermediaries arise in several new areas, and become an integral part of the new value chain" (*ibid.*). Distribution costs are assumed to be lower for these newer intermediaries, which is probably why they are replacing incumbents in the first place. Mougayar explains that this kind of redefinition puts more pressure on managers of buying and selling organizations, as understanding this development is key to realizing the potential it provides. This kind of redefinition has been seen in many media value chains over the last couple of years – i.e. in the music industry where newer intermediaries like Spotify have

replaced older brick-and-mortar alternatives like Tower Records with technology driven business models. The scenario is depicted in Figure 5 below.

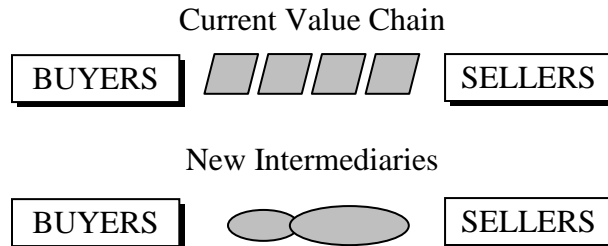


Figure 5. The value chain is redefined: players replaced (*ibid.*)

Finally, in the third scenario Mougayar explains the value chain as having become “virtual”. Here, “the behavior of the intermediaries is really unpredictable, and will be subject to dynamic market forces” (*ibid.*). Some older intermediaries become disintermediated, others become reconstructed. There is little control for buyers and sellers of what happens in between them, especially for buyers, and “certain behaviors include a dynamic allocation of intermediaries, based on the needs of buyers” (*ibid.*, p.89-90). This scenario is depicted below.

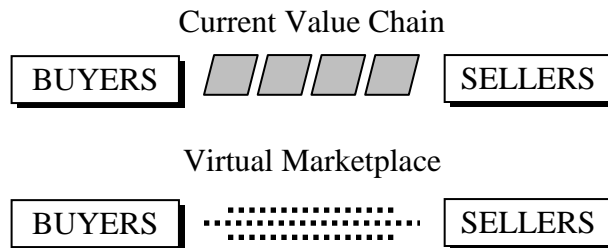


Figure 6. The value chain goes virtual: players are invisible and dynamic (*ibid.*, p.90)

3. Literature review

As the technological changes in the television are happening at the very time that this thesis is being written, there is not much academic literature on the subject yet. This is quite natural, as

such literature is often conceived when “the dust have settled” and there is enough evidence to support analysis of the subject. There has however been some literature on the subject coming from both the industry itself as well as from industry experts and investors. In this part of this study, I will account for the most relevant work that has been done in the field of OTT technology in the television industry. In addition to this, I will review some of the most well-known industry literature as well as investigate some of what has been written on the impact of disruptive technology on other media industries.

3.1 OTT and the television industry

In their 2010 article *The future of IPTV: Connected, mobile, personal and social* Monpetit et al. briefly discuss the difference between IPTV and Internet Video – the latter being what in this study is denoted as OTT video. First they explain the technical differences between these two similar technologies. The authors correctly define IPTV as “traditional TV”, meaning that “the whole delivery chain of IPTV is similar to that of cable, satellite or terrestrial transmission, and under the control of an operator” (Monpetit *et al.*, 2011, p.521). In contrast, Internet Video is explained to consist of both for instance User Generated Content made popular on sites like Youtube, on-demand content and increasingly now also real-time video such as sports or political events. Technically, the authors define it as “any video delivered over the public Internet to PCs and some dedicated boxes. [...] Delivery of this content is mostly under the control of content producers, aggregators and OTT operators” (*ibid.*). Apart from these technical differences, the authors describe a much more interesting difference – namely the lean back/lean forward difference. They point out that as IPTV uses “traditional devices, interaction techniques, interfaces and more or less ‘passive’ content” (*ibid.*) it can be described as a “lean back” experience for the viewer, meaning that it consumed in much the same way as TV has always been consumed – while leaning back in the couch. In contrast, Internet Video is described as representing a “lean forward” experience that is in line with the PC tradition of constantly interacting with what is shown on the screen. In that regard, the authors conclude that IPTV and Internet Video are very different from each other. However, they also ask an important question: “for how long?”. They explain that in recent years the consumer market has been filled with

Internet video set-top-boxes (STBs) like AppleTV or Roku that are linked to content websites such as iTunes or Netflix. In addition, popular TV sites like Boxee or Hulu have been launched to address much of the same consumer behaviors. Together, the authors explain that these occurrences is transforming Internet video into a “lean back’ living room experience with a TV-centric [user interface] and advanced remotes” (*ibid.*, p.522). The authors also point out that the infrastructure operators are taking notice of this development and are now competing with content producers for direct access to the consumers. They forecast that traditional operators will most likely change their business models to keep their customers.

3.2 Industry literature

In 2012, Gary Brode, Managing Partner and Portfolio Manager for American hedge fund Silver Arrow Investment Management, LLC, wrote a discouraging white paper on the issue of technology advancements in the television industry called *TV is next – Why Investors Are Getting the Media Industry Wrong*. In it, Brode sounds a note of warning about the profitability in the industry. He argues that “in the media space, the next business that will be reinvented by technology is television” (Brode, 2012, p.1) and that this fact will have a major negative impact on the overall revenue and profitability of television networks – just like it has had on the newspaper and music industries. More specifically he claims that “the profitability of owning TV networks is being undermined by digital video recorders, internet-enabled on-demand viewing, Netflix, Hulu, YouTube, and piracy/theft” (*ibid.*). He explains that new OTT services are attacking the revenue side of the industry, mainly by offering consumers a substitute to broadcasters’ traditional linear television channels. This, he claims, will have a major negative impact on revenues – lower viewership will lead to lower advertising revenue, and as more and more consumers start to cancel their cable or satellite subscriptions to instead use OTT services, revenues from affiliate fees collected from viewers to receive specific channels will decline. These two types of revenue losses are of course connected, as Brode exemplifies in this paper: “Netflix is pulling viewers away from the traditional model to one where they pay a small monthly fee and don’t watch commercials” (*ibid.*, p.19). However, he also recognizes that networks that sell their original content to Netflix will receive higher than average fees from

OTT service companies like Netflix. Nevertheless, they “will also lose greater advertising fees if viewers shift from live offerings to Netflix” (*ibid.*). Brode’s Netflix example demonstrates the key point in his white paper. He claims that every change in content delivery (distribution) that is happening right now, whether it in favor companies like Netflix or broadcaster’s own online streaming services, results in a move to a less profitable model than the current one (*ibid.*, p.46).

In 2009, Metin Taskin, the CTO of a supplier of home networking and video solutions called AirTies, wrote an article named “Can OTT TV win the day?” for the industry periodical International Broadcast Engineer. In it, Taskin calls OTT TV a real threat to satellite and cable operators who have made significant investments in IPTV infrastructure. He further claims that there are significant concerns amongst telcos over the impact of OTT TV on their IPTV investments. However, according to the author “the Internet TV revolution is still some way off from taking over the remote TV control in our living room” (Taskin, 2009, p.25). He stresses that any IPTV deployment – be it traditional or OTT – will need three essential conditions if it is to succeed: compelling content, financial viability and technological feasibility. In order for content providers to permit that their content is delivered in any such IPTV deployment, they will need to be certain that the quality of the user experience will be high enough for their brand values to not be negatively impacted. Taskin continues by arguing that “another challenge to overcome is the need to partner with a service provider, be they cable, fibre or ADSL, to deliver the last mile access to the home. This will require careful negotiation, as bandwidth availability is key to a successful OTT deployment” (*ibid.* p.25-26). If these challenges are met however, Taskin argues that any new or incumbent player could be the winner in this new TV world – as the technological barriers are slowly being eroded.

3.3 Other media industries

In Graham and Smart’s (2010) article on the impact of the internet on the regional-newspaper industry, they suggest that the recent years’ internet developments have had major impacts on publicists’ business models. For instance they bring up the fact that many consumers, especially younger “digital natives” (the generation of people that have grown up with the internet and are

particularly comfortable with the online environment) (The Economist, 2010), have grown unaccustomed, or even unwilling, to pay for online news, which has had a serious consequences for newspapers in their attempts move their businesses online. (Graham and Smart, 2010, p.196). While this development could be said to have had a similar impact on the television industry, it's meaning more importantly highlights Shank and Govindarajan's thoughts on how other value chain actors (in this case customers) can have important impacts on the positioning of a firm, as mentioned in section 2.1 above. This can thus be said to be an important aspect of media value chains in the digital age.

In his white paper *TV is Next* described above, Gary Brode makes a comparison between the television industry and the newspaper industry. He claims that the television business looks a lot like the newspaper business did in the late 1990s – a couple of years before the industry collapsed and met advertising revenue cuts of over 50 %. He argues that the newspaper business did well when they were able to consolidate content. Consumers who bought newspapers did so in order to read the articles that interested them, but ended up paying for all of the other sections in the paper as well. This model was successful up until the internet made it possible for the same consumers to just read the articles or blog postings that they were interested in online. Content became disaggregated, and “the internet acted as a monopoly destroyer and enabled readers with a different viewpoint to find their news elsewhere” (Brode, 2012, p.40-41). Brode argues that there are obvious similarities between that old newspaper model that worked out so well before the rise of the internet, and the model that cable and satellite companies (distributors) utilize when they bundle hundreds of channels together and charge their customers \$70-\$100 a month for that entire bundle. He suggests that “as more attractive and much less expensive online offerings become available, cable customers are going to be less likely to pay for 500 channels when they only watch 10 of them. This is not going to be a positive for affiliate fees” (*ibid.*, p.41).

4. Method

In this part of the study, the methodology that has been used to when collecting and analyzing data will be presented. First I describe the research design that has been employed, how interviewees were selected and the supporting documents and information that was used. I then explain how the data was analyzed and finally a few words on research quality are provided.

4.1 Research design

I have chosen to apply a qualitative research method in this study. The main reason for this is that qualitative research methods are suitable for studies that are descriptive and are appropriate to use when it is important to understand the entire context of a given situation (Bryman & Bell, 2007). As this study aims at describing how OTT technology is influencing the television value chain and investigating the consequences and strategic implications of that influence, and as “qualitative research provides insights and understanding of the problem setting” (Malhotra, 2009, p.171) a qualitative research method was chosen in order to best answer the research question.

For partly the same reasons, quantitative research methods were discarded for this study. In addition to the advantages of qualitative methods explained above, a quantitative research method was not pursued because these often aim at quantifying data and, typically, applies some sort of statistical analysis to that data (*ibid.*). According to Bryman and Bell (2007, p. 426) quantitative research emphasizes on the “on relationships between variables. Changes over time tend not to surface”. As an analysis of an industry value chain will not benefit much from such static statistical analysis, and does not allow for a large number of representative respondents to form a sample, a quantitative research method was deemed unsuitable for the purpose of this thesis. With the above reasoning in mind, the approach to the relationship between theory and research will in study be inductive rather than deductive.

As research design, I have chosen to do a case study in the Swedish television industry. I believe that the case study is an appropriate choice for this thesis as case studies are the preferred strategy when “a ‘how’ or ‘why’ question is being asked about a contemporary set of events over which the investigator has little or no control” (Yin, 2009, p.13).

I have chosen to use a single case study. The reason behind this is mainly because of the fact that company that this study is conducted for, TV4-Gruppen, is seeking to establish an internal view on strategy relating to the recent OTT development in the industry. As such, this research will be done over department borders within the company in order to generate a common internal view on the industry value chain. From this viewpoint then, analysis on how OTT technology is influencing the value chain, what consequences it will have on it, and what strategic implications it can be said to have for the value chain members will be conducted. In addition to this, a company assignment like this will be hard to conduct at competing firms or strategic partners throughout the value chain.

Depth interviews were chosen as the primary source of data. Interviews allows for the researcher to obtain rich, detailed answers (Bryman & Bell, 2007, p.474) “to uncover underlying motivations, beliefs, attitudes and feelings on a topic” (Malhotra, 2009, p.185). This method should thus prove useful for developing a deep understanding of the industry value chain, and the influence of OTT technology.

When doing depth interviews, the researcher faces a choice regarding how structured the interviews should be. Bryman and Bell (2007, p.474) presents two different approaches to qualitative interviewing: unstructured and semi-structured interviewing. In the former approach, the interviewer might just pose one simple question to the interviewee and then follow up on points that seem interesting and worth consideration. Unstructured interviewing is thus quite similar to a regular conversation. With semi-structured interviewing on the other hand, the researcher have a list of topics that s/he wants covered in the interview. The interviewee does however have “a great deal of leeway in how to reply” (*ibid.*), but the same kind of wording will

be used from interviewee to interviewee. All interviews in this study were semi-structured. The reasons for this is that 1) unstructured interviews are a bit to time consuming and difficult to handle for an inexperienced researcher, and 2) semi-structured interviewing is a safer choice when it comes to ensuring that the research questions posed will be addressed.

4.1.1 Selection of interviewees

As mentioned above, the research would have to extend department borders in the case company. As such, interviewees were selected from those different parts of the organization that experience the value chain effects of the OTT developments the most. Through asking interviewees to suggest other potential interviewees, so called snowball sampling (Bryman & Bell, 2007, p.499), employees from different hierarchical levels were interviewed. This was done in order to collect answers of strategic and operational variation.

As can be seen in table 1 below, a total of 7 interviews were conducted with senior management executives, middle managers and other employees at the case company. Interviews with senior management executives were intentionally carried out first, in order for the snowball sampling to work best, and in order to gain strategic and overall knowledge before interviewing more operational employees.

The length of the interviews ranged from approximately 40 minutes to 1 hour. All interviews were carried out in Swedish and organized face-to-face at the interviewees' offices. Interviews were recorded in order to get interviewees' answers correct and to ensure that focus remained on the interviewee, and not on taking notes (Bryman & Bell, 2007, p.489). The interviews were then transcribed and analyzed.

Table 1: List of interviewees

Name	Position	Department	Location	Duration
Casten Almqvist	CEO, TV4-Gruppen	Senior management	Interviewee's office	40 min
Cecilia Beck-Friis	Director of Digital Media	Senior management	Interviewee's office	1 hour
Johan Kleberg	CEO, C More	Senior management	Interviewee's office	40 min
David Österlund	Head of Distribution	Distribution	Interviewee's office	40 min
Malte Andreasson	Head of Planning and Development	Scheduling/ Program department	Interviewee's office	40 min
Tommy Jarnemark	Head of business	Digital Media	Interviewee's office	40 min
Andreas Wiss	Business developer	Digital Media	Interviewee's office	1 hour

4.1.2 Supporting documentation and information

Whilst interviewing, many of the interviewees provided me with internal documents to clarify and support their arguments. In addition, I have myself worked at the case company for 16 months and could thus verify much of the information gathered in the interviews. Unfortunately, none of these documents could because of confidentiality reasons be published together with this study.

In addition to internal documents, I also attended a full-day industry seminar in Stockholm called *Spelplanen – om framtiden för TV* on February 7th 2013. At this full-day seminar, national and international TV industry representatives discussed the future of television and the OTT development in the industry. This seminar provided me with background information and inspired some of the questions to the interviewees.

4.2 Data analysis

Directly after conducting each interview, I transcribed them from the respective audio recording. The transcribed interviews were then analyzed based on the framework of Grounded Theory (Bryman and Bell, 2007, p.585). First, an initial so-called open coding was conducted when all

interviews had been transcribed, which was based on similar citations used by the interviewees (*ibid.*, p.586). This resulted in an array of concepts that were common for all interviews. In order to not lose the context of what was said in the individual interviews, a commonly critique to coding, I then listened to parts of the audio recordings again and made some adjustments to the transcripts were applicable. After this conceptualization had been done, I formed categories for these concepts that I then used as a basis for analysis, in order to form my conclusions of my research (*ibid.*).

4.3 Research quality

The research quality of a qualitative study can be assessed using a framework developed by Lincoln and Guba (Bryman & Bell, 2007, p.411). This framework comprises of two primary criteria: trustworthiness and authenticity. As the latter criteria has been deemed highly controversial and has thus failed to gained spread in the academic world (*ibid.*, p. 414), it will be discarded in this study. Trustworthiness however, is a useful criterion to assess research quality. It is made up of four parts, that each has an equivalent in assessing research quality for quantitative studies: credibility, transferability, dependability and confirmability. These will now be addressed with regards to this study.

4.3.1 Credibility

According to Bryman and Bell, the Credibility criterion aims at answering the question: *how believable are the findings?* (*ibid.*, p.43). One useful approach when assessing the credibility of the research is so called respondent validation – i.e. having the interviewees confirm that the data obtained is valid (*ibid.*, p.411). This has been done with all interviews in this study. In addition, internal documentation obtained from interviewees, as well as external opinions stated during *Spelplanen* on January 3rd, were useful when assessing the credibility of the data.

4.3.2 Transferability

Transferability aims at answering the question: *do the findings apply to other contexts?* (*ibid.*, p.439). This will always be an issue when conducting case studies. According to Yin (2009,

p.38) case studies cannot provide the researcher with “statistical generalization”, as a case is not a “sampling unit” and in its nature do not entail a large respondent sample. Instead, the mode of generalization in case studies is “analytical generalization” where a previously developed theory is used as a backdrop for comparison with the empirical findings. Yin argues that analytical generalization is what case study researchers should aim at in order to maintain what he refers to as *external validity* (*ibid.*), which is directly comparable to transferability according to Bryman and Bell (2007, p.43). This is precisely what is aimed at in this study, which is in line with its inductive approach.

4.3.3 Dependability

Bryman and Bell defines Dependability as answering the question: *are the findings likely to apply at other times?* (*ibid.* p.43). In other words, this criterion is about whether the research operations would yield the same results if repeated by other researchers (Yin, 2009, p.40). In order to ensure that, the researcher is advised to think about their research as an accountant that knows that their calculations must be able of being audited. As such, I have in this Method section done my best to describe how the research was conducted. Additionally, all interviews were transcribed and the recordings saved.

4.3.4 Confirmability

Confirmability has to do with the degree to which the investigator has let his or her own values to intrude in the research (Bryman & Bell, 2007, p.43). In order to minimize this and thus increase the objectivity of the research, the interviews were transcribed and saved, which was useful since I was able to go back and check that my personal assumptions did not intervene with what was actually said by the interviewees.

5. Empirical findings

This part of the study is built on the interviews described above, and will be divided into two parts. First, the case company TV4-Gruppen will be described, both in terms of the parts of its history most relevant for the purpose of this thesis but also in regards to its present nature and impact on the Swedish television industry. This description is provided in order to present the reader with a deeper understanding of the case company and certain company events that will sometimes be referred to in subsequent parts of the study. Second, findings from the interviews related to the research questions of this study will be presented.

5.1 The case company

5.1.1 A brief history of TV4-Gruppen

TV4-Gruppen was established in 1984 as Nordisk Television AB. However it wasn't until September 1990 that the company made its first television broadcast in Sweden. The broadcast was distributed via satellite and the premiere broadcast was full of technical problems. The following year, in 1991, the Swedish government granted permission for one advertising financed television to be broadcasted terrestrially – the same way the two channels of the Swedish public service television SVT had been broadcasted for decades. The license to do so was originally awarded the competing channel TV3, but after a deal that gave TV3 owners Kinnevik a 30 per cent stake in Nordisk Television, TV3 withdrew its application and the license was given to TV4. The channel thus commenced its terrestrial broadcast in early March 1992. A requirement for the Swedish government to license the permission to broadcast terrestrially was that the channel had to operate and distribute regionally throughout Sweden. This meant that local versions of the channel had to be distributed, and a number of regional companies were thus created with TV4 Stockholm, TV4 Göteborg, and TV4 Skåne being the first to be established. Several other regional versions of the channel followed shortly, offering local programming and news.

In 1995 the channel had grown to become the biggest channel in Sweden in terms of viewing, as it surpassed SVT that same year. In 1997 TV4 got two new owners, the Bonnier group and Finnish Alma Media Oy. That same year TV4 introduced its first internet initiative, the website TV4.se. The purpose was to extend the television broadcast experience on the internet and in one year the website had grown to attract around 800 000 visits monthly. The same year as TV4.se was launched, the Swedish government decided that digital terrestrial television (DTT) was to be launched in Sweden. In 1999, TV4 thus started to broadcast digitally. Even though the growth of digital television was slow in the beginning, this new technological shift meant the introduction of several new channels in the terrestrial television network. Channels like TV3, Kanal 5 and TV8 were launched and this marked the beginning of the rise of new channels becoming available for Swedish television viewers. Unlike the SVT channels and TV4, these new channels were encrypted and the viewer needed a subscription and a set-top-box from the state controlled company Boxer TV Access that was the sole provider of subscriptions for digital terrestrial television. The digital distribution network (“digitala marknätet”) was controlled by Boxer’s owner Teracom. Around this time it is also decided that the old analogue terrestrial television network is to be shut down in Sweden starting in 2005 and because of these developments in the television industry, the management of TV4 thus starts to plan for what will become the biggest evolution in the company till then. The answer to the predicted fragmented viewing in television is the introduction of several new channels by the company, the first one being the “interactive” channel called *Med i tv* launched in 2002. The following year a second channel, called TV4 Plus, is launched and in 2004 TV4 Film is introduced. As the analogue terrestrial television networks commences its shut down in 2005, *Med i tv* changed name to TV400 and the documentary focused channel TV4 Fakta is introduced. Over the coming years, several new channels were introduced by the company.

At the same time as the company introduced its new channels, it also increased its presence on the internet. In 2000 the company bought the web portal alltomstockholm.se, which it later sold to Aftonbladet in 2005. In 2007 the company launched four new websites; recept.nu, fotbollskanalen.se, tvplaneten.se and the WWF collaboration website Klimatsmart. The

following year the news site Nyhetskanalen.se was introduced and the company now operated five websites on which it sold advertising.

Alongside its increased focus on the internet in 2007, a few key organizational changes were made that and the following years. Bonnier became the sole owner of TV4 in 2007 and the company was delisted from the stock exchange. In 2008, the company made its largest investment to date when it purchased the premium pay channels under the brand Canal+ (later renamed to CMore in 2012). The company group was subsequently renamed TV4-Gruppen (The TV4 Group).

A key event in TV4-Gruppen's digital history was the introduction of its online video on demand service TV4 Anytime in 2006, a collaboration with Svensk Filmindustri (SF). The website offered both free programming and a paid subscription (49 SEK per month) directly to the viewers on the internet. In 2009 the service was complemented by the new platform TV4 Play. This website was designed as a "catch up" service where all of TV4-Gruppen's programming (excluding Canal+) from the last week was available for free directly to the viewers. Older programming was available via subscription on TV4 Anytime. In 2010 TV4-Gruppen became one of the first broadcasters to broadcast television live in mobile phones, through TV4-Play.

Also in 2010, a HD version of TV4 is launched via DTT. Also Canal+ is granted two licenses for broadcasting terrestrially and thus introduced two DTT channels. That same year, the Norwegian telecom company Telenor purchased 35 % of the shares in C More Entertainment, the company operating the Canal+ channels.

In 2011 TV4 Play Premium, an extension of the TV4 Play platform, replaced TV4 Anytime and all web-TV from TV4-Gruppen was thus consolidated to one web service. The following year, TV4-Gruppen made all of its linear channels (except Canal+) available live on TV4 Play Premium. That same year, Canal+ changed name to C More and launched a subscription video

Free-TV consists of TV4, the largest commercial television channel in Sweden. TV4 is still a so called Free-to-air (FTA) channel, meaning that it is broadcasted without encryption and can thus be received for free by any viewer with an antenna and a DTT box (connected to or built in to the TV set). TV4 is exclusively advertising funded.

Mini-pay refers to TV4-Gruppen's 11 channels that carry advertising and require a small subscription fee to receive. These channels are distributed differently depending on the channel, with some available in the DTT network and some not. TV4 receives fees from these channels from distributors that sell them in different packages to the end customer. These fees are dependent on how many subscribers the channels have.

As a requirement for the terrestrial license that was granted TV4 in 1991, the company established a network of several *Local TV* stations. Even though that requirement became obsolete in 2005, when the license to broadcast over the then shut down analogue terrestrial network, the company decided to continue its local TV venture. Today TV4-Gruppen runs 25 different local TV stations that broadcast local news on a daily basis. Local TV is also a separate business for the company as it offers advertisers to reach 30 different local markets with their advertising in TV4 and Sjuan.

The *Premium TV* business area consists of TV4-Gruppen's 65 % ownership in C More Entertainment AB, which operates the C More channels. C More runs over 25 premium-pay subscription-based TV channels throughout the Nordic region, which are sold to the viewers via distributors. The channels are called "Premium-pay" as the content in these channels are newer and more exclusive than that of FTA or mini-pay channels (content from an earlier so called "release window" in the standard release routine used by the Content creator part of the television value chain). Because of the premium nature of these channels, they are often more expensive than other channels when offered to the viewers. C More also operates a separate mini-pay business area with 3 channels in Norway and Denmark. The company also has online

video on demand services covering linear channels (C More Play), subscription video on demand/SVOD (Filmnet) and live sports (C Sports).

Finally, the *Digital Media* business area primarily runs TV4-Gruppen's online businesses. Over the last couple of years, these online businesses have been optimized to only include four major OTT services and websites. The primary OTT service is TV4 Play that provide users with TV4-Gruppen's entire offering (except C More) of television content – online and on mobile platforms. TV4 Play is a Freemium concept with one ad funded open part that is free for the viewers. This is a “catch-up” service that offers full episodes from the last 7 days, as well as a vast amount of clips from the company's programming. The other part of TV4 Play is the subscription service TV4 Play Premium that offers TV4-Gruppen's entire catalogue of online content with better image and sound quality, and no advertising breaks. Since the fall of 2012, TV4 Play Premium also offers TV4-Gruppen's 11 linear (“live”) Free-to-air and mini-pay channels. TV4 Play Premium is offered at 99 SEK/month to its users. Besides TV4 Play, Digital Media also runs 3 separate websites. TV4.se is the online extension of all of TV4-Gruppen's linear programming and offers additional information about and clips from the different programs. Fotbollskanalen.se is a football site with news and analysis about global football. It is also the place for football related clips and live events, and the home to many blogs of the company's football journalists. Recept.nu is Sweden's largest website for recipes and an extension of TV4-Gruppen's food related programs.

5.2 Interview findings on research questions

In this part of the thesis I will present the research findings related to the research questions of this thesis. As such, this chapter will be divided into three main parts: OTT's influence on the value chain, Value chain consequences of OTT's influence, and Strategic implications in the value chain.

5.2.1 OTT's influence on the value chain

“The OTT development is not like any other technological shifts. It has a real influence on the value chain, which other shifts have not. This is a much bigger thing.” – David Österlund

5.2.1.1 Content Creation

All of the interviewees agree that it is Content creators that have seen the most positive influence of the OTT development. For example, Ms. Cecilia Beck-Friis, Director of Digital Media, argues that content creation “is a market that is booming. There are now more actors that are willing to buy content”. Mr. David Österlund, Head of Distribution, agrees: “They have a golden position now, as they have gotten more customers that are competing for their rights”. This has of course had an influence on prices, as Mr. Andreas Wiss, Business Developer at the Digital Media department, explains: “The prices on rights have really bolted in many places, especially for drama and sports, as there are more buyer that are willing to fight for the rights. And in many cases, they have deep pockets”. The reason for this increase in demand is the importance of good content, according to Mr. Tommy Jarnemark, Head of Digital Media Business: “There is always going to be an advantage to own content. [...] It may be [the content creators] that have the most power in the entire value chain today, as they own what people want to consume”. Mr. Casten Almqvist, CEO agrees: “The program content is always the most important part in our industry”.

5.2.1.2 Content Packaging I: TV4-Gruppen

When first asked about the influence on TV4-Gruppen of the recent OTT developments on the Swedish television market, most of the interviewees at the company seem to think that it have only had a limited influence. Mr. Johan Kleberg, CEO of C More, is most direct: “The influence have been relatively small so far. There have been a form of inertia in what production companies can do for us, what media agencies and distributors want to do with us, and also a form of inertia when it comes to viewership – at least with regards to cannibalization”. Ms. Beck-Friis, is of a similar opinion: “The OTT developments have influenced TV4 to some extent. Maybe not as much as it should have, in the sense that it is a pretty big change that is

happening”. However, it soon becomes clear that the developments have indeed had many different kinds of influence on TV4-Gruppen.

First off, the relationships on the supplier side, with content creator, have changed to a certain degree – mostly with regards to competition and prices. Mr. Malte Andreasson, Head of Planning and Development, clarifies: “It has had an influence as there is now new competitors on the buying side, for program acquisitions”. Mr. David Österlund explains further: “The rights owners are pretty happy over the fact that there are now more actors that want to buy programming rights, instead of just one big actor. Or really, its more like that incumbent buyers want to buy more rights because they feel pressed and we have thus seen a price spiral”.

Second, TV4-Gruppen has seen an important influence of OTT on the relationships with distributors. As Mr. Österlund states: “Existing gatekeepers demand and want new rights. They want to be able to distribute the content on other platforms than today’s traditional TV sets, in order to meet the customer needs themselves and be able to keep their old business”. He further explains that this is due to the increased competition on the distributor side, which has been most notable in the entrance of Netflix, but also local actors like Viaplay, SF Anytime and Voddler. Mr. Andreasson adds that “in our negotiations with distributors we have seen an influence. More distributors want to add OTT as a standard in the distribution agreements, and in general we have gone along with that. [...] The past year I don’t think we have written any new distribution agreements in which OTT is not included in any way”.

When it comes to increased viewership on TV4-Gruppen’s own OTT platform, TV4 Play, the developments have of course been positive. This is a rather new business for the company as Mr. Casten Almqvist, explains: “[The OTT development] have invited us into growth areas that we haven’t been on earlier. The most present example is that the viewing behaviors that historically have been about video rentals, DVD-boxes and that type of viewing is now moving into a new OTT-world. If we can capture that behavior, then it’s a whole new market for us”. Ms. Beck-Friis is also enthusiastic about the developments on the consumption side: “Right now we are on

a market where the interest and consumption of moving pictures is increasing, which of course is really exciting for us as an actor in that market. New actors that are acting ‘from a blank slate’ force you to think. It’s great with competition from that perspective.” She is especially interested in seeing what happens with the evening papers’ TV ventures: “They have, like many others, identified TV as a growth medium”. This is quite interesting in a time when pundits regularly declare television as dead according to Mr. Tommy Jarnemark: “About 3 years ago there were lots of discussions about the death of television. Here, we have always asked ourselves what it is that is about to die. People still want to be entertained.”

5.2.1.3 Content Packaging II: generally

When asked about the impact on the Content Packaging part of the value chain in general, Mr. Kleberg points to lower entry barriers as the most important impact. According to him, the technological aspect of the OTT development is influencing content packagers quite a bit: “OTT have made things that have earlier been too expensive to invest in more available, such as infrastructure. The fact that you can reach the end user without any large infrastructure investments have an impact. Today, you don’t have to be as capital intensive to reach the end user”.

The lower entry barriers have of course had impacts for all content packagers in the value chain, according to all interviewees, most notably on the positive side with regards to online consumption. But this also means new demands. Malte Andreasson explains: “It has meant new demands in terms of being able to offer more and more material OTT”.

Regarding classic linear viewing, that in the industry is called PUT-level (“People Using Television”) (MMS, 2013) there is yet to be any major influences from the OTT development. As Mr. Kleberg stated, there is a form of inertia also when it comes to viewership, and no real cannibalization have been seen. Or as he clarifies: “Right now the consumption is complementary rather than substitutionary”. Mr. Andreas Wiss explains it further: “When it comes to linear viewing, it is stable at the same level as earlier. In 2009 we saw some sort of

peak at 191 minutes of viewing per day and after that it has been fluctuating between 184 and 189 minutes. What is worth noting however is that in the target group 15-24 year olds, there has been a constant decline in the average viewing the last couple of years. The target group 25-34 has also declined a bit, but not as much, just with some percentage point per year. Right above that age group there are no real deviations, except for a slight increase in older target groups. However, in the oldest target group of all we can see a substantial increase – for example a 6 % increase in Q1 2013. So there is a form of discrepancy between older and younger target groups.” Mr. Almqvist summarizes the development over the long term: “This [OTT] development have been going on for a while now, and so far it has not cannibalized on the regular viewership. On the contrary we have seen a steady growth in that viewing over the past 15 years, with some dips here and there.”

5.2.1.4 Content Distribution

The content distribution part of the value chain has been quite slow according to both Mr. Kleberg and Mr. Andreasson. But that is starting to change. Malte Andreasson explains: “From having been the ‘sleepiest’ and stiffest part of this value chain, it has now abruptly been broken up. [...] It has become a part of the chain where things are suddenly moving.” David Österlund explains why: “The distributors are seeing a risk in that others can distribute ‘past them’”. Why this is identified as a risk is because of the investments that the incumbent distributors have done. Johan Kleberg elaborates: “Distributors have invested heavily in getting an exclusive access to their households. The large value in those companies lies in the fact that they control the cables, the infrastructure. They have invested quite much in getting that exclusivity in the customers’ homes”. A reason behind the distributors’ slowness could be that there hasn’t really been a “cord cutting” trend in Sweden, according to Andreas Wiss. “In the US there have been a couple of million households that have canceled their cable subscriptions, or downgraded them, in favor of streaming services and FTA broadcasts. In Sweden there is about 50 000 households that have done so”. Another reason could be that they are desperately trying to defend their so called “walled gardens” according to Mr. Kleberg: “These actors are so focused on defending their

main revenue source that they are not ‘noticing’ that part of their business is sliding away elsewhere”.

5.2.1.5 User Interface

Regarding user interface, David Österlund explains that new actors have appeared that want to build walled gardens. “Samsung are very active in trying to build portals where they themselves can have control over what content is being shown. LG and Apple are other examples that are trying to become the governing actor and are trying to build a big enough “market place” so that content owners want to be on it. On to be so, they’ll have to pay for it – for being on Samsung’s Smart TVs for instance. In addition, they want to be able to change fees for all traffic in their market places. They see that they can build value there and are thus trying to build their positions”.

5.2.1.6 End Users

The influences on the value chain of the OTT developments could be said to be mainly end user driven. Mr. Almquist explains: “A Swedish household can nowadays receive e.g. TV4 without having a subscription with an operator or having a STB. That’s an entirely new situation”. He continues: “In the same technological shift there are now also opportunities for viewers to receive another form of TV, the one coming from for instance Youtube or the evening newspapers’ websites. Yet another aspect is the viewers’ behavior of watching ‘show by show’ rather than ‘channel by channel’”.

Many of the interviewees identify the end users as the big winners, as a consequence of the OTT development in the value chain. Mr. Österlund makes this conclusion because of the increased availability of content, the better ways to consume that content, and the increase in freedom and choice. Mr. Wiss agrees and point out another influence on the end user side, as a result of the OTT development: “Just this past year, it has happened enormously much for the end user. [...] 2012 was a very eventful year in the TV industry, as that was the first time that the end user could get a full-fledged TV experience over the internet – that was because of Magine’s

introduction, TV4s launch of linear channels on TV4 Play and that SVT later did the same. [...] An interesting aspect of that is that the piracy is decreasing now, because there are legal alternatives”.

5.2.2 Value chain consequences of OTT's influence

“Right now everyone have a genuine belief that they can skip steps in the value chain – that’s why the value chain is changing.” – Johan Kleberg

5.2.2.1 Content Creation

On the production side of the content creation part in the value chain, most interviewees identify basically the same consequence; an increase in activity due to the favorable position they are in, given the spike in demand as a result of the recent OTT developments. Mr. Almqvist makes an analogy to the 1990s: “In the 90s, when commercial TV came to Sweden, this was an exploding business as many new TV-channels wanted new programs. That’s when the production company industry was created in Sweden, with many small start-ups that were later consolidated into a few larger companies. With this new OTT development there is once again a boom in new and small production companies, as the demand for Swedish productions increase dramatically”. Both in Sweden and internationally, the actors in this value chain link have chosen different paths as a consequence of the OTT developments. Ms. Beck-Friis explains: “Some are selling their content as usual, while others – mostly Hollywood studios – are also building end user relationships”. Mr. Österlund argues that the content creators often are a bit late with finding the right business models around OTT, and that they are now acting in different ways to find their path. Malte Andreasson has also noticed how some actors are moving forward in the value chain: “Several parties have new ambitions to engage themselves in content packaging. [...] In Sweden, for instance Disney has an own OTT product, with which they have found new customers on the market”. Other content creators have chosen a different track, as Andreas Wiss explains: “Endemol has started a new department that only produce web exclusive content, so they have started to adapt in a way”.

Mr. Kleberg compares the situation that the film companies are in, to when the music industry was disrupted by the internet: “The music industry faced a pretty quick drop in sales of physical CDs driven primarily by piracy, but a rather slow uptake of digital alternatives. When it comes to moving pictures, the drop of physical DVDs and the like will probably be just as fast as with CDs – but the digital alternatives will pop up earlier. As such, the content creators probably won’t get that temporary dip that the music industry got”.

5.2.2.2 Content Packaging I: TV4-Gruppen

The OTT development has triggered TV4-Gruppen to focus more on end user relationships. With TV4 Play Premium the company is using another business model to capitalize on its content. Mr. Casten Almqvist elaborates: “There seems to a big demand for a ‘richer TV4 environment’ online, where more programs is made available for the consumer. Since October last year we have been able to grow our subscriber base substantially by introducing a number of new offers”. Andreas Wiss explains that a strategic consequence of the OTT development have been to work up a presence where the viewer is or want to be, and to thus offer their content on as many platforms as possible. David Österlund agrees: “We have to be where the viewer is. We can’t tell the distributors were to be – it doesn’t work like that. We can act a bit faster than them because they are big actors with a lot of volume, which makes adjustments take much more time for them. We can create a better product than them, so that’s what we have done”. Mr. Wiss explains that there are challenges however: “When it then comes to making business out of that, one needs to be aware that there is a whole different type of reality on the internet, with another type of competition. Theoretically we have an infinite number of competitors online, while on the broadcasting side there are a finite number and you compete with those about specific time slots”. He also argues that TV4 has been able to come closer to the end user: “A customer relationship is of a different kind than a viewer relationship. It places greater demands on us. We have had to adapt. Today, for instance, we have a better phone support than Com Hem”.

On the supplier side, David Österlund explains that rights to distribute the content OTT, so called TV Everywhere (TVE) rights have started to become a commodity. “It’s not as difficult as before

for our program acquisitions department to complement their agreements with live streaming rights. There still is a price premium however”.

When it comes to negotiations with the distributors, Malte Andreasson argues that there have been positive consequences of the OTT developments: “We have been able to charge pretty good prices for the rights to distribute our channels OTT, given the expectations. [...] It haven’t become a significant source of revenue yet, but the agreements look pretty good with a 50 % add-on and above”. At the same time, David Österlund points out that the agreement negotiations have become more complex due to the OTT developments: “All negotiations with distributors right now are about them trying to ensure that they won’t get a worse product than the one we offer ourselves on TV4 Play. [...] That’s their worst nightmare, that we are to keep exclusive content that they can’t offer themselves”.

5.2.2.3 Content Packaging II: generally

According to Andreas Wiss, most broadcasters act in unison with strong online platforms that are complementing the regular broadcast business. However, the increased competition from new actors has had different consequences depending on what type of content packager you are. “For instance, Netflix is not really a direct competitor to TV4-Gruppen’s FTA and mini-pay channels, but it is for C More and Viaplay”. Mr. Casten Almqvist believes that the challenges related to new entrants are the same for all broadcasters, but that some are better equipped than others as some are challenged more directly on the content side: “Our commercial incumbent competitors have build much of their history and success on acquisitions of American TV-series and less on Swedish programs”.

Ms. Cecilia Beck-Friis argue that with OTT, content packagers that themselves have initiated end user ventures have the possibility to capture another form of viewing – a new form: “We have seen that prime time for on demand services are later in the evening than with classic linear television. Users bring the tablet to bed to watch, and thus extend the television night. Also,

when they are on the move, at the country house or travelling, OTT have enabled another way to watch TV”.

5.2.2.4 Content Distribution

Mr. Wiss explains the most clear-cut consequence for Content distributors: “They have been forced to broaden their distribution offerings with a stronger presence on all platforms, so called TVE solutions”. Ms. Beck-Friis believes that just like all other parts of the value chain, the Content Distribution link has seen consequences related to new entrants: “Of course it has had an effect for them, just like for everyone else in the value chain, that there now are more actors out there that want to reach out to the end user. It’s not just local actors, but global too. It has an effect on their product offering and on their business. It’s affecting the market and everyone’s role.” Mr. Kleberg explains why, by exemplifying with his own household: “Com hem is a totally irrelevant supplier in my home, because they do not control all the ways to reach me as a consumer anymore. We can buy their product in other ways, from other vendors today – they have lost their power. Their walled garden is gone. In order to keep it, they need to work with the end user experience, and companies that have historically had walled gardens are usually really bad at that. That leads to them being under attack from companies that *are* good at end user experience, like content packagers”.

With the OTT developments, huge amounts of data are transferred over the open internet. Mr. Österlund explains how this has become a problem for the distributors: “In most cases, it’s the television distributors that also supply the internet connection. So actors like Netflix for instance are using the distributor’s infrastructure to deliver their competing services. That’s where the question of *net neutrality* comes in. Should all data be treated the same? The distributors have started to look for models where they can charge fees for what is distributed over the internet. On the mobile side, there has been a shift from flat fees to specific tariffs for different amounts of data used. That’s a way to hinder the OTT actors, and it could very well become reality for wired internet connections too”.

5.2.2.5 User Interface

According to Mr. Andreas Wiss, the expected boom for the consumer electronics companies because of the OTT development hasn't really occurred. At least not for their television set ventures: "Smart TV have not become the new smart phone. That's because the user interfaces are completely worthless. The viewers want to watch regular TV in an easier way. They prefer using some sort of "bridge" to make their TV sets smart instead, for instance a gaming console, an Apple TV or just simply plugging in your computer. Only 3 % of all OTT viewing is through Smart TVs [...]. They haven't been able to take control over the end user relationship the way they hoped for. Instead much is happening on other markets. Microsoft is for instance starting to use their Xbox as a set-top-box. And the new Xbox 720 will be more TV-focused".

5.2.2.6 End Users

Mr. Almqvist explains that the end users often adapt quite fast to changes in online environments: "We have noticed that everything that is new and innovative in this [online] business become standards very fast for the end users". That means new challenges and demands for everyone with an OTT ambition.

According to Mr. Wiss, the end user is the winner in this OTT development: "It's a classic thing to say that the end user is the winner. That's because the supply is increasing and so are their options and choices." Ms. Beck-Friis is not so sure though: "A lot of people nowadays says that the consumer's situation is so good right now because they have so many options. But I don't think the consumer only wants more options and choices. That makes it more difficult for them. How are they to know what they can watch, how much they should pay and what the difference is between alternatives?". Mr. Jarnemark agrees: "It would be rather cumbersome if the every TV night started with just a *search field*".

5.2.3 Strategic implications in the value chain¹

“In my opinion we have this entire development in our own hands now. That places demands on how we play our cards from now on.” – Casten Almqvist

5.2.3.1 Content Creation

Mr. Casten Almqvist believes that the production companies will have a great future due to the OTT developments: “Looking ahead I think that it will continue to be a pretty good business model to gather a bunch of great, creative people and produce program rights. Broadcasters will have to spend more on such programs in the future.” Malte Andreasson is of the same opinion, but claim that the content creators must be careful when they choose business models: “It’s a very good part of the value chain to be in, but only if you are sound enough to understand what your expertise is. Production companies that dream of consumer relationships will become disappointed because the end consumers regard their content as niche products if they stand alone. Instead they want a full-fledged offer like for instance Netflix, with that content included.” He is also of the opinion that if production companies try out advertising funded models, they will soon understand how complicated it is: “Selling advertising is not just about setting up a phone to receive orders. It’s a business in itself. If they instead focus on having good producers, good productions and a good concept, I’m confident that they will be able to sell their content over and over again to new customers. With this distribution development, companies with end user relationships will only have content to distinguish themselves from the competition with. In that situation, it’s pretty great to be the rights owner.” Tommy Jarnemark agrees: “The fact that someone new have the possibility to build great ad reach pretty fast online today, means that it will be an advantage to own content”.

¹ In this section the end user perspective is not included. The reason for this is the lack of relevance for that link in the value chain in this context, as strategic implications are more focused on industrial value chain actors like content creators, packagers, distributors and user interfaces.

5.2.3.2 Content Packaging

Mr. Casten Almqvist is certain that what broadcasters need to do in response to the OTT development is to embrace it: “It’s important to take the development seriously, have a distinct idea about how to take advantage of it, and not try to fend it off in favor of the existing model – because that’s a dead-end. You have to let the new opportunities grow strong at the expense of the existing core business. Have the courage to challenge it completely, even if it hurts”. He continues with an example: “Sometimes you have to do things that cannibalizes on your own business in order to take it to the next level in the development, because otherwise someone else will do that thing. The conclusion is that ‘it’s better to be the cannibal than the meat’. At TV4-Gruppen we did exactly that when we started our mini-pay channels back in 2002 and 2003, as the Swedish television industry underwent a big technological shift by switching from analogue to digital terrestrial distribution. That created opportunities for new channels and we faced the question what would happen when viewership was transferred from TV4. Looking back, we can see that TV4 is about 10 percentage points smaller today but we have been able to capture those percentage points ourselves. Totally we are today still at the same share of viewership, but it is allocated differently. I argue for that we are facing exactly the same challenges now”. Mr. Jarnemark agrees: “I believe that broadcasters are beginning to get to that point where you need to challenge the old business in order to get full leverage on our investments”.

Mr. Johan Kleberg believes that movements in the value chain are getting more important: “You have to have the courage to decide what part of the value chain you want, and then try to become as strong in it as possible. In my opinion, content packaging is too small. In C More’s perspective, I would rather be active further back in the value chain in order to get better control over content rights. TV4 could move forward as they have a stronger consumer brand. I believe that movements are important, but it’s hard to say exactly how to move”. Mr. Jarnemark is of a similar opinion, which also relates to Mr. Almqvists thoughts on cannibalization: “My view is that the more actors there are that want a slice of the cake, and the further away you are from that cake, the less you will get. Likewise, the closer you are the more you will get. If you as a broadcaster have the opportunity to get the consumer relationship, I believe that you have to take

it. Because if we don't, someone else will – and that someone else might be even further back in the value chain.” Ms. Beck-Friis believe that broadcasters, and TV4-Gruppen in particular, have an advantage in comparison with the distributors as they continue to develop their end user relationships: “We have a ‘relationship brand’ in a sense. TV engages viewers. That’s a big strength to bring in to this technology shift. We need to be proactive and work with that”.

Another important strategic implication for broadcasters that have been identified by several of the interviewees has to do with content. Mr. Wiss explains the background: “End users consume different content with different services. For instance, on Netflix the consumption is a lot about TV series while for broadcasters it’s more live content, broader entertainment, sports and the kind of content that aren’t really on these new OTT services”. Mr. Almqvist agrees. He explains what he believes broadcasters like TV4 should focus on: “Local TV content. Swedish programs like *Solsidan*, *Let’s Dance* and *Så Mycket Bättre*. We are better than them on that kind of programs. [...] We know how much we spend on Swedish productions. [...] I find it hard to believe that an international actor like Netflix would want to invest that much in just the Swedish language area. I truly believe that if we continue to invest in that kind of content, we will continue to be market leaders”. Ms. Beck-Friis is of a similar opinion, but puts it in another way: “If for instance Netflix were to invest in the kind of programming that is our core competence, and stubbornly go into local productions on each geographical market – then they are taking quite a big step into our core”. Mr. Wiss however believes that there is another kind of actor that are a closer threat on the content side: “The evening papers’ are with their TV ventures moving more towards event TV and live broadcasts, but in a new way. [...] But their TV business is bleeding money right now”.

5.2.3.3 Content Distribution

Mr. Österlund is not very enthusiastic about the Content Distribution link’s future: “I believe that they are the link in the value chain that have the least favorable position. But they are not going to just ‘lie down and die’, because they still own the ‘cord’ to the consumer. But they will have to rethink their business models so that they can continue to be relevant for the end user”. Ms.

Beck-Friis also believe that the distributors have to look over their customer offerings: “They need to really put a lot of effort into creating end user value in order to continue to be relevant”. Mr. Kleberg is of the same opinion: “A good example is the US. The distributors there are now starting to wake up, and are looking to combine their offers with other services. *Comcast* teamed up with the telecom operator *Verizon* to offer their OTT platform *Xfinity* wirelessly outside of their cable infrastructure, *Dish* did something similar by buying *Blockbuster*. They are nervous about their control of the households and have come to the conclusion that TV is not enough. *Dish*’s attempt to acquire *Sprint* is also interesting. They feel that they need to offer more of a total product offering in order to build up some kind of walled gardens again.” Mr. Kleberg also notes that it has been a very slow development, and that there are indications that the development in the Nordic markets will be just as slow: “That means that there will probably be time for a lot of new services that are not controlled by the distributors”.

Malte Andreasson is of a similar opinion, and paints a picture of what he believes will happen in the part of the value chain between Content Packaging and the End User: “If we look at the long run, I believe we are going to see a situation where the infrastructure of technical delivery will become rather worthless. There are so many ways in to the households now and the end user has a connection to them all. That means that the ownership of infrastructure will become less and less interesting. It’s going to be a bit like with the cellular networks – just a basic service that the phone companies don’t even care about operating. When 4G networks transform into 5G, I think that we instead will see a situation where it’s all about selling services – access packages to consumers – and then the structure in that part of the value chain will be facing a revolution. *Com hem* will start competing with *Boxer* and *Canal Digital* directly. It will be a zone of structural change”.

5.2.3.4 User Interface

As described above, the consumer electronics companies have not yet seen the impact that they were hoping for. For instance, Smart TV have not worked out as planned. But Andreas Wiss believes that it’s not over for them yet: “They will probably continue to invest. New players will

emerge also – for instance Amazon has an OTT set-top-box in the pipeline”. Cecilia Beck-Friis believe that the User Interface link in the value chain is going to be really important: “It’s getting more and more relevant to make your content available everywhere, in an attractive way”. Tommy Jarnemark explains the importance of new technical platforms: “40 per cent of all started streams on TV4 Play is on mobile platforms. [...] We view the cell phone as the new set-top-box. It’s personal and almost everything you do starts with your phone today”. Also David Österlund is convinced of the importance of new platforms: “Beside content, the end user product is an important source of competition. Netflix have hundreds of developers that work on bringing their service to all kinds of devices. It’s strategically important to be on all platforms”.

6. Analysis

From my empirical findings, much can be concluded about the impact, consequences and strategic implications for the actors in the Swedish television value chain. In line with the purpose of this thesis – to provide a better understanding of the recent OTT developments in the Swedish television industry, the possible consequences and implications of this development, and thereby give industry actors (primarily broadcasters) a “road map” to support strategic choices for future investments – I will in this section present some of the most important influences, consequences and strategic implications and connect them the relevant literature presented in earlier sections of this study. They will be presented in the same way as the empirical findings, with a value chain division. However, I have chosen to exclude End Users from this presentation, as strategic implications aren’t applicable to that link in the value chain.

6.1 Content Creation

The most apparent impact on the content creation link of the value chain is a spike in demand for good content. The market is booming (Beck-Friis). Incumbent actors (mostly content packagers) are investing more heavily, while the industry has also seen new customers – both local and international (Beck-Friis, Österlund). Many of these customers are willing to spend heavily, which have led to increased prices (Wiss). This is of course a very attractive market to act on,

and many of the interviewees conclude that content creators have a very good position in the value chain at the moment. A natural consequence has been that the number of actors on this market has increased recently (Almqvist) which has led to tougher competition.

Strategic implications for the content creators is mainly about choosing what part of the value chain they should act in, and thus who their customer should be. The increased competition on the market has lead many players to try to find the best business model to use. Right now, they are choosing different paths to go down (Österlund); some are for instance experimenting with building end user relationships, others are focusing on business as usual (Beck-Friis) and some have started to adapt to their present customers' OTT needs (Wiss). According to Shank and Govindarajan, "suppliers not only produce and deliver inputs used in a firm's value activities, but they importantly influence the firm's cost/differentiation position" (Shank and Govindarajan, 1992, p.180). With the booming content market in mind, their view becomes increasingly relevant for content creators. Malte Andreasson is of the opinion that content creators should focus on being able to deliver superior quality in their production, and perhaps he is on the right track. As the competition increases further down the value chain as well, unique content could very well become an imperative asset for the content creators' industrial customers (Jarnemark). It could come to determine how strong of a position content packagers and distributors alike will be able to build. This suggests that in order to beat the competition in this part of the value chain, content creators should focus on their content instead of trying out end user relationships. As Porter puts it, "gaining and sustaining competitive advantage depends on understanding not only a firm's value chain but how the firm fits in the overall value system" (Porter, 1985, p.34).

For the actors that already offer end user products through DVD and Blu-ray sales (mostly film companies) the message is mainly the same: stay on course. The OTT developments have opened up digital alternatives for movie resellers to replace physical sales, and the uptake with these seem to work well (Kleberg).

6.2 Content Packaging

Even though there has been some inertia on the market overall when it comes to OTT (Kleberg), some important impacts have occurred for the content packagers. On the supplier side, there has been a price spiral on content mainly attributable to increased competition for rights. At the same time, a consequence has been that TVE rights have become sort of a commodity because of this increased competition (Österlund). A strategic implication of this competition has been an increased focus on local programming. It's clear that there are going to be future investments on this kind of content, as it has been identified as a competitive advantage in relation to many new OTT actors. The consensus among the interviewees is that the expertise that content packagers, and TV4-Gruppen in particular (Almqvist), have in this kind of content need to be exploited. This is in line with Wessel and Christensen's framework for surviving disruption. In order to figure out the own relative advantages, incumbents must understand "what jobs people want you to do for them" (Wessel and Christensen, 2012, p.58). One might argue that one such job, where new actors like for instance Netflix are closest to threatening the incumbent content packagers, is entertainment. However, the empirical findings in this study have shown that there are different kinds of entertainment and suggest that the kind of content that actors like Netflix are offering, are not doing the same job for the end users as the kind that the incumbent broadcasters are best at – in TV4-Gruppen's case, programs like *Solsidan*, *Let's Dance* and *Så Mycket Bättre*. As such, the OTT "missile" that e.g. Netflix represent might not hit these content packagers head-on.

However, there are other aspects of OTT. An important impact for content packagers is that there has been a steep increase in demand for moving pictures online (Beck-Friis). This development, together with the lower entry barriers due to decreased investment needs (Kleberg) have lead many broadcasters to engage in end user relationships with own OTT services. With these, they have been able to capture a new form of viewing – like for instance on-the-move consumption, late night viewing and DVD-box consumption (Beck-Friis, Almqvist). At the moment, this is a complementary kind of consumption to the regular broadcast viewing (Kleberg, Wiss) which thus represents new added opportunities for these actors (Almqvist). Porter's thoughts on online

services supports that finding; “in many cases, the Internet complements, rather than cannibalizes, companies’ traditional activities and ways of competing” (Porter, 2001, p.73). But broadcasters like TV4-Gruppen are preparing for a substitutionary effect from these new OTT services. Strategically, that means challenging the old business model by letting new ones cannibalize on it (Almqvist, Jarnemark). Distribution of linear channels on TV4 Play Premium is a good example of this, and a service that might develop into a disruptive innovation, as in this case the “jobs” that the viewers want TV4-Gruppen to do for them can be done OTT as well. However, today that kind of service is not really a full-fledged TV service (Wiss), which means that it isn’t fully challenging the distributors’ or TV4-Gruppen’s core businesses. In order to do so, the broadcasters’ OTT services would need to also carry other TV channels, which would mean a real step forward in the value chain. According to Porter, an initiative like that have the potential to succeed, as he believes that “established companies will be most successful when they deploy Internet technology to reconfigure traditional activities or when they find new combinations of Internet and traditional approaches” (Porter, 2001, p.78). Such a service, like the one that e.g. Magine (a new OTT TV distributor) offers today, have better potential to be disruptive than for instance Netflix. However, as Wessel and Christensen describes, there are barriers to disruption that needs to be overcome (Wessel and Christensen, 2012, p.60). The most relevant in this case is probably the ecosystem barrier that today mainly is represented by distributor infrastructure, which influences an overwhelming majority of the television viewing today (e.g. cable or terrestrial networks). This is an integral part of the business environment in the industry today, which complicates things for actors with ambitions to offer a full-fledged OTT TV service. However, as more development is done on the technological delivery side (e.g. the possible emergence of mobile 5G networks²) the ecosystem barrier could be lowered, as Malte Andreasson believes. This would open up the market for disruptive services which would have a serious impact on content distribution, and would thus result in the kind of redefinition of the value chain that Mougayar have theorized can happen when distribution costs are lowered for

² Samsung has recently had breakthroughs in 5G technology development.
<http://techcrunch.com/2013/05/12/samsung-to-launch-5g-by-2020-hits-speeds-of-1-gbps-in-tests/>

new intermediaries: “newer types of intermediaries arise in [...] new areas, and become an integral part of the new value chain” (Mougayar, 1998, p.89).

The increase in consumption online, and the lower entry barriers in the industry have also lead to increased competition (Wiss) in the OTT space. One strategic implication of this development is that movements in the value chain are becoming more relevant for incumbents content packagers (Kleberg, Jarnemark). Whether to move up or down the value chain depends on what kind of position you are in and what kind of brand that you have towards end users (Kleberg, Beck-Friis). An underlying reason for this finding could have to do with what characterizes a disruptive innovation. According to Wessel and Christiansen, that defines disruptive innovations are not necessarily that they need to be better than the existing products and services, but that they are more convenient, simpler and less expensive than the existing offerings. An example of a value chain movement is broadcasters’ OTT services that include linear channels – like TV4 Play Premium and SVT Play. These have the ability to fulfill all of those three criteria, if they were to be complemented with other TV channels. Such a service would be convenient (no infrastructure driven “walled gardens” for the end user to care about or adapt to), simpler (no set-top-box requirements to connect to a “walled garden”, and availability no matter what distributor infrastructure you happen to be connected to) and probably less expensive (as no infrastructure investments or operations are required by the broadcasters). In light of this, content packagers have a great opportunity to take leaps forward in the value chain – if they have the courage to challenge their core business.

6.3 Content Distribution

Shank and Govindarajan’s view on value chain impacts is relevant when analyzing what consequences that content distributors are facing as an effect of the recent OTT developments. They claim that, just like your suppliers’ actions affect your value chain position, “customer’s actions can have a significant impact on the firm’s value activities” (Shank and Govindarajan, 1992, p.180). Even though the OTT development has meant new business opportunities also for content distributors, these new services have mostly been launched because they have been

forced to it (Wiss). This is because the main impact on distributors that have been identified in this thesis, namely that distributors are now seeing a risk in that other actors can distribute ‘past them’ with online TV services (Österlund). Netflix, HBO, Youtube, Magine, as well as broadcasters’ and evening papers’ OTT services are just some examples of actors that are trying it out already, while the distributors have been slow to act on this development (Kleberg, Andreasson). This is a sign that some of these services might be disruptive in regards to the content distributors. Christensen and Raynor describe disruptive innovations as being characterized by their ability to paralyze incumbent market-leaders, as they are often accustomed to a more traditional approach to innovation. (Christensen and Raynor, 2003, p.34). As a result, the cord cutting phenomena (end users cancelling or downgrading their TV subscriptions in favor of online streaming) can be witnessed in both the US and Sweden right now, though not to a very large extent yet (Wiss). The reason why some viewers are behaving this way is because the infrastructure that up until today have represented a competitive advantage for the distributors, is losing its relevance (Kleberg, Andreasson). There are already today several ways for the end user to receive television at their homes – not only through a managed infrastructure controlled by the content distributor. The “walled gardens” that they have been able to build up with this infrastructure are starting to disappear (Kleberg). This is a natural development according to Porter, as he claims that “the Internet tends to dampen the bargaining power of channels by providing companies with new, more direct avenues to customers” (Porter, 2001, p.66). The main strategic implication of this development is that distributors now have to rethink their business models, in order to stay relevant to the consumers (Österlund). When doing so, applying a value chain perspective is helpful according to Shank and Govindarajan: “investment decisions can be viewed from the perspective of their impact on the overall chain and the firm's position within it” (Shank and Govindarajan, 1992, p.197). That distributors are now doing so has been most visible in the US, where they are looking to broaden their customer offerings by acquiring or cooperating with service providers, primarily on the wireless network side. They have come to the conclusion that television is not enough, and are now looking to provide more of a total product offering in order to build up some kind of “walled gardens” again.

6.4 User Interface

The OTT developments have naturally also had an impact on the User Interface part of the value chain. Consumer electronics companies are trying their best to gain from this development, mainly by building their own “market places” where actors from further back the value chain can make their end user offerings available (Österlund). The end results have thus been quite disappointing for the consumer electronics companies. Especially the television manufacturers’ investments have failed with their Smart TV products (Wiss). However, as the interviewees in this study have identified user interface as being crucial to OTT services (Beck-Friis, Österlund), we will probably see more effort going in to this market in the following years. Availability on as many platforms as possible is what all OTT actors will be looking for.

Apart from poor software (Wiss), there could be another fundamental problem with the consumer electronic initiatives on this market. With traditional television, broadcasters did not have to adapt their product much in order for it to function properly in the user interface part of the value chain. The technology was build in order to receive the broadcasted signals. Today, consumer electronics companies, like TV or game console manufacturers, are creating individual market places for other actors to build their services upon – and have thus reversed that process. This places higher demands on the OTT actors, as they will have to adapt their user interfaces to each individual platform. Applying Wessel and Christiansen’s disruptive technology framework, this problem could be categorized as a technology-implementation barrier, hindering the potentially disruptive innovation to attacking incumbent companies’ competitive advantages (Wessel and Christensen, 2012, p.60).

7. Conclusions

The purpose of this thesis was to provide a better understanding of the recent OTT developments in the Swedish television industry, the possible consequences and implications of this development, and thereby give industry actors (primarily broadcasters) a “road map” to support strategic choices for future investments. I thus raised three research questions:

- *RQ1: How are the recent OTT developments influencing the Swedish television value chain?*
- *RQ2: What consequences will this influence have for the members of the television value chain?*
- *RQ3: What are the strategic implications for the value chain members, given these consequences?*

Of course, these three questions are related to each other in a rather straightforward way: influences produce consequences, which results in strategic implications for the value chain members. Regarding influences and consequences in the value chain, these could mainly be said to fall into either one of two categories; *demand* or *competition*. The strategic implications primarily concern *business models*.

The value chain members can all be said to have experienced influences as a result of the recent OTT developments. Those influences can basically be classified as end user driven; an increase in *demand* for OTT services from the end users spread down the value chain all the way to content creators. What is different from an ordinary increase in demand however is that in this case, the end user demand does not necessarily have to “pass through” the content distributors. The end user can turn directly to a content packager *or* a distributor for OTT services. The main difference between distributors and other value chain members is thus that for distributors, the primary influence is increased *competition*, while for the rest of the value chain members the primary influence is increased demand. Content creators have mainly been influenced by an increase in demand due to new customers in the value chain, which is driven by content packagers responding to a new demand from both end user (demand for OTT services) and distributor (demand for OTT rights). The consequences for content creators, content packagers and actors in user interface manufacturing is that because of this increased demand, there is also increased competition. New actors pop up in all of these parts of the value chain. For the distributors however, the increase in competition could potentially influence demand negatively.

The OTT developments are still too young see an actual decline in demand for incumbent distributors, but the risk is most definitely there.

An important conclusion here is that this difference is mainly attributable to OTT distribution being separated from traditional distribution infrastructure and “runs on an open internet connection without the benefit of a managed network” (TDG Research, 2011). This is a critical issue that makes OTT substantially different to other historical technological advancements in the television industry. The reason for this is that OTT distribution, because of this separation, has a direct impact on the structure of, and power in the television value chain. The main driver of this impact is that OTT technology, with its infrastructure-separated nature, allows for disruptive innovations in the value chain. As the ecosystem is developed further, for instance with further breakthroughs in mobile broadband (e.g. 5G), the impacts of OTTs separation from infrastructure can become more significant – as the remaining barrier(s) to disruption fall.

Each link in the value chain naturally has its separate strategic implications³. But as stated above, they can all be said to primarily concern *business models*. For *content creators* the main strategic implication has to do with the choice of which customer group to target, as the OTT development allows for new customer relationships to be developed. As has been covered in this thesis, content creators are facing difficult new tasks if the choice is to develop relationships with e.g. end users and advertisers. If they stay with their original customers however, they may reap the benefits of an increased demand for their services. Increased competition will however place greater demands on the level of quality offered. For incumbent *content packagers*, the primary strategic implication has to do with a choice about forward integration in the value chain. By developing their existing OTT ventures, they can meet the increased demand for OTT services from end users and thus take advantage of the structural technology shift. As the jobs that traditional television do for viewers, are quite similar to those that their OTT services perform they have the potential to disrupt the distribution market in the value chain. Naturally however,

³ The end users perspective is not included in this section, due to irrelevance (see footnote 1).

this will certainly affect relationships with current distributors, on which the traditional advertising and distribution revenue businesses rely heavily. Forward integration should however provide a more promising financial position, but is characterized by several complicated steps to implementation. For *content distributors*, the primary strategic implication is related to how to develop their customer offerings in order to stay relevant to their existing customers. As their “walled gardens” gradually loses strength, they will have to rethink their business models to not be centered on infrastructure, which risks becoming obsolete. If trends in the US are to be treated as a benchmark, the future for these actors could very well be focused on selling services to end users. Their relative advantage in handling end user relationships could be of significant use to them as they enter a new competitive landscape, but the timing to implement such a new strategy can be imperative as they are facing new competitors that have already started to develop their potentially disruptive innovations. Finally, for actors in the *user interface* part of the value chain, the primary strategic implication concerns the structure of cooperation with OTT service providers. As disruptive innovations in the television value chain will not harm, but rather help their intentions to create “market places” for OTT television this structure needs to be altered. The backwards cooperation structure has become a barrier for disruptive innovation, and an alteration is needed to facilitate integration for other value chain members. If this is done however, the user interface link in the value chain could be facing a bright future.

8. Contribution, critical reflections and further research

8.1 Contribution

Many professionals in the television industry today have recently raised questions about the OTT development and how it is affecting the industry, and their specific businesses. What has been missing in this context is deeper analysis and theoretically grounded reasoning, which in many cases has left those same professionals wondering what will happen next. This thesis takes on the challenge to complement that discussion and have contributed in two major ways to the professional television industry:

First, it studies a hot topic phenomenon in the Swedish television industry. Even though broadcasters have run OTT initiatives for the last couple of years already, it's really just now that these have begun to show a major impact on the industry. As noted in this thesis, there has been a general inertia regarding OTT in the television industry up until today. The recent introduction of several new players in the market have however induced most incumbent actors throughout the television industry to really start acting on this development now – and naturally, they are all pondering about what effects it will have on the market as a whole. As Porter puts it: “the potential effect of technological change on industry structure means that a firm cannot set technology strategy without considering the structural impacts” (Porter, 1985, p.172). As such, this thesis have contributed by complementing the discussion with an in-depth analysis of the influences, consequences and strategic implication that the OTT development have on the Swedish television industry.

Second, it applies a theoretical perspective on the OTT developments in the Swedish television industry – a part that has been missing in the professional context. By using Porter's well-known value chain framework as a foundation and then other relevant theories, with Wessel and Christensen's ideas on disruptive innovations as the most apparent, for in-depth analysis, it has contributed to the industry literature and ongoing discussion about this new phenomenon in the industry. Theoretical approaches are often valuable in a practical context, as it can serve as a solid foundation for investment decision.

This thesis has also contributed to the academic and scientific field. Primarily, it has contributed to the understanding of technology development in Swedish television sector. As this area is in constant development, research often becomes obsolete quickly. As such, all research on technology developments in this area is important, as it will add to our continuous understanding of it. More importantly though, as I have concluded in this thesis, the OTT development is fundamentally different to other previous technological developments in this industry. Additions of research on OTT technology to the field of academic literature is thus of utter importance, as the consequences of this technology represents an important shift in the Swedish television

industry. The academic research that has been done on this technology development has, to my knowledge, not had a value chain perspective (or even an industry perspective) but has instead focused on individual relationship impacts or competition in general, within the industry. This thesis has thus contributed to the existing literature, by *a*) providing research on an important technological development that have the intrinsic potential to cause an important shift throughout the entire industry, and *b*) by applying a value chain perspective to this development in order to analyze industry influences, consequences and implications, rather than just “smaller pieces of the puzzle”.

8.2 Critical reflections

In addition to the limitations of this study covered in the first chapter, an important reflection to be made when dealing with qualitative research is the problem of generalizability of the research findings. A drawback of this thesis is that a single case study design was chosen, as one could argue that the inclusion of more cases would have resulted in different results. Even though the interviewees in this thesis have many years of experience from dealing with other relevant value chain members, one can argue that additional interviews with content creators, other content packagers, content distributors, and user interface manufacturers could have increased the robustness of the industry analysis in this study. However as indicated in the beginning of this thesis, I have applied a broadcaster perspective when examining and analyzing the above mentioned value chain influence. While still interesting on its own, this is in fact a consequence of the nature of the research assignment that I have been given by TV4-Gruppen. With the assignment coming from TV4-Gruppen, my objectivity as a Master student in Business and Economics becomes irrelevant to interviewees. This has impacted my ability to conduct interviews with competing broadcasters or content packagers, because of confidentiality reasons.

Another reflection concerns the selection on interviewees. I have tried to conduct interviews with an as diverse group as possible at TV4-Gruppen. As such, I have interviewed members of management, middle managers and other employees at the case company. However, that type of selection might not have been enough. It later stuck me that the data obtained on content creators

might have been slightly more complete if interviews had been conducted with employees that have regular contact with such actors, such as the Director of Programming or the Head of Acquisitions.

8.3 Future research

As the OTT development in the Swedish television industry is still quite young, there is still a possibility that the impacts identified in this study pan out in a different way than explained above. This is the unavoidable nature of technology development. Future influences and consequences of the OTT development will most certainly differ from those found in this study. As an effect, strategic decisions stemming from such developments could come to alter the structure of the industry in many ways that are not covered in this study. As such, there will be a continuous need to study the impact of OTT technology on the value chain in the future. My hope is that this study will stir up enough interest for the reader to continue my research at a later stage.

Another avenue for future research could be to use a different approach to industry analysis than Porter's value chain theory. For instance, Normann and Ramirez' "Value constellation" theory could be a useful and more modern framework for industry analysis.

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