

Analysing Market Strategies Of Commercial Broadcasters In A Changing Environment

A Case Study of the Swedish Market

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ABSTRACT

The digitisation of the media industry has caused a strong decentralisation of logics of the past, towards more open, flexible structures, bringing about both opportunities and challenges. Within the market where Swedish commercial broadcasters operate, 2014 brought about great disruption in video consumption and advertising patterns. The purpose of our research is to identify the current patterns of change in the market, to analyse them with the help of theory and to describe how the defined shaping forces are affecting market strategies of commercial broadcasters.

Patterns of change have been identified through the help of a background research across different media industries affected by digitisation, and confirmed by a set of qualitative interviews with industry professional.

Afterwards, theory was selected with a context-based approach, to analyse how interactions on three different levels affect market strategies (firm-to-customer, firm-to-firm and society-to-firm level).

The resulting framework served as a guide to carry out the main study. Several strategy experts in different fields within the industry where commercial broadcasters operate were interviewed to analyse how market changes are affecting market strategies. According to the results of our main study, new technology and new actors have formed a new emergent market, characterised by increased competition, lowered power of traditional players and undefined boundaries. There is a will to align the currencies of linear and digital advertising offers by means of common measurement standards, but the agreement process is hard and time-consuming. The resulting market is therefore fragmented both in terms of platforms and in terms of audience. With reference to institutions, regulations have become obsolete and hard to enforce, due to decreased geographical boundaries and to the open character of the digital environment. Audiences are moving towards digital platforms disrupting not only viewing but advertising patterns (due to changing audience levels).

KEYWORDS: Television industry; Commercial Broadcasters; Media Digitisation; Two-sided markets: Markets as configurations; Audience behaviour; Institutions

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TABLE OF CONTENTS

1. INTRODUCTION	5
1.1 Purpose and method	6
1.2 Overall delimitations	7
1.3 Contribution	8
2. BACKGROUND RESEARCH	9
2.1 Background	9
2.2 Trends in the media industry	11
2.3 Intra-Industry analysis	13
2.4 Conclusions	15
3. PRE-STUDY	16
3.1 Method	17
3.2 Findings	18
3.3 Conclusions	20
4. THEORETICAL FRAMEWORK	22
4.1 Introduction	22
4.1.1 Market plasticity and strategies in dynamic environments	23
4.1.2 Agents affecting market strategies	25
4.2 How a specific firm's choices affect market strategies	26
4.2.1 Pricing	26
4.2.2 Openness	27
4.3 How business interactions affect market strategies	28
4.3.1 Market practises and marketness	29
4.3.2 Market configuration capabilities	30
4.3.3 Influencing market configurations	31
4.4 How audiences and institutions affect market strategies	33
4.4.1 Institutions	33
4.4.2 Audience behaviour	35
4.5 Conclusions	36
5. MAIN STUDY	38
5.1 Method	38
5.1.1 Interviewee selection	39
5.1.2 Data collection process	40
5.1.3 Data analysis	41
5.1.4 Limitations	42
5.1.5 Research quality	42
5.2 Empirical Findings	44
5.2.1 Commercial broadcaster strategy expert	44
5.2.2 OTT service strategy expert	46
5.2.3 Advertising sales strategy expert	49
5.2.4 Platform strategy expert	51
5.2.5 Consumer insight strategy expert	54

5.3 Summary of the empirical findings	58
5.4 Analysis of the findings	60
5.5.1 How a specific firm's choices affect market strategies	61
5.4.2 How business interaction affect market strategies	63
5.4.3 How institutions and society and affect market strategies	65
6. CONCLUSIONS AND IMPLICATIONS	68
6.1 Conclusions	68
6.2 Managerial implications	70
6.3 Directions for further research	71
7. REFERENCES	72
7.1 Print references	72
7.2 Internet sources	77
8. APPENDIX	80
8.1 Internet Users and Percentage of the Population using the Internet	80
8.2 Video viewing percentages on the Swedish market (age 9-79)	80
8.3 The Media Day in Sweden 1985-2013 (Percentages)	81
8.4 TV viewing percentages on the Swedish market (age 9-24)	82
8.5 Swedish Media Adspend	82
8.6 Background research	83
8.6.1 Evolution of the TV industry	83
8.6.2 The Swedish Market	84
8.6.2 A new broadcasting environment for legacy players	85
8.6.3 Trends in the media industry	87
8.6.4 Three successive transformational waves	88
8.6.5 New models of consumption, production and business	89
8.6.6 The Media-IT-Telecom Ecosystem	90
8.6.7 Public policy	91
8.6.8 Intra-Industry analysis	92
8.7 Overview of strategies	96
Acknowledgments	97

TABLES AND FIGURES

FIGURE 1: OVERALL METHOD	6
FIGURE 2: OVERVIEW OF THE SWEDISH MARKET	10
FIGURE 3: TRADITIONAL VS. INTERNET VALUE CHAIN	12
TABLE 1: SUMMARY OF THE BACKGROUND RESEARCH	14
TABLE 2: INTERVIEW GUIDE	17
TABLE 3: INTERVIEWS SUMMARY	18
FIGURE 4: INTENTIONAL AND EMERGENT STRATEGIES	24
FIGURE 5: SYSTEMIC APPROACH	25
FIGURE 6: TWO-SIDED MARKETS	26
FIGURE 7: INSTITUTIONS & MARKET STRATEGIES	33
FIGURE 8: PRIMARY BARRIERS TO BROADCASTING ENTRY	34
TABLE 4: MAIN STUDY INTERVIEW GUIDE	40
TABLE 5: MAIN STUDY INTERVIEW GUIDE	41
FIGURE 9: ADVERTISING STRATEGIES IN DIGITAL ENVIRONMENTS	55
TABLE 6: SUMMARY OF THE FINDINGS ON TWO-SIDED MARKET ISSUES	58
TABLE 7: SUMMARY OF THE FINDINGS ON MARKETS AS CONFIGURATIONS TOPICS	59
TABLE 8: SUMMARY OF THE FINDINGS ON INSTITUTIONAL ISSUES	60
TABLE 9: SUMMARY OF THE FINDINGS ON AUDIENCES AS DRIVERS OF MARKET CHANGE	60
FIGURE 10: HIGH MARKETNESS VS. LOW MARKETNESS	64

1. INTRODUCTION

“An upheaval is taking place in media circles globally. There are new programme services, new distribution vehicles and new devices; at the same time, financing sources are being eroded, with a growing competition for advertising revenues. The companies must deal with changing expectations of the viewers, especially young viewers” (De Prato, Sanz et al., 2014 - p. 27)

The digitisation of the media industry has caused a strong decentralisation of logics of the past, towards more open, flexible structures. The disruption has not occurred at the same time across the different media industries, and while we can observe that some, like the music industry, are completely “digitalised”, some other, like the TV industry, are currently starting to realise the opportunities and the threats that the digital environment offers. Digital technologies have opened up new opportunities concerning advertising techniques and distribution channels, some of which will still develop together with new technologies in an unpredictable way. What is certain, though, is that developments will bring about even larger benefits in terms of flexible pricing, lower delivery costs, capacity and efficiency (Simon, 2012).

Nonetheless, digitisation also poses some challenges. On the advertising side, in the “Global Entertainment and Media Outlook” published every year by PwC, data show a clear growth in digital spending and a corresponding decline in non-digital spending. Although the revenue share for the digital environment is still limited, it is forecasted that by 2018 Internet advertising will overtake TV as the largest advertising segment (PwC, 2014). On the consumer side, the generation of digital natives is completely detached from previous cultural and media practices, and is introducing new, completely digitalised patterns of media consumption.

Professionals and experts divide themselves into optimists and pessimists. Optimists conceptualise the new media landscape into an opportunity for audiences to liberate themselves from political and commercial control, as well as into an expanded set of

choices available to the consumer. Pessimists, on the other hand, are concerned about the abundant availability of poor-quality content, about the proliferation of piracy and the fragmentation of audiences and advertising revenues. The future is uncertain and somewhat unpredictable, but audiences find themselves in a “creative golden age” where their set of choices is more abundant than ever and the experiences offered are new and improved (Simon, 2012).

1.1 Purpose and method

The purpose of our research is to answer these questions:

(R1) What are the current patterns of change in the market within which the Swedish TV legacy players operate?

(R2) How can we analyse the environment with the help of theory?

(R3) How are the shaping forces identified in (R1) affecting market strategies?

Our approach will therefore start by carrying out a background research focused on the dynamic of the media industry today. After analysing general trends, we will carry out an intra-industry analysis involving the music industry, the newspaper industry and the book publishing industry. The choice of industries has been dependent on their stage of digitisation today.

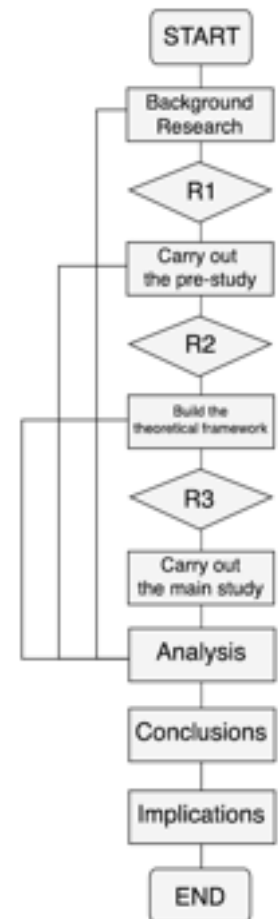


FIGURE 1: OVERALL METHOD

Our research will be guided by the book “*Digital Media Worlds*” by Giuditta De Prato, Esteve Sanz and Jean Paul Simon. Background research will allow us to identify trends and touch-points in between different industries, and to formulate questions to our pre-study, whose objective is to provide an answer to the research question (R1).

The results of the pre-study will allow us to build the strategic theoretical framework for our analysis, answering research question (2). The framework will guide us in

shaping the questions for our main study, which will involve experts in different fields of the Swedish TV market. The conclusions drawn from their input will allow us to answer to research question (3) and produce managerial guidelines for legacy players.

1.2 Overall delimitations

Our study has two main general limitations.

First, our focus lies on commercial TV players, and therefore public TV will not be included in our research. The underlying reason is that commercial and public television operate under extremely different conditions, since different agents, practices and norms are involved in the industry. Including all these different shaping forces would have caused the research scope to be too broad to achieve significant results.

Second, our study is concentrated on the Swedish market: the TV industry is still deeply related to a local dimension, and attempting a generalised global research would involve analysing markets that are in several different stages of development. Even though media trends affect the market globally, different levels of infrastructure development have hindered concomitant evolution in different markets, and different patterns of digital literacy cause audiences to adopt various types of behaviour across countries, or even regions. Nevertheless, Sweden constitutes a good sample market for different reasons. First, disruption is relatively recent, since the two international online streaming services in the country (Netflix and HBO) were launched at the end of 2012. Second, legacy players are very concentrated, with most of the market being in the hands of 4 main players (TV4 Group, C More Entertainment, MTG/Viasat and SBS Discovery Media). Third, Swedish broadband infrastructure and technological literacy levels are extremely high: according to Euromonitor data, *“Sweden has been able to deliver some of the most technologically advanced infrastructural developments in the world due to the country’s willingness to adopt new methods quickly and effectively [...] At the end of 2012 coverage by fixed broadband services was almost nationwide while next-generation offerings covered around half the country and were*

above the EU average, according to the European Commission". As regards data on population, 95 per cent of the Swedish population uses the internet (See Appendix 8.1). Fourth, Swedish has a controversial and lenient legislation against piracy, which constitutes a substantial threat to all actors in the TV industry. Furthermore, the success of the pirate party in Sweden is slowly starting to influence other countries as well (Braw E., 2014).

1.3 Contribution

The main purpose of our study is to analyse how current patterns of change affect market strategies of commercial broadcasters. In order to reach this goal, we have developed a theoretical framework to analyse the dynamics through which different forces affect the industry. The framework is meant to be applicable in analysing the market in which commercial broadcasters operate at any given point in time and in any place; it is therefore not delimited to the digitisation era and the Swedish market.

Furthermore, the specific results in our study constitute a toolkit for two main purposes. On an academical level, it will serve as a mean to analysing patterns of change in a generalised way; on a practical level, our conclusions should help Swedish commercial broadcasters to capture the opportunities and minimise the challenges that the new environment presents.

2. BACKGROUND RESEARCH

As a first step in our analysis, we carried out a background research. First, we give an overall overview of the Swedish TV market and about the new competitive landscape. After that, we move our focus back to global media trends and to an analysis of different media industries, as concentrating on the Swedish market would substantially narrow down observable changes.

2.1 Background

The main commercial players in the linear TV Swedish Market are:

- The TV4 Group (Free TV, mainly advertising funded)
- C More Entertainment (Pay TV)
- SBS Discovery Media (Free TV, mainly advertising funded)
- The Modern Times Group (Free TV & Viasat pay TV services)

Considering the bigger picture and including video-on-demand services, the Over-the-top¹ (OTT) market is made up of Subscription Video On Demand services² (SVOD), such as Netflix and Viaplay, of Transaction Video on Demand services³ (TVOD), such as iTunes and SF Anytime, and of Advertising-supported Video on Demand services⁴ (AVOD) such as TV4 Play. Last but not least, community-based services Youtube and Vimeo dominate the online videoclip market. The overall picture of the market is summarised in Figure 2.

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1. Over-the-top refers to the delivery of media content online without making use of a distributor (such as a broadcasting operator), i.e. approaching the consumer directly.
 2. Subscription Video On Demand refers to the delivery of video content on demand in exchange for a periodical subscription fee.
 3. Transaction Video On Demand refers to the delivery of video content on demand upon paying a price for a specific content (e.g. digital rental)
 4. Advertising-supported Video on Demand refers to the delivery of video content on demand, financed through the sale of advertising placements.

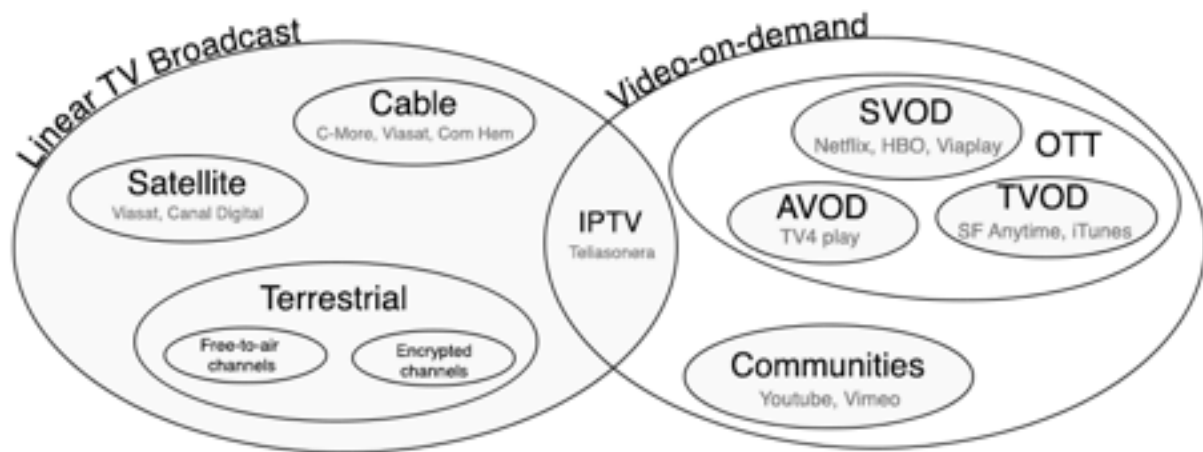


FIGURE 2: OVERVIEW OF THE SWEDISH MARKET

Looking at historical figures about TV and film viewing percentages on the Swedish TV market, data does not seem to have changed substantially between 2007 and 2013 (Appendix 8.2). Television devices are still the most widespread medium to consume video content. The only spike can be observed in videoclips consumption, that rocketed from 4 per cent of the population in 2007 to 24 per cent in 2013.

Likewise, looking at historical data about the “media day” of the average Swedish citizen (Appendix 8.3) it can be observed that the percentage occupied by television consumption has not changed since 1986. However, it can be noticed that radio consumption has gradually been dropping and that Internet usage shares have rocketed, from 9 per cent in 2005 to 24 per cent in 2013. Analysing both the tables at the same time, it can be intuitively concluded that a good part of that share is dedicated to videoclip viewing.

If we concentrate on the younger segments of the population, the situation seems more dramatic and challenging to understand (Appendix 8.4), especially concerning 14-25 year-olds (and therefore both generation Y and generation Z of digital natives). Since 2007, both linear and web TV viewing rates have been decreasing at a steady rate (although web TV experienced a sudden peak in 2009) while videoclip consumption has been rocketing and has reached almost the same consumption level as linear TV. As mentioned before, digital natives demand content to be accessible anywhere and at

anytime, on any kind of device. Digital online services are convenient, flexible, and they offer a wide variety of content for free or in exchange for a small monthly fee. OTT services are becoming a concrete alternative to pay linear broadcast (De Prato et al. 2014 - p. 33), and an Informa Telecom and Media report (2013) states that there will be twice as many OTT TV viewers than IPTV viewers globally by 2015 but in some markets, this contrast will be even more stark. In the UK, for example, there are already more OTT TV viewers than IPTV viewers, and by 2015, while only 3.6 million people will be watching managed IPTV, 27 millions will be watching online video via television devices (Hunter, 2011)

How is this changing audience behaviour affecting advertising expenditures? Data collected by the Institutet för Reklam-och Mediestatistik (IRM) (Appendix 8.5) show that, despite the Internet being the most valuable ad market in Sweden, the value of TV adspend is standing strong, experiencing a 0,1 per cent increase overall. However, advertising expenditures online are growing, and the introduction of new and improved techniques, such as programmatic advertising, will definitely disrupt market values in the near future.

2.2 Trends in the media industry

Three transformational waves have helped shape the new digital media world. The first wave was initiated by the telecom industry making broadband networks available for the majority of households in the developed world through ADSL. The second wave was initiated by IT companies enabling the switch from physical to digital distribution and a new market structure, shifting the power downstream to consumers. The third and current wave involves the co-operation between legacy players and new players, managing the direct relationship with customers (De Prato et al. 2014 - pp. 28-37).

Five main phenomena can be observed within the third wave:

(1) Consumption-wise, the most disruptive shift involves moving away from using a physical product to consuming the product as a service, i.e. moving from owning to

accessing and the unbundling of media consumption. However, viewers still search for good content. Therefore, production-wise, efforts are being made to provide richer content, which requires strong economies of scale on the content production side and network externalities on the demand side. On the other side, a new networked community model has emerged, in which modules of amateurial media creation is produced by decentralised peers (De Prato et al. 2014 - pp. 41-43).

(2) The traditional value chain of the media industry is oligopolistic and vertically integrated, as opposed to the new digital value chain having many networked participants, with easy access and inexpensive tools and web services, which allows both new entrants to duplicate and the old ones using lightweight technologies (De Prato et al. 2014 - pp. 2-4).

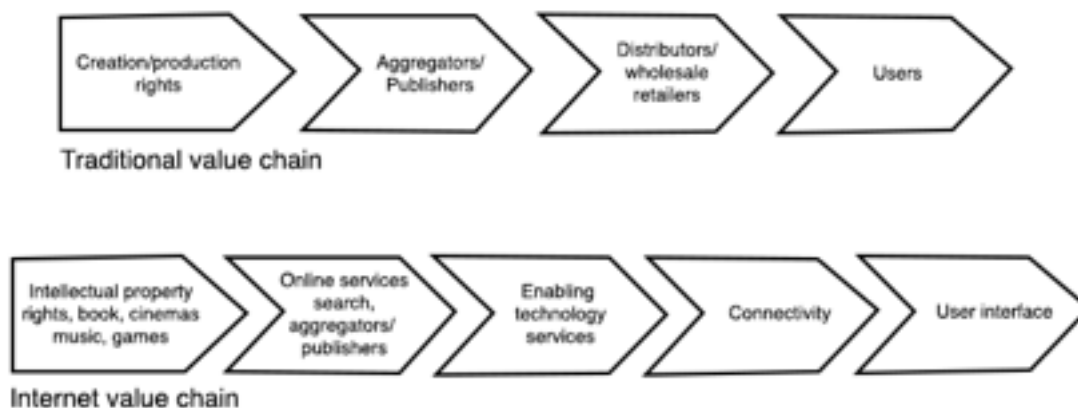


FIGURE 3: TRADITIONAL VS. INTERNET VALUE CHAIN

(3) Business models are unsurprisingly changing in the digitisation of media industries. Costs are being reallocated and some costs disappear; other costs remain unaffected (Waldfoegel, 2011b). The evolving business models are a result of two processes that act simultaneously, the transformation of digital products into services and process of disintermediation and reintermediation (De Prato et al. 2014 - pp. 46-51).

(4) The deployment of broadband networks and spreading of new devices such as smartphones and tablets, have been identified as major enablers of growth for new markets, services and platforms. (De Prato et al. 2014 - pp. 57-68).

(5) Last but not least, public policy and public intervention are common features of media markets, since media products generate positive externalities for society at large; however, several existing public policies are not adapted and applicable to a digital context. Copyright is one example of an intervention enacted to correct a market failure, since creative goods are public goods with high fixed production costs but low reproduction costs. In the digital context, copyright law faces a daunting challenge when it does not contribute to further revenues for its owner (De Prato et al. 2014 - pp- 70-81).

2.3 Intra-Industry analysis

As suggested by Waterman et al. (2013), in order to understand how different forces are determining these dynamics, it is necessary to develop an understanding of historical analogies with other media industries.

The music industry used to be characterised by high upfront investments, low marginal costs and high risk. The market structure has historically been dominated by a small number of vertically integrated multinational corporations. The music industry was the first and the hardest to be hit by digitisation dynamics, which enabled illegal sharing and downloading of audio content. The legitimate online music services that were founded to counteract this phenomenon offer either a free advertising-based model, a subscription model, a pay-per-transaction model or a combination of the previous (De Prato et al. 2014 - pp. 133-146).

Compared to other media industries, there is a lower level of concentration of legacy players in the newspaper industry. The traditional production and distribution costs that previously protected the players in the industry with high entry barriers and promoted large economies of scale, have now been eliminated by digital publishing

and distribution, as well as by new competition from news aggregator services (De Prato et al. 2014 - pp. 148-153). Furthermore, the main challenge faced by newspaper industry players today occur on the revenue side, due to the fact that consumers do not value edited news anymore; they are expensive to produce (Waldman, 2011), and prices for online advertising are relatively low due to the abundance of advertising space available, fragmentation of readership and short time spent by online readers. Moreover, established and widely accepted measurements for Internet news consumption are still lacking (De Prato et al. 2014 - pp. 159,160).

The book publishing industry is one of the oldest media industries. Its business models have always been characterised by slim profit margins and stable value chains, resulting into careful portfolio building in order to gain revenue in the long term (Thompson, 2010). For the book publishing industry, the Internet represents a cheaper and more efficient channel of distribution that allows the elimination of intermediaries. Regarding digital books, neither prices nor business model have reached a successful stable standard and consumers are still attached to physical books. Bookstores remain the major distribution channel for books and are consumers' preferred choice (De Prato et al. 2014 - pp. 90-98).

The background research is summarised in Table 1, and an extended version can be found in Appendix 8.6

	Music	Newspaper	Books
Business model	Completely moved from physical to digital distribution. Lower cost of producing and distributing.	Physical distribution still present, but new players benefit from zero fixed costs.	Consumer demand for physical, rather than digital books. Physical distribution through digital retailers.
Platform and monetization	Content heavily aggregated and monetized through ads, subs or pay-per-transaction. Digital income significantly lower than physical.	Low willingness to pay and low income from online advertising. News easily aggregated by e.g. search engines.	No dominating stable standard for digital distribution and relatively low income of digital books compared to physical.
Fragmentation	Increased fragmentation as record labels no longer are crucial for distribution.	Increased fragmentation due to new players, but fragmentation was already present before digitisation.	Initial fragmentation from new digital players.

TABLE 1: SUMMARY OF THE BACKGROUND RESEARCH

2.4 Conclusions

Developments have been different across media industries, but some common touch points and straightforward questions related to the TV market can be identified.

- i. Although different kinds of business models coexisted (and still coexist) in different industries, substantial shifts in revenues and in costs structures have occurred everywhere, and entry barriers have significantly decreased. What challenges to their business models are TV legacy players experiencing, and how do they deal with increasing competition due to lower barriers to entry?
- ii. Monetisation of digital audiences is a general challenge of legacy players operating in media industries. In all the three analysed industries we can observe some tendency towards aggregation, either through a service (e.g. Spotify or iTunes), search engines (e.g. Google news) or marketplaces (e.g. Amazon). Last but not least, multiple-device compatibility has become crucial for consumption of media content. What challenges are the TV legacy players experiencing in monetising digital audiences and usage of multiple platforms? Is the market experiencing trends towards aggregation?
- iii. The last main challenge faced by legacy players is the fragmentation of audiences, not only caused by innovative new services but also by illegal content providers. What challenges are TV legacy players experiencing with audience fragmentation and institutional issues?

The following step in our research is to determine whether the circumstances identified through this background research are actually applicable to the Swedish TV market, as well as to investigate the opinion of TV legacy players about these issues.

3. PRE-STUDY

From the conclusions of the background research, an exploratory qualitative study was carried out in order to investigate the challenges faced by legacy players and identify relevant issues for managerial direction. Our purpose was therefore to identify subjects with a thorough knowledge of the business model of the firm they work for.

First, a clarification of the term “legacy player” is needed. The adjective “legacy” means “denoting or relating to software or hardware that has been superseded but is difficult to replace because of its wide use” (Oxford dictionary). Legacy players in the TV industry are therefore all firms that operate in a linear fashion, i.e. with a schedule showing programmes at a specific time. Legacy players make use of both free- and pay-TV (from a consumer perspective) business models, i.e. advertising and subscription-based models.

As mentioned in paragraph 2.2, the main legacy players in the Swedish market are:

- The TV4 Group (Free TV, mainly advertising funded)
- C More Entertainment (Pay TV)
- SBS Discovery Media (Free TV, mainly advertising funded)
- The Modern Times Group (Free TV & Viasat pay TV services)

(Refer to paragraph 2.1 for a more thorough description).

For the purpose of our research, MTG free channels have been considered separately from Viasat. These businesses operate under different business/revenue models, and therefore face different challenges.

As stated in the introduction, public television is not an object of this study, because its inclusion would necessitate the examination of too many different interests.

3.1 Method

The chosen method for the pre-study was to carry out semi-structured interview with senior management working with business and revenue models for the companies identified in the previous section.

Semi-structured interviews were aided by an interview guide whose 4 main topics are summarised in Table 2. During the interviews, respondents were allowed to divert from the suggested topics. The focus of our study was to identify problem areas and challenges in existing business models, and therefore brainstorming around key areas was necessary to achieve a thorough analysis of the current situation.

<i>1. Information about the interviewee</i>
<i>2. Business and revenue models</i>
- Description
- How have revenue flows changed in the past 5 years
<i>3. Challenges</i>
- Identify and discuss the biggest challenges within your business model
- Discuss challenges in the monetisation of digital audiences
- Discuss the problem of audience fragmentation
<i>4. Ideas for customer retention</i>

TABLE 2: INTERVIEW GUIDE

A total of 5 interviews was carried out in English. All interviews occurred face-to-face, in order to have achieve a better interaction between interviewers and interviewees, and to aid the brainstorming process. Table 3 summarises the interviews carries out. All the interviewees, due to their prominent positions in their respective companies, asked not to be quoted or named. Due to this requests of anonymity from our interviewees, we decided to disclose the name of the company rather than the position of the interviewed, as more relevant information.

Date	Company	Business model expertise	Location
22-9-2014	SBS Discovery	Ad-based	SBS offices
25-9-2014	C More Entertainment	Subscription-based	C More offices
14-10-2014	The Modern Times Group	Ad-based	MTG offices
14-10-2014	Viasat	Subscription-based	Viasat offices
08-10-2014	The TV4 Group	Ad-based	TV4 offices

TABLE 3: INTERVIEWS SUMMARY

All interviews were recorded, and the recordings were transcribed in order to better understand and compare results. The analysis included 2 steps, first within-case analysis and second cross-case analysis. Within-case analysis was focused on reaching an overall idea of the specific-company business model, while cross-case analysis was the actual ground of our pre-study, during which we looked for patterns, similarities and differences that would later on help us build the theoretical framework and the interview guide for the main study.

3.2 Findings

In general, according to all our research subjects revenue streams have been somewhat stable in the past 5 years. The first decreasing trends have been emerging starting from 2014, especially within advertising-based revenue models.

Our findings uncover a convergence within challenges faced by the different companies under research. New digital players have come into the market with different business models and have increased competition for the viewers attention. Our interviewees believe these new services to be found more appealing by the consumer, who is now turning away from linear broadcasting. In the case of pay-TV services, there is lower tolerance towards subscription binding periods and bundles of content consumers are not interested in purchasing. Viewers want to access content wherever and whenever - while media houses are aware of this phenomenon, achieving a complete platform coverage is not an easy change, especially as new platforms keep emerging and other media industries raise consumers new

expectations towards the digital experience. Traditional players seem reluctant to “think outside the box”, and face serious challenges against innovation, both technical and related to business models; value chains are being disrupted, as OTT services are bypassing distributors in connecting with viewers, therefore cutting a substantial portion of costs.

The monetisation on digital audiences is seen the primary issue from all research subjects. On online platforms, advertising cost per viewer is higher than on linear platforms, but costs will lower in the future as the volume will get larger. The Swedish linear advertising market turnover is 6 billion SEK, compared to 600 million for AVOD (Advertising Video on Demand). Therefore, as the revenue stream from traditional TV is still strong and healthy, companies have a hard time in concentrating on digital efforts. Advertisers are reluctant to shift their investments from linear to digital due to the lack of standardised measures for online video advertising performance and, since digital channels do not have the same reach as linear ones, and every online contact is more expensive to the advertiser. In general, the main challenge is regaining on the digital side the revenue that is lost on the linear side. In 2014, some legacy players have had to pay back large amounts of profits to advertisers, since they were unable to deliver the promised campaign reach. TV4 still favours from high ratings and high shares, but this advantage will probably not be sustained in the long-term.

As mentioned before, audiences are looking for aggregating services. According to our interviewees, the TV industry is radically more fragmented than the music industries, and complex and different rights on content exist. Suppliers of content still operate under old business models, and new digital players have the revenues and the flexibility to produce their own content and therefore be even more appealing to the viewer, affecting its willingness to pay. As regards audience fragmentation, it is somewhat common in Sweden to have more than one digital subscription. There is a general understanding that consumers would like to get a content aggregator, but in the short term the most efficient form of aggregation will come from hardware rather than software (Apple TV, Chromecast, Smart TV...).

Due to lenient legislation and high consumer acceptance, the consumption of pirated content is quite widespread in Sweden. Furthermore, illegitimate players such as Swefilmer offer aggregated content on one single platform, which is believed to be appealing to the consumer.

Most research subjects seem convinced that the future will hold a low number of technical platforms “in the direction of Spotify”: the digital market will be less fragmented, but not fully consolidated. Efforts are needed to produce more “made-for-online” programming, while mobile phone viewing will grow even further: the main challenge is to develop advertising formats and measurements that effectively work on this medium.

3.3 Conclusions

First, the pre-study gave us valuable insights and understanding on how legacy players are analysing the current market developments and challenges they are facing from new players and business models in monetising on digital audiences, and in overcoming audience fragmentation.

Second, the pre-study further outlined the basis for our theoretical framework on how to create a systemic approach to analyse how market strategies are affected by different actors. Three different shaping levels have been identified:

- i. The free TV platform serves two sets of customers: viewers and advertisers. Viewers are shifting towards digital platforms, while, for the reasons mentioned above, advertisers are reluctant to switch heavy investments from the linear to the digital channel. Legacy players have the role of bridging this gap, and therefore business to consumers interaction play a substantial role in determining their market strategy.
- ii. The desire of audiences for aggregation and compatibility cannot be achieved without players cooperation. However, it still needs to be determined whether the interaction between old and new technologies will hold positive effects, or competitive efforts will lead to the elimination of existing players. Business to

business interactions play therefore a crucial role in determining market strategies for legacy players.

- iii. Viewers want to access content wherever and whenever. As it had become clear during the background research for other media industries, this phenomenon applies to video content as well. Furthermore, demands from consumers for convergent services make illegal/illegitimate services appealing to the consumer for its convenience both in terms of price and of aggregation. It is straightforward to state that audience behaviour and institutions are the main shaping force of market strategies for TV legacy players.

4. THEORETICAL FRAMEWORK

As stated in the introduction, the purpose of our research is to analyse the current patterns of change in the market within the Swedish TV legacy players, and the subsequent effect these forces have on market strategies. In order to do that, our intention is to take a systemic approach to analyse how strategies are affected from agents acting on different levels using different theoretical perspectives that have been selected using a context-based approach. The context has been derived from the conclusions drawn from the pre-study.

4.1 Introduction

As explained by Fligstein (1996), the formation of a market undergoes 3 phases: emergence, stability and crisis. During the emergence phase, every actor tries to prevail over the other with its own conception of the market, and cooperation between different actors can eventually lead to market stability. During the stability phase, the majority of markets involve large firms, the incumbents, who possess control over the market, and smaller firms, called the challengers. In established markets, identities and hierarchies are well known to everyone, and politics will imitate and follow the positions of the incumbents. Markets reach the crisis phase when either a firm in the market pushes for change or, more commonly, new players disrupt existing conceptions of control (i.e. “the understanding that structure perceptions of how a market works and that allow actors to interpret their world and act to control situations”). Crises can be caused by decreases in demand, by the disruption of current conceptions of control by new actors in the market or by the modification of rules and regulations brought about by the state. Incumbent firms are rarely the cause of disruption — since they are focused on status quo, they seldom become innovators. (Fliegstein, 1996)

Conceptions of control can be disrupted also by the introduction of new technologies and innovations. However, the interaction between old and new technologies does not necessarily need to be competitive and confrontational — new and old technology can interact between themselves, either in a positive or negative way (Pistorius and Utterback, 1997). An emerging technology can have a positive effect on a mature technology, for instance by stimulating efforts to enhance performance or adjust prices (Soukop and Cooper, 1983). As expected, an emerging technology can also have a negative effect on the growth rate and market share of a mature technology (Pistorius and Utterback, 1997). On the other side, a mature technology can have a positive effect on an emerging one, as the latter acts upon pre-existing customer decision-making processes and infrastructures; a negative effect in the same direction merely by mature technologies proving hard or impossible to complement or replace (Pistorius and Utterback, 1997).

Whether this non-competitive view of technological innovations is achievable or not, the question that remains to be answered is why do some firm survive disrupted markets and some other do not?

4.1.1 Market plasticity and strategies in dynamic environments

In an article titled “Innovation, competition, and industry structure”, Utterback and Suárez (1993), attempt to theoretically explain why some firms survive disrupted markets and some other do not. First, they introduce the concept of “dominant design”, that is perhaps more applicable to manufacturing industries than media industries. However, other concepts examined in their research that can help explain the phenomenon. Population ecology, for instance, foresees a process of “natural selection” taking place in an organisational environment, where only those best fitted survive (Hannan and Freeman, 1977). During the initial development of an industry, many actors decide to gradually enter the market. After a peak is reached, the population of firms starts declining, adjusting to the supply-demand level. Hannah and Freeman argue, however, that this perspective does not take into account the possibility for organisational evolution and change. As confirmed by Nenonen at al. (2014), one of the

most important characteristics of markets is their “plasticity”, i.e. “the capacity to take and retain form” (Nenonen et al., 2014). Markets can therefore be molded, to different extents, in their structures, practices, exchange objects and actors (characteristic called “fluidity”), and are afterwards able to maintain their new form after the moulding effort ceases (“stability”). Two characteristics of markets follow: first, fluidity encourages the emergence of new entities; second, plasticity, as a dynamic feature, allows markets to take on different forms at the same time.

Nenonen et al. (2014) further observations include studies about the process of taking form, which can be categorised in two subprocesses: intentional and emergent (gradual transformation not involving any discernible, intentional effort). This distinction was previously researched by Mintzberg and Waters (1985), as summarised in figure 4:

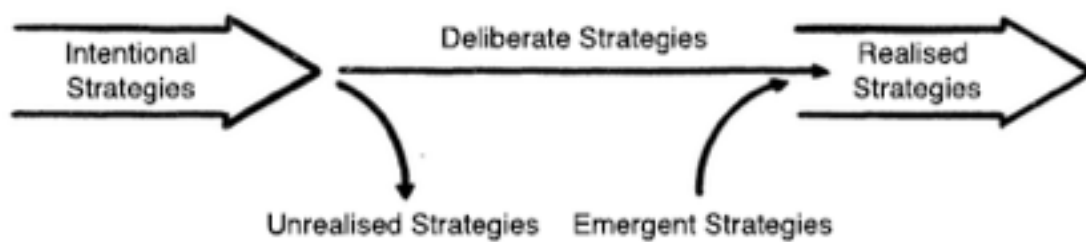


FIGURE 4: INTENTIONAL AND EMERGENT STRATEGIES

Intentional strategies can result into unrealised strategies or in deliberate strategies. Deliberate strategies or emergent strategies transform into realised strategies when implemented. For strategies to be considered emergent, no intention or consistency should pre-exist. On the other hand, Three conditions need to be satisfied for a strategy to be considered deliberate:

1. It must develop from precise intentions in an organization
2. These intentions must be organisational, i.e. shared by all actors
3. These intentions must be realised exactly as intended, without the intervention or interference of an external force.

Aspers (2009) further differentiates deliberate strategies (or, using the author’s lingo, “organised market making”) into state-governed and self-governed market-making. In the former case, direction stems from the ability of states to block, facilitate or even ban markets, by means of regulations, patents and taxation. In the latter case, impetus originates from market actor that act according to their preferences. Mintzberg and Waters (1985) distinguish between different types of strategies, that are summarised in Appendix 8.6. It follows that from the implementation of market strategies, markets may assume different forms due to their liquidity.

4.1.2 Agents affecting market strategies

As anticipated in paragraph 3.3, the following levels have been identified as actively shaping market strategies of commercial broadcasters in the current changing environment.

- i. The first and narrowest level, the “firm to customer” level, examines how broadcaster interact with their customers, i.e. the viewer and the advertiser.
- ii. The second level, the “firm to firm” level, includes market-specific dynamics, i.e. how players in the market interact with each other. This level is useful for examining how legacy players and new actors relate to each other.
- iii. The third and broadest level, the “society to firm” level, examines how institutions and audiences can affect strategic choices of commercial broadcasters

The approach is summarised in Figure 5.

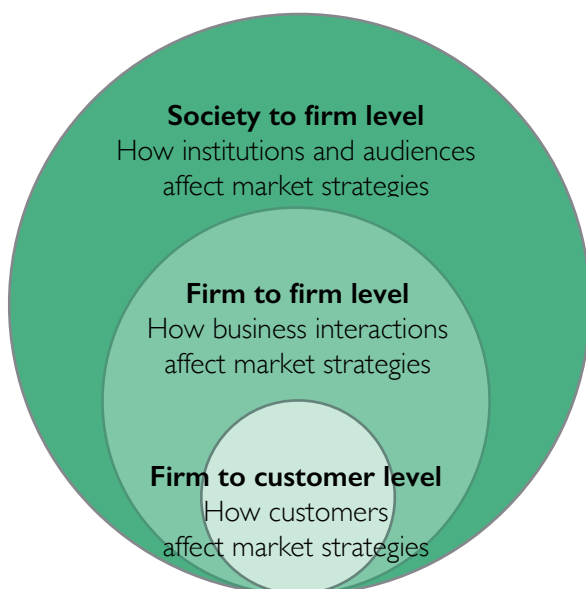


FIGURE 5: SYSTEMIC APPROACH

4.2 How a specific firm's choices affect market strategies

A two-sided market is consists of two sets of agents that interact through an intermediary or a platform, where the decision of the agents on each side of the configuration affects the other, often through some sort of externality (Rysman, 2009).

For example, within the broadcasting industry on the free TV side, the broadcaster or channel assumes the role of the intermediary. Neither viewers or advertisers will be interested in the channel if the other party is not — although consumers do not value ads, advertising revenues provide the funding for broadcasters to sustain a qualitative offering. There are other examples, such as search engines, newspapers and almost any advertiser supported media, where consumers negatively value the participation of the advertisers/the other side (Rysman, 2009).

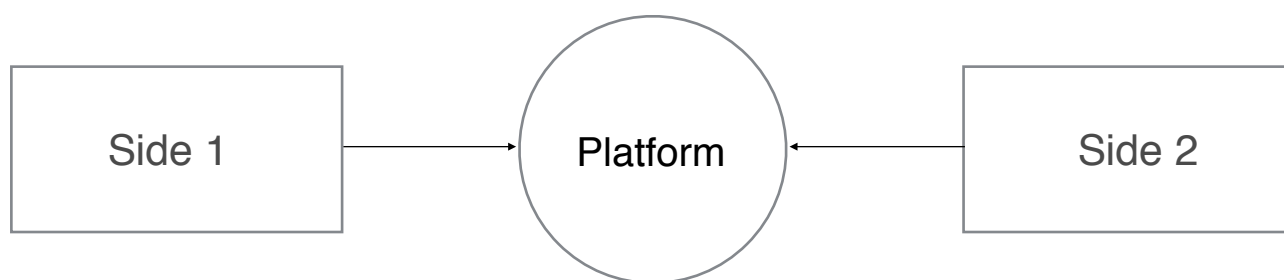


FIGURE 6: TWO-SIDED MARKETS

4.2.1 Pricing

Substantial research has been carried out about pricing in two-sided markets. Pricing to one side of the market depends not only on the demand and costs that those consumers bring about, but also on how their participation affects participation on the other side and the profit that is extracted from that participation. In a one-sided market, the price–cost mark-up is determined through elasticity of demand and marginal cost; in a two-sided market, pricing decisions will also include the elasticity of the response on the other side and the mark-up charged to the other side (Rysman, 2009). For example, in any ordinary market, prices fall if the price elasticity of demand increases; in a two-sided market, the effect not only attracts users on that side, but leads to higher prices on the other side. Increased value on the opposite side

magnifies the value of having users on the first side, which results in a larger price decrease and quantity increase on the side which is affected by the increase in elasticity (Rysman, 2009).

Two-sided markets often experience a situation where members of one side uses multiple intermediaries and the other side uses several intermediaries (Armstrong, 2006). Newspapers are an example of a this phenomenon, since consumers often only read one newspaper, but advertisers are seen in all of them — the platform can therefore be considered as a monopolist over access to members that do not use the other platforms, which may lead to firms competing aggressively trying to reach that specific group (Armstrong, 2006). Furthermore, price discrimination and dynamic pricing are other important aspects of a two-sided market pricing strategy (Rysman, 2009).

4.2.2 Openness

Openness may refer to two specific strategic issues discussing two-sided markets. The first is whether to be one-sided, two-sided or multi-sided, and the second is the relation to competing platforms/intermediaries, where the decision is whether to be incompatible, compatible or somehow integrated (Rysman, 2009).

The strategic choice of being one-, two- or multisided is primarily dependant on the direction of the integration desired, i.e vertical vs. horizontal. Especially in media companies, horizontal integration (the ability of a consumer using one platform to reach a seller using another) is crucial. One way for media companies to achieve this is through mergers and co-operation in ad networks between different platform providers. This creates a form of compatibility to the advertising buyer (Rysman, 2009). Incompatibility locks in current customers and locks out competitors and if one side of the market can be made exclusive, there is consequently little reason in seeking exclusivity on the other side as the platform can charge monopoly prices to the other side for access (Rysman, 2009).

A two-sided market connecting different platforms may evolve into a “winner-takes-it-all” market, a market with co-existing platforms or a market destined to failure. This is determined by three possible issues. First, if standards can differ from each other, the platforms may co-exist independently in the same market (Chou and Shy, 1990; Church and Gandal, 1992). Second, if an agent can use multiple standards at the same time, they are more likely to co-exist, while if there are heavy and high fixed costs tied to using one single platform the market will be less fragmented (Rysman, 2009).

4.3 How business interactions affect market strategies

As explained in the results of our pre-study, the market in which Swedish commercial broadcasters operate is largely undefined. Such market cannot be defined from the outside, but rather from the inside. Boundaries, standards and processes are established by the market actors themselves through market practices. In analysing market practices, both academics and practitioners have shifted the focus from a value chain perspective to value constellation (Normann and Ramirez, 1993) exploring opportunities for co-creation both with customers and suppliers. As mentioned before, markets are moving from a linear goods-dominant business logic to a service-dominant business logic, making the actors and boundaries of a market increasingly permeable, fuzzy and fleeting (Storbacka and Nenonen, 2011).

This view has been formalised into a model by Storbacka and Nenonen in their article “Market as configurations”. The authors do not define markets as static structures where actors compete for different positions, but rather as spaces where actors integrate resources to co-create value, called market configurations. The first paragraph will describe the elements of market configurations, the evolution of market configurations and the concept of marketness. The second paragraph will analyse how the market configuration can be influenced by market actors on the basis of their performative power. In the third paragraph the capabilities of market actors to improve the ability to influence the market configurations will be presented.

4.3.1 Market practises and marketness

The interactions between market actors within a market configuration are called market practices (Kjellberg and Helgesson, 2006; Andersson et al., 2008), which can be divided into three categories: exchange, normalising, and representational practices, bearing in mind that market practices do not necessarily correspond to proper actions in the market (Dourish, 2004). Exchange practises concern how a value proposition is communicated, refined and later agreed upon, leading to a re-configuration of resources within the network (Storbacka and Nenonen, 2011). Normalising practices concern norms and rules exist to make exchange practices more efficient and in order to stabilise business models (Storbacka and Nenonen, 2011). Representational practices are defined as how the business models of the market actors in the market configuration are represented through shared images, e.g. firm presentations and other means through which the business model of a certain market actor becomes visible for the actors that they do not have a direct interaction with (Storbacka and Nenonen, 2011).

In terms of their maturity, stability and norms, a market configuration can be “more or less a market” (Storbacka and Nenonen, 2011). A market’s marketness level refers to the functionality of the market configuration. The term marketness, originally introduced and constructed by Block (1990), is used by Storbacka and Nenonen (2011) to describe the configurational fit of the elements in the market.

In market configurations with high marketness, the market configuration is established and accepted, core elements reinforce each other, market practices increase fit among market elements, and resource integration is effective. There are commonly agreed norms for trade, exchange objects are singularised (Callon and Muniesa, 2005) and mechanism for price formation are set. In this setting, some non-economic actors institutionalise measures of the market and set up rules; market boundaries are shared among market actors and the competitors are defined and aware of the strengths and weaknesses of each other. (Storbacka and Nenonen, 2011). The different market practises in conditions of high marketness are as follows:

exchange practices have formed the value propositions and business models of the market actors' into solid formations; normalising practices aim to maintain and preserved a generated set of norms and rules that all market actors accept; representational practises produces symbolic images that serves as indirect communication between market actors (Storbacka and Nenonen, 2011). The focal actor of a high marketness situation, is thus less involved in market making and more into market shaping, aiming at boosting its own relevance in re-defining its network, influencing market practises to increase the density and configurational fit of the market configuration.

In market configurations characterised by low marketness there is poor fit between market element and market actors engage in market creation activities in order for potential customers, providers and competitors to consider their proposed market configuration as a plausible for sourcing the value creation. In some cases, "Impermanent periods" might take place, when no market practises occur. The different market practises in situations of low marketness are as follows: exchange practises that require a lot of time and repetition before the market actors can agree on market boundaries, value propositions and unit of exchange; normalising practices are characterised by different and competing viewpoints with no set of commonly accepted norms and rules; representational practices aim at displaying market actors and the units of exchange through symbolic representation (Storbacka and Nenonen, 2011). In low marketness conditions, resembling a situation of market making or creation of a market, a focal actor is engaged in social interactions, imposing the configuration of a new market (Storbacka and Nenonen, 2011).

4.3.2 Market configuration capabilities

Storbacka and Nenonen (2011) define opportunities as outcomes of deliberate efforts to influence market configurations (Sarasvathy, 2008). There are four key capabilities of market actors that improve their ability to influence the market configuration (Storbacka and Nenonen, 2011).

First, *value sensing* is the ability to identify the value creation potential in a selected market configuration and to use it to influence how other actors view market opportunities for value creation (Storbacka and Nenonen, 2011). Firms may be reactive or proactive (Flint et al., 2002) in investigating customers desired value changes and both positions require data collection and analysis.

The second capability is *measuring market configurations*, i.e. the ability of creating measurements of the value created, concerning both pure value measurements (monetary or non-monetary, short term or long term) and more practical measurement of market configuration size (Storbacka and Nenonen, 2011).

Third, *price formation* is the determination of the price of an exchange item based on use value. Enforcing guiding norms, enacting price bundling strategies and creating symbolic representation of markets configuration's performance, e.g. market statistics would indicate that market actors have to influence all three market practises in order to affect price formation (Storbacka and Nenonen, 2011).

The fourth capability, *market scripting*, concerns conscious activities aimed at influencing the market and altering the current configuration in favour of own objectives (Storbacka and Nenonen, 2011). The aim of strategy is not "winning" a zero-sum game, nor should the focus be on "competing", but rather on how the firm can engage in co-creation of value with actors to improve the resource density of the market (Storbacka and Nenonen, 2011).

4.3.3 Influencing market configurations

Market configurations can be viewed as business ecosystems, which always strive to organise themselves into a stable symmetry. When an actor disrupts the symmetry by introducing new ideas or resources into the system, it evolves to a new stable state (Storbacka and Nenonen, 2011). A market actor attempting to influence the market, is called a focal actor. The focal actor aims at aligning the other actors' mental and

business models to its own through market scripting – activities which intend to alter the current market configuration (Storbacka and Nenonen, 2011).

Mental models are defined as deeply ingrained assumptions, generalisations or images that influence the actors actions and understanding of the world. Market actors, bounded by their rationality (Simon, 1957), will be results of the learning of managers based on the outcome of prior actions on the market (Storbacka and Nenonen, 2011). The structure forms mental barriers for others to view the market in an alternative way and keeps individuals from seeing and accept things outside the boundaries of their mental model (Storbacka and Nenonen, 2011). Firms act influenced by assumptions, not necessarily outspoken, of dominating ideas (Normann, 1977) or dominant logic (Prahalad, 2004) and these ideas become the dominant design (Baldwin and Clark, 2006), industry recipe (Spender, 1989) or industry business logic (Storbacka, 2006). The mental model shared by managers of the different actors affect their thinking and decision-making as well as the calculative motives that exist on an individual level, but not only on a managerial level (Storbacka and Nenonen, 2011).

A business model of an individual market actor defines the resources that a market actor possesses, and the ways the actor can interact with other market actors and their respective resources and interaction between market actors are interactions between their business models, which set the overall limit of value creation in the market configuration (Storbacka and Nenonen, 2011). When market actors tries to influence a market configuration in their favour, they are doing it through their business model (Storbacka and Nenonen, 2011).

Markets are performed when market actors introduce theories about the market and boundary definitions (Storbacka and Nenonen, 2011). Focal actors have to influence other market actors in order to make their definition of the market configuration the shared definition. This performative power depends on the level of clout of the focal actor, referring to the ability influence the market configuration. Clout correlates with the size, network position and strength of the business model of the focal actor (Storbacka and Nenonen, 2011).

4.4 How audiences and institutions affect market strategies

4.4.1 Institutions

As defined by Fligstein (1996), the term Institution refers to “shared rules, which can be law to collective understandings, held in place by custom, explicit agreement or tacit agreement. These institutions — what can be called property rights, governance structures, conceptions of control and rules of exchange — enable actors in markets to organise themselves, to compete and cooperate, and to exchange”. Fligstein develops a series of propositions to explain how institution shape markets right from their emergence phase. Of the 16 propositions that he formulates in his most important article, “Markets ad politics”, the first 4 are concerned with the crucial role that states play in shaping market behavior, in so far as a competitive capitalistic economy could not exist without an enforceable set of rules. It comes as a consequence that no firm can be immune from the institutional framework in which it operates. (Peng, 2002).

The main result of institutions on business strategy is that they categorise which directions are “acceptable and supportable”, with the main purpose of reducing uncertainty (Peng, 2002).

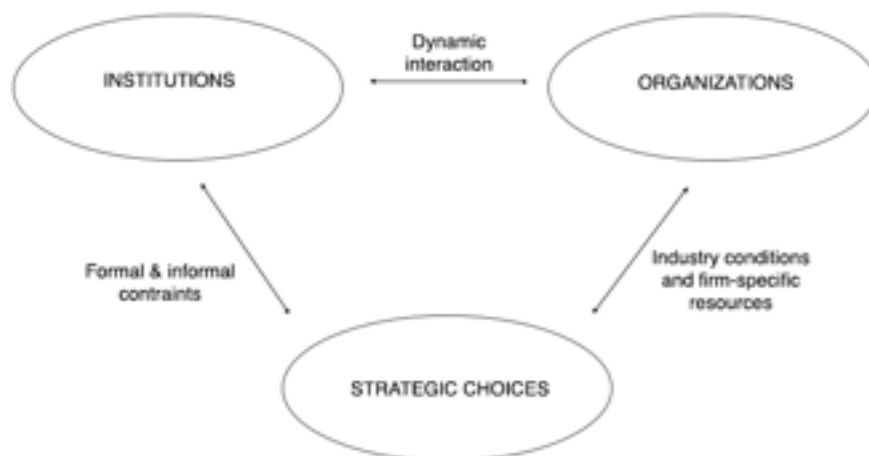


FIGURE 7: INSTITUTIONS & MARKET STRATEGIES

Studies by Picard and Chon (2004) show how during the past two decades liberalisation of broadcasting policies has allowed commercial broadcasters to proliferate and, later on, to offer additional services. Historically, policymakers have

been able to regulate competition by allocating frequencies, locations and licences. The study starts from the assumption that free-to-air and paid broadcasting co-exist in the same market because there is demand for both by consumers, and the existence of multiple players makes the management of competition difficult. Barriers to entry have been a crucial tool in managing competition.

There are two main types of new entrants: firms entering a market for the first time with a new business and firms entering a market due to expansion from another market. The first type encounters barriers to entry, and the second type encounters barriers to mobility. In the broadcasting market, 6 main types of barriers to entry exist, summarised in Figure 8.

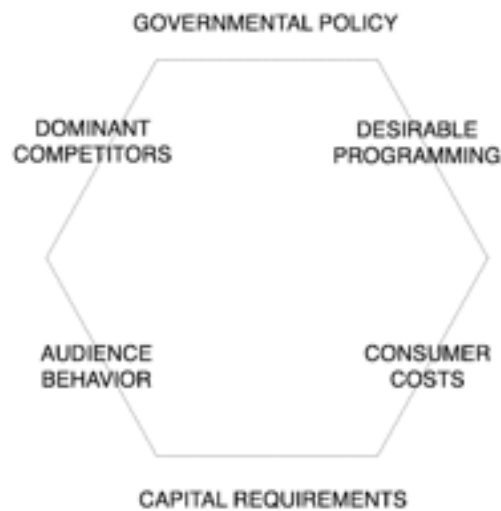


FIGURE 8: PRIMARY BARRIERS TO BROADCASTING ENTRY

Governmental policy is the primary barrier. Governments decide about the granting of licences according to spectrum availability, as well as economic, cultural, political and social factors. Other barriers include the strength of existing competitors, the behaviour of audiences (as mentioned in the previous paragraph), capital requirements, switching costs to the consumer and the availability of suitable programming. On the other end, firms expanding in new markets through new technique and methods can overcome traditional cost structures and overcome barriers to entry (Picard and Chon, 2004)

Increasing competition can bring about positive and negative outcomes. On the positive side, it increases availability of programming, and therefore consumer choice; furthermore, increased competition shifts advertising prices down and allows smaller firms to grow. Inefficiencies in processes are corrected (since excess profits are reduced); increased demand for programs fosters the introduction or development of independent program production capabilities. However, increasing competition, as mentioned several times before, disrupts audience behaviour and advertising patterns, given the fact that the number of households with televisions and viewing times does not change (Picard and Chon, 2004). On the audience side, due to similarity in programming among different broadcasters, viewing tends to be concentrated to few different channels, creating an anti-competitive environment where smaller channels are destined to fail; on the advertising side, if the level of new competitors is high, splitting revenues can harm existing broadcasters and completely blocking entrance to new firms. Only if revenue models were subscription based would the reduced willingness to pay from consumers push broadcasters to improve the quality of their programming for sustaining competition (Picard and Chon, 2004).

4.4.2 Audience behaviour

The audience appetite for programming has been the driver of the success of the television industry, and it is also the reason why the mentioned industry has such a strong social impact (Webster, 1986). About 30 years ago, the introduction of new inventions such as high-capacity cable systems and home video recorders caused disruption in viewers behaviour. Weber states that television programming of what he describes as “traditional broadcasters” was homogeneous because its primary purpose is to maximise audiences. [A note should be made about the fact that, while in 1986 this could be valid across channel, now it can be held as valid across different companies]. However, what he defined as new media (cable channels and video recorders) were able to promote diverse content to different viewers. The birth of content-specific channels led audiences (1) to develop “channel loyalty” (what he would later refer to as audience fragmentation) (2) become more polarised, due to restricted access to certain channels, for instance, from viewers living outside urban areas, or

due to the phenomenon of selective exposure. In 2012, within a very different media environment, Webster takes up these concepts again, this time linking them and considering audience fragmentation as an evidence of social polarisation. His study starts from the conception that fragmentation is the inclination of users to group in niches, which are often considered as specialised audiences. However, his research shows this is not the case — audiences move from outlet to outlet, and the same viewer can be “represented” in different niches. The reason behind this could lie in polarisation; however, media content tends to be similar across platforms [note the change in terminology from the initial study in 1986], and different people have different “media backgrounds” (Webster & Ksiazek, 2012). The future, Webster concludes, is uncertain: perhaps increased offerings will allow audiences to distribute themselves evenly, or a “winner-take-all-market” culture will persist. The authors seem to believe audiences will remain relatively concentrated due to different quality of broadcasters, for reasons of social desirability and media measures/recommendations (Webster & Ksiazek, 2012).

In their study of barriers to entry in the broadcasting industry, as has been discussed in the previous paragraph, Picard and Chon (2004) list audience behaviour as one of the most significant barrier to entry in the broadcasting market. New entrants need to overcome established viewing patterns, which are extremely difficult to modify.

4.5 Conclusions

What can be concluded from building the theoretical framework is that, as mentioned above, markets undergo different phases (Fliegstein, 1996). The phase in which a market finds itself can be measured in terms of marketness, i.e. fit between the actors and conflicting conceptions of control. Incorporating this framework in the markets as configurations perspective, conceptions of control are nothing but exchange practices, normalising practices and representational practices. Exchange practices are represented by two types of choices a firm can undertake: pricing decisions affecting transactions in two-sided markets, and openness decisions affecting co-operation and mergers, both in activities and in languages between different firms. Normalising

practices are affected by institutions, that through regulations and norms set boundaries for the competitive environment, but also by firms employing certain measurements and standards. Representational practices are enacted through business models interactions, as value co-creation and resource integration influence representations of the market and shared images of the market. The comprehensive analysis of these three systems allow several connections to emerge: specific-firms decisions regarding openness of platforms, for instance, directly affects shared images and representations of the market; regulations and norms affect competition and therefore pricing choices a firm can undertake.

Within this environment characterised by strong plasticity, decisions taken on by audiences as a collective movements, and by institutions as a regulatory agent, will affect market strategies in an emergent way, i.e. towards direction that cannot be predetermined by firms' decision making units. Only by possessing strong market configuration capabilities will firms be able to turn intended into deliberate strategies (through their implementation), by acknowledging the potential of their market configuration, by being able to measure value that lies within interactions, though pricing choices and by consciously taking on action to influence other players.

5. MAIN STUDY

The purpose of the main study is to answer our research question R3, i.e. How are the shaping forces of business-to-customer, business-to-business and society-to-business level affecting market strategies of commercial broadcasters in this changing environment.

5.1 Method

The rationale behind our preference for a qualitative approach rather than for a quantitative approach emerges from the overall purpose of describing and understanding the current market context in depth rather than in breadth. As qualitative research is used to provide insights and understanding of a problem setting (Malhotra, 2004), we believe this method is more suitable to our problem formulation. In order to achieve a deeper understanding on how the market is evolving, we are applying a hermeneutic approach to our study (Andersson, 1979): rather than formulating hypotheses to test and verify/falsify, we are seeking a comprehensive understanding of the how and the why different forces are affecting the environment. Given this argumentation and the relationship between theory and research, this thesis will be inductive rather than deductive.

A quantitative study calls for the researchers to set the specific concerns driving the investigation, something that was not the case for our research (Bryman and Bell, 2007). Furthermore, according to Bryman and Bell (2007) a quantitative study should focus on the relationships between variables, and changes over time tend not to surface — our analysis is focused on the changes over time in the Swedish TV market. Moreover, in order to produce a significant statistical analysis, a sufficient number of respondents is needed to form an adequate sample, which would have been hard considering the few players acting on the Swedish market.

The primary choice of data of this thesis was in-depth interviews with strategists whose focus is the market in which the Swedish TV legacy players operate. They conduct business in different settings (e.g. commercial broadcasting firms, OTT services, consultancy firms). In-depth interviews are considered to be preferable when interviewing professionals, in order to obtain a detailed understanding of complicated behaviours and underlying motivations, beliefs, feelings and attitudes (Malhotra, 2004).

Concerning the structure of our interviews, as for the pre-study, our choice averted on semi-structured, mainly for the reason that it is our intention to further investigate the findings from the pre-study by applying the deducted theoretical framework. We prepared a list of topics and broad questions to submit to the interviewee, and while the same type of wording was used for each interview, a great deal of leeway was left in how to reply (Bryman and Bell, 2007).

Since a qualitative and observational research method was used for the main study, we chose a case study as the most appropriate research design, and given the fact that our research is limited to the Swedish market. Case studies are preferred when the how and why questions are to be answered and the researcher has a lack of control over events, focusing on contemporary phenomenon (Yin, 2003). Especially, since the changes analysed are taking place at the time when the research is being carried out, ours is to be considered a new topic; then, case studies are recommended to be an ideal method (Eisenhardt, 2009).

5.1.1 Interviewee selection

For our pre-study, we interviewed senior management from legacy players and received an inside-out view of their market. For the main study, we wanted to maintain a broader perspective and applied a snowball sampling technique (Bryman and Bell, 2007): starting from a small pool of initial informants, other participants within their social networks (but nonetheless working on strategies from different perspectives) were nominated.

As mentioned before, the interviewees have been chosen in order to achieve a wider perspective on the market identified. We therefore chose to involve in our study professionals who deal with strategic choices rather than business/revenue models. This resulted in choosing subjects with different kinds of expertise (advertising experts vs consumer behaviour experts) and with different perspectives on the environment (a commercial TV strategists vs an OTT strategists). (You can refer to table 5 for a more detailed list of interviewees)

5.1.2 Data collection process

Since having conducted a pre-study before choosing the theoretical framework and carrying out the main study, we entered the data collection phase with a quite clear view of the what questions we wanted to address. As mentioned above, the semi-structured interview procedure was chosen to address the prestudy findings based in theory, developing a interview guide consisting of certain topics for investigation.

<p><i>Information about the interviewee</i></p> <p><i>Two-sided markets:</i></p> <ul style="list-style-type: none"> - Pricing issue - Openness issue - Platform standards issues <p><i>Markets as configurations</i></p> <ul style="list-style-type: none"> - Market phase - Market opportunities - Market boundaries - Cooperation, value co-creation and resource integration <p><i>Audiences and institutions</i></p> <ul style="list-style-type: none"> - Copyright issues - Audience behaviour as a driver of market change

TABLE 4: MAIN STUDY INTERVIEW GUIDE

The flexible structure of the interviews allowed us to determine at a later stage if the interviewee considered a certain topic more important than another, while still making sure to collect comparable results. All the interviews were recorded, transcribed and summarised (see section 5.3) The summaries are published in the

thesis as the empirical support to our claims and conclusions, allowing the possibility for other researchers to draw their conclusions from that empiria and evaluate reliability and validity of our study.

Case	Name	Subject	Interview date
Commercial broadcaster strategy expert	Alpha	Head of viewer analysis at a Swedish Commercial Broadcaster	24.11.2014
OTT service strategy expert	Beta	CTO of a Swedish OTT provider	17.11.2014
Advertising sales strategy expert	Gamma	CPO at an agency owning several as-serving platforms for the digital environment.	13.11.2014
Platform strategy expert	Delta	Deputy CEO at an agency dealing with digital platforms	30.10.2014
Consumer insights strategy expert	Zeta	Two consultants measuring marketing efforts on consumer behaviour	3.11.2014

TABLE 5: MAIN STUDY INTERVIEW GUIDE

The interviews were all conducted in English. Since we recorded each of the interviews, we made sure to understand the interviewees' answers and expressions thoroughly; focusing on the actual interview and not taking extensive notes allowed us to be responsive to the answers of the interviewees (Bryman and Bell, 2007).

5.1.3 Data analysis

After the interview process, interviews were transcribed, summarised and analysed in two steps, as for the pre-study. The first step involved within-interview analysis, aiming at achieving a deep understanding of each case. After that, a consolidated analysis was carried out in order to identify patterns, similarities and/or differences (cf 5.4). Before beginning with the analysis process, a thorough procedure of going through the data was done in accordance with open coding practise, in order to identify similar citations used by the interviewees (Bryman and Bell, 2007). These were later put under and grouped into similar concepts, from which certain concepts

were formed after some elaboration, based on theory (Bryman and Bell, 2007). From this analysis under the certain concepts and categories, the conclusions of the research were drawn.

5.1.4 Limitations

For the main study, the same limitations listed in section 1.2 hold, i.e. exclusion of public television and focus on the Swedish market. Furthermore, it might be argued that the panel of interviewees is not wide enough and more scattered perspectives should be analysed, such as content providers. A list of possible directions for further research can be found in section 6.3.

5.1.5 Research quality

Judging research quality of a qualitative study is not as simple or straightforward as for a quantitative study, where reliability and validity are the main criteria (Bryman and Bell, 2007). The research of a qualitative study can be done by using a framework of the primary criteria trustworthiness and authenticity (Bryman and Bell, 2007). Authenticity has been deemed highly controversial and not gained any support within the academic world, while trustworthiness is much more accepted, considered a useful criterion in assessing research quality. The four parts of the trustworthiness are credibility, transferability, dependability and confirmability.

Credibility

Credibility in the terms of research quality refers to whether the findings are believable or provide an accurate picture of the situation studied. Credibility is sometimes referred to as internal validity (Yin, 2003). Case studies are by their nature a seldom a complete portrayal of reality because of the small number of respondents. There are although certain techniques and methods that can be used to increase and assure the credibility of the study. One is the triangulation of the data using multiple sources and, as such, our research acquired higher credibility, confirming the events from different angles (Bryman and Bell, 2007). From a critical perspective, trying to

get the aggregated view of a market can always get better the more interviews being done, but the limitation of time and resources for this study was a given fact from the beginning.

Transferability

Transferability is defined as to which extent the results of a study can be applied to other cases (Lincoln and Guba, 1985). In our specific case, a case study by its nature is not able to provide a statistical generalisation given the small number of respondents. Still it can be argued that an analytical generalisation is possible to generalise sets of results to broader theory (Yin, 2003). As in the case of credibility above, the multiple-source method as such allowed for a cross analysis of the data to find similarities and differences, which increases the transferability if those forms of comparisons. Our aim is also to include the widest possible range of information in order to provide the thick description which a study should be to be transferable (Lincoln and Guba, 1985).

Dependability

Dependability refers to the applicability of findings to other times, or, in other words, if the findings have a constant approach to the process of research in practise (Bryman and Bell, 2007). In order to increase the possibility for the research to be replicated a lot of time and effort have been put on describing our method as thoroughly as possible in this part of the thesis. Second, all the recordings have been saved for anyone to listen to again and make their own judgement.

Confirmability

Confirmability refers to not letting subjectivity from personal perception and value affect the research and instead be fully objective. Even though it is impossible to be fully objective at all times, measures can be taken to decrease the risk. Measures taken to increase the objectivity were 1) clearly linking our purpose and research questions with literature on digitisation of other media industries 2) triangulating the data by interviewing several industry experts and a somewhat large number of respondents given the time constraint and resources of the study 3) recording the interviews made it able for us to go back and re-listen when we felt our personal assumptions might intervene with what was actually said.

5.2 Empirical Findings

In this section, we will report summaries of the topics that have emerged during the interviews. Each paragraph has been subdivided according to the three areas mentioned in the interview guide (ref. paragraph 5.1.2), plus an extra headline for interesting topics raised by the interviewees that fell outside the questions asked.

5.2.1 Commercial broadcaster strategy expert

Alfa is a Swedish commercial TV company. We interviewed the Head of Viewer Analysis who, on a daily basis, conducts and takes part in market analysis; he is also the counterpart towards MMS, the Swedish institution that measures TV ratings in Sweden, i.e. the currency for commercial broadcasting in Sweden.

Two-sided markets and market strategies

According to our interviewee, it is extremely complicated to compare linear platforms to digital platforms, due to the lack of common measurement standards and to different users perspectives. TV-related audience measurements have been in place for 25 years, and commercial broadcasters' fear of abandoning them towards the unknown has made them conservative and traditional. From a user perspective, online viewing has two main limitations with respect to linear viewing: the smaller screen and consequently the social context. Until a large portion of the population can consume online-based video content on the TV set, online viewing will have different characteristics compared to linear viewing.

Together with the Netherlands and Norway, Sweden is of the top three countries in terms of transparency for digital figures for measuring online content viewing and the digital technical solutions behind them. MMS in Sweden has been working for almost eight years on creating one panel embracing both digital and linear viewing. Fragmentation of platforms cause the task to be extremely daunting, and commercial broadcasters cannot find solutions from within. Other challenges include legislation and building an adequate panel. An online commercial system for web TV ads is

already in place, but MMS aims at including new actors such as Expressen and Aftonbladet, but also Youtube. Nevertheless, extreme fragmentation will cause several platforms standards to co-exist rather than a single one, since right holders are extremely conservative. The same conclusion holds on the advertising side, since there are not that many costs associated with using different platforms, but a tendency to create unique formats.

Markets as configurations and market strategies

According to our interviewee, the market of the TV legacy players is not as in crisis as other media depict it. Actors are trying to find their role in measurement standards. Nonetheless, every channel house is trying to allocate their budgets online more wisely. From our interviewee's viewpoint Alfa is a dominant player in the Swedish linear market and is therefore able to influence the market. He reckons, however, that better results could be achieved through a panel of both digital and linear viewers allowing to understand the audience better and to increase contact prices. But, as consumers grow tired of commercials, commercial players should investigate ways to attract user financing [subscriptions] the content, which will have a stronger effect on revenue structures in the long term.

Since different measurement standards exist, our interviewee believes that linear and digital are two different markets: there is no way today to combine and measure the total power of one program. Our interviewee believes that they also represent two different ways of consuming content and that two different categories of viewers consume media online or through linear delivery. Efforts for building a pure online panel are being made, while building a comprehensive one would be hard and expensive. On the other hand, the linear TV measurement it is not that complete either; for example, Uppsala, Sweden's fourth biggest city, has a one-digit number of panelists.

Institution & audiences and market strategies

According to our interviewee, concerning the influence of institutions and audiences, it is really hard to create a welcoming play service and to develop consumer loyalty,

since the content is available only for 14 or 17 days. If legacy players and rights holders lose ground to new digital providers, they will most likely start listening to viewers and innovate. It is hard to tell how advertisers will follow up, since the pace of digitisation of the market is extremely slow.

5.2.2 OTT service strategy expert

Beta is a Swedish provider of movies and TV shows online. Their business model is divided between an OTT real model and a B2B model, as they sell content to IPTV providers. Beta was one of the pioneers in providing digital video content in Sweden, as the company was started 10 years ago. Our interviewee is the CTO of the company, and has a background in multimedia solutions and in the cinema industry.

Two-sided markets and market strategies

According to our interviewee, the shift from linear TV to digital service providers is affecting both consumers and advertisers. Advertisers are, however, moving more slowly than consumers [i.e. they are still dedicating more advertising budgets to linear platforms rather than online environments]. The reason behind this is that, as firms buy inventory on TV channels, what they are paying for is a share of the target market since, together with MMS, broadcasters have created measurements standards that transformed audiences in an “advertising currency”. The entry in the market of OTT and video sharing platforms has brought about new advertising opportunities in the market, but the same standards are not applicable — the common language has therefore been disrupted. However, due to the scarce inventory available — as commercial broadcasters still offer limited content on online platforms — placements are sold out. This has caused legacy players to be short-sighted, and to defer investments in technology. In 2014, these investments have been increasing, since for the first time in the history of the Swedish TV market audiences and time on linear platforms have been decreasing.

Digital services allow companies to acquire precise and detailed information about their personal interests. Therefore, while linear delivery allows advertisers to target

specific regions and to be placed in determined slots, online platforms provides tools for targeting users according to their preferences. The first step to be undertaken involves finding a common language between the two systems in terms of performance indicators and measurement standards as, in the long run, advertisers are going to assess the effectiveness of their ads. Since platforms are different and the market is fragmented, it is likely that different models will co-exist; nonetheless, analytics will allow you to develop models for the assessment of the effects on brand awareness, sales, etc.

If we want to compare developments that occurred in the music industry to what is happening in the TV market, the main difference lies in the fact that the cost of production for music has substantially decreased over the past two decades, while in order to produce video content, high skills and investments are still required. It is therefore necessary to attempt to monetise on content not exclusively with ad revenues or subscription revenues in order to cover costs. From our interviewee's viewpoint, it is unlikely that one business model will prevail: different models are going to co-exists, but they nonetheless need to adapt to new market structures and become more dynamic.

Markets as configurations and market strategies

According to our interviewee, the new market in which commercial broadcasters are competing is at a very early stage. Disruption has been brought about by new players that, by operating over the top, are bypassing distribution and packaging, which are the main roles taken on by legacy players. Historically, technical infrastructure has been regional or national. The internet has eliminated technical boundaries, but barriers in terms of rights and content are still in place. Commercial broadcasters need to reinvent themselves as they are competing on a wider market, with players delivering different types of content and operating according to different business models. Furthermore, new competitors have emerged on the platform side, as both hardware (e.g. Samsung, Apple) and broadband (e.g. Telia) providers are offering media services as a driver to boost sales, but not necessarily trying to make money FROM this content.

Viewers consumption of media has increased, but the situation is still critical for commercial broadcasters, who need to sustain their traditional business while attempting to innovate through new solutions. Due to the fact that, as mentioned before, geographical barriers have been eliminated, every player on the market is competing not only with local but with global players; local players, who are not able to benefit from the high technical budgets enjoyed by global players, need to be smart and efficient. From the content perspective, on the other hand, media preferences vary from country to country, and this allows local players to survive. What our interviewee believes is that the key to achieve market equilibrium is through competition and cooperation, allowing for global and local players to complement each other. If we look at the evolution of movie production companies, before the past decade the main revenue stream used to come from DVD sales. Today, the focus has shifted on production. While before every production decision was a bet on the success of the venture — today, production is not started before financing, co-producers, broadcasters and product placements have been determined — and, therefore, different agents are taking on production risks. These changes have been occurring in the production of music and TV content. In this highly competitive environment, media companies need to monetise on every undertaking.

Institution & audiences and market strategies

According to our interviewee, institutions are very important in defining the way the industry works. In Sweden, Swefilmer is a substantial threat to broadcasters and OTT platforms, but the solution does not lie in legislation. The problem should be addressed on 3 different levels:

- i. educating
- ii. creating legal alternatives
- iii. legislating

and efforts should be focused on the first two. Viewers understand that contents need to be paid for, and if no legal alternative service provider is available, the fact that streaming pirated video content is legal in Sweden is an opportunity for the consumer. However, piracy has also contributed in developing a user pattern: by having good-

quality content always easily available, viewers have increased their media consumption , and somewhat contributed to the success of subscription-based services such as Netflix or, in the case of the music industry, Spotify.

However, although commercial broadcasters are suffering from the introduction of new competing technology, the market is not [yet] acutely disrupted. Hollywood content and TV series have indeed been taken over by OTT and illegal services, but TV still plays an important role in broadcasting live programming.

5.2.3 Advertising sales strategy expert

Gamma was established in late 2007, with the aim of helping broadcasters and publishers build profitable and a sustainable business model in the internet-delivered TV world i.e. in allowing them to make the most out of the new TV landscape, and to be able to monetise on advertising by casting it effectively across all the platforms. Our interviewee is the CPO of the company, one of the members of the senior management group.

Two-sided markets and market strategies

According to our interviewee, the main challenges faced by commercial broadcasters when attempting to regain revenues lost from the linear platform through digital services are the smaller audiences and the lack of proper measurement techniques. The first results in prices per connection that are higher for the advertiser than on TV; the second does not allow broadcasters to follow up on the results of digital campaigns. This obstacles hinder the shift in revenues from linear platforms to online services, and traditional broadcasters engage in these practices as a side business. The solution lies in the development of GRP metrics that are suitable for digital delivery. Although the potential behind the online medium is much higher, analytical measures will be a good catalyst to attract advertising budgets. From the point of view of commercial broadcasters, the main hindrance lies in the fact that linear delivery is still extremely profitable in terms of advertising (2013 data showed a record amount of profits) as well as bearing an adequate number of viewers. However, in 2014, viewership has

started dropping; some population segments are severely underrepresented in linear TV audiences. This phenomenon is likely to create a sense of urgency in commercial broadcasters to turn digital delivery into a full-scale business.

As concerns platform integration, our interviewee believes that the most crucial activity is the development of common measurement standards for advertising, and the main challenge for commercial broadcasters is how to differentiate yourself from competition. One example of measurement that is easily translatable is view-ability, i.e. whether the ads that is being measured was actually shown on screen. Nevertheless, the most important results still need to be measured in terms of reach and frequency in a certain audience group, regardless of the channel where the campaign is delivered. The development of these measurements will occur with the help of an external player (MMS), as standards in ad formats and ad interactivity are already in place. However, from our interviewee's viewpoint, there is not going to be one platform "to rule them all", but rather different platforms acting according to different standards.

Markets as configurations and market strategies

According to our interviewee, the new TV market is emerging: both linear and digital platforms have their own standards and their own views, but they have not come together. The measurement institute in Sweden has not defined how metrics need to be applied, and there is therefore no way of selling through the same currency across linear and digital. The tipping point that will impel change should be plunging revenues, as several TV stations have had to pay money back to advertisers as, due to audiences dropping, they have not been able to fulfil their contractual obligations to advertisers.

Our interviewee believes that new digital providers such as Netflix are competing more directly with the old video industry, since they deliver content that is international, while commercial broadcasters in Sweden provide local content, but the way they define themselves as a market actor and the way they go to the market need to be different. On the other hand, new digital players such as video sharing

websites are unquestionably diverting substantial advertising revenues from legacy players - from this perspective, it is harder to consider them two different markets.

In Sweden, “semi-new” players (e.g. Aftonbladet) are driving the market, by experimenting with different formats and strategies, while legacy players are merely trying to keep their business models afloat as they stand. They suffer from myopia in identifying the value in this new landscape, and therefore need to change mentality.

Institution & audiences and market strategies

According to our interviewee, copyright issues are not endangering the market too severely. The solution to not losing subscription money and advertising revenues lies in the hand of companies rather than institutions, as service providers should offer convenient content, decent price points and really good services what the users are willing to pay for.

Audiences are consuming content in the same fashion they did before, but through different channels, out of convenience, making the disruption less obvious. Market conceptions and monetisation practices are different, but the overall experience does not need to be different from a consumer perspective. The broadcasting system and linear delivery will completely disappear, but concepts will remain the same: the infrastructure will transition to IP-based, but metrics used in the linear environment will withstand and merely be applied to the digital one.

5.2.4 Platform strategy expert

Delta is a Nordic platform network working with global channels and personalities. Their value proposition is directed towards advertisers, creators and digital rights owners. Their goal is to gather audience in relevant environments and offering advertisers the opportunity to reach them. We might conceive their business model is similar to the free TV model one, but existing on a different platform. Our interviewee is one of the co-founders of the company, the current deputy CEO, who had before worked in commercial TV for 15 years.

Two-sided markets and market strategies

According to our interviewee, every viewer lost on the linear side has been picked up on the digital side, but not within traditional media offerings. Traditional broadcasters are misunderstanding the challenge, acting on the belief that the only required actions are transferring their content online and undertake small investments, while audiences are not simply moving to digital: they are transitioning to Youtube and new services. This phenomenon should not cause legacy players to put all their content on Youtube, because viewers do not go to Youtube to watch television, they go to Youtube to watch “Youtubic” things — it should however, urge them to stop thinking about owning technical structures and focus on content. By employing exactly the same methods that they have always employed, i.e. recruit or find a really good concept/personality and you invest in that, to be successful. Legacy players should spread their investments and make sure to offer the programming where the audience is with content that is suitable to different platforms and different situations. Audiences are no longer tied to one technical platform anymore, and content should follow the same trend. There is not only one standard anymore, there are several — and each player has to master them all in order to succeed.

The same conclusion can be reached when talking about platform openness. Traditional media extensive focus on proprietary platforms has prevented them to realise that measurements for video advertising on digital platforms are in place, and are substantially different from the ones employed by television. For instance, on Youtube, advertising is valued according to CPM (Cost Per Mille), i.e. cost per thousand advertising views, whereas television calculates according to audience percentage. According to our interviewee, this measure is easily translatable, but what cannot be precisely determined is how much does a digital campaign add to the reach of a television campaign.

Due to the existence of different agents and different perspectives, our interviewee believes it is unlikely that one standard will be shared by all actors in the market,

especially due to the fact that there are little or no cost in using different platforms for content producers or advertisers.

Markets as configurations and market strategies

According to our interviewee, norms in the TV market are strong, so strong that they can hinder development. Practices are deeply established, and therefore commercial broadcasters are still focusing on building proprietary platforms, rather than serving the audience. Since the market is not disrupted enough, it is extremely difficult to eradicate such practices. The real disruption is brought about by viewers. Television is losing audiences by gigantic numbers and revenue streams, both from subscriptions and from advertising, are following. Since commercial broadcasters face high fixed and sunk costs, the overall effects are very strong on local legacy players. Their ability to influence overall market structure is weak, due to the fact that they still act with one focus, i.e. how to develop what they already own and control into something digital.

From our interviewee's point of view, linear and digital delivery of video content are two separate markets, since both advertisers and customers consider them as two distinct environments. From an audience perspective, viewers consider consuming videos online and watching TV as two separate activities; from a business-to-business point of view, subscription-funded digital providers compete with pay-TV operators. Furthermore, traditional broadcasting companies consider Netflix as stronger competition than Youtube, because Netflix operates through a similar business model. However, our interviewee believes that, in the long run, all these different environments will merge into one international market, as internationalisation developments are ongoing.

Institution & audiences and market strategies

According to our interviewee norms and regulations are outdated for the current market, along with many other laws concerning media. The environment is becoming more and more international, and, since regulations are local, it is uncertain which standards apply. The same is valid for copyright regulations. The Swedish population has access to Swefilmer because the company operates in Moscow under Russian

regulations. Furthermore, they are not owning the platform they use for delivering content, but they merely upload it on a Russian social network and then embed the player on their website — operating the whole system on their own would not be cost effective. However, limiting access to illegal providers does not automatically translate in audiences turning to subscription-based services.

As regards audience behaviour, the TV industry finds itself today where the music industry was in 1999; what will actually impel changes is when advertising revenues will start to plunge substantially, rather than viewers moving away. In the US for instance, where market disruption has been going on for a longer time, traditional media companies are allying with new players, and attempting to build new and improved offerings. Disney bought Maker, Time Warner was going to acquire Fullscreen [but decided not to due to the high price tag (Spangler, 2014), and these companies are serving their new acquisition with higher funding.

5.2.5 Consumer insight strategy expert

Zeta is an analytics consulting firm, specialised in brand tracking and in consumer behaviour. Their clients include some of the biggest Swedish commercial broadcasters, as well as web-TV services. They are operating in 13 European countries and work with benchmarking in more than 60 industries. Our interviewees were the CEO of the firm and a consultant specialised in consumers research involving drivers and preferences for video content.

Two-sided markets and market strategies

According to our interviewees, commercial broadcasters need to find new business models, and avoid narrowly envisioning traditional business models to be absolutely applicable to the digital side. Since revenue streams on linear platforms are still substantial, broadcasters are neglecting to invest on new digital solutions and following their viewers. Linear broadcasting is market leader in advertising sales and will probably retain its position in the short term, but in the long-run it will lose market share. In order to counteract this trend, the first development needed is a new

business model for monetising audiences. The first question to be answered is how much advertisers are willing to pay for digital placements. The main determinant of willingness to pay is of course the value offered, both in terms of effectiveness and in terms of targeting. Technical solutions are limited within TV firms today, as they believe the sales currency in the physical and digital platforms are the same, while digital delivery offers greater possibilities in terms of targeting. Linear delivery involves communicating “one to many”, from a single platform to a wide audience, while digital data allows for effective “one-to-one” communication. The shift could be envisioned as moving from “shouting” to “talking”.

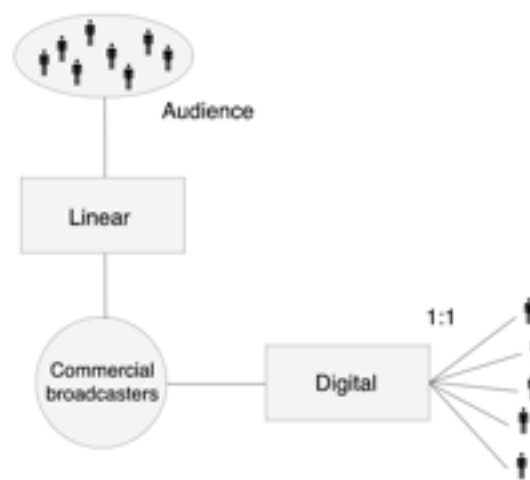


FIGURE 9: ADVERTISING STRATEGIES IN DIGITAL ENVIRONMENTS

Today digital advertising is more expensive [per contact] than communicating on television. However, as soon as a technical solution for tracking customers will be developed, each signal sent will be more effective, as data collected will be able to match personal information, interests and behaviour. Therefore broadcasters have to compromise and be willing to lose money today in order to gain higher profits tomorrow. Improved data collection will also allow for improved product placements, which are relevant for the expected target group of the show. This changes will require a change in measuring techniques Today, MMS determines commonly accepted standards, while on digital there are several different platforms delivering video content. Unless they come together and agree on accepted measures, the system is not going to be the same as comparable as in linear. As soon as these measures are

developed, prices for contact reached through digital platforms will decrease, to increase again as soon as exclusive, one-to-one marketing techniques are available.

Nonetheless, consumers are leaving linear broadcasting and spreading out across different platforms. The market is fragmented and will most likely become even more so, as different services appeal to different personal preferences — and even though audiences might demand convergence of services, commercial broadcasters do not want to give away their content. Furthermore, as behaviour is adjusting slowly, it is unlikely that all viewers will be gathered on one platform.

Markets as configurations and market strategies

According to our interviewees, commercial broadcasters are competing in the same market as OTT services and video sharing websites, and what they are competing for is media/consumer time. In a broader sense you could say they are competing with every other media. Furthermore, this broad market is not very mature. Netflix entered the Swedish market in 2012, and consumer behaviour started to change rapidly only in 2013, as the high quality of broadband infrastructure allows different kind of services to compete on the same level. What has not changed, however, is the desire of the audience to watch the best content available. If we consider an average viewer put against the choice of what to watch at 3 o'clock, he would most likely use an on demand service rather than watch the low-quality soap opera broadcasted on linear TV. However, if we look at the market from an advertising sales perspective, no digital players, besides Youtube, have actually emerged to compete for advertising space. On the revenue side, new players compete mainly with pay-TV providers for subscription money.

As regards platform convergence, the digital terrestrial signal is probably going to disappear and all video content will be delivered online. Scheduled viewing is relevant exclusively for sports and events. While researching for drivers of customers behavior, our interviewees have observed that different kind of incentives result in different kind of viewings. Behaviours can be segmented in three categories.

- i. Live viewing
- ii. Lazy viewing: relaxed viewing, not related to any decision undertaken from the viewer. This can include scheduled programming or personal flows (“playlists” of content arranged according to user preferences)
- iii. Decision-based viewing: on-demand consumption of content actively selected by the viewer.

For the first two kinds of viewings, technical solutions are not in place yet, while decision-based viewing is satisfied by VOD services. In order to meet these standards, commercial broadcasters have to start examining consumer preferences and behaviour more thoroughly. There are two ways of obtaining this information: by examining big data obtained through online tracking, or through qualitative data collection, i.e. asking the customers what they want. The latter method is the most widely used one, as audiences on online platforms are not wide enough to identify data patterns.

Institution & audiences and market strategies

According to our interviewees, the influence that institutions are exercising in this changing environment is becoming irrelevant. Illegitimate streaming services are extremely popular in Sweden, but OTT services have nonetheless been able to attract a large number of users, who are willing to pay as the service adds value to their experience. Furthermore, even if legislators were to make regulations stricter, given the irrelevance of geographic boundaries in the online environment, it would be virtually impossible to eliminate every existing provider. However, audiences might use illegitimate services as a complement to the pay one.

Therefore, it is not necessarily true that audiences are looking for an aggregating, “Spotify-like” service for video content. And even if they were, there are thousands of content owners that would need to be involved in the process — first and foremost, they would need to be persuaded to give up ownership of their content. According to our interviewees, this development is almost impossible for the time being but it is not to be excluded that in the long term, if audiences push for it, if conditions for it to be profitable would be in place, an aggregating service might be realised.

5.3 Summary of the empirical findings

During our interviews, different perspectives have emerged covering a wide variety of topics, but revolving around the same concepts. This section attempts to group these concepts in order to facilitate the analysis of the findings.

Two-sided markets and market strategies

As regards issues of pricing and openness, all of our interviewees mentioned the lack of measurement standards as the main challenge faced by commercial broadcasters, followed by the lack of investment dedicated to digital solutions. Other challenges included the need for new business models, and, to a lower extent, the lack of technical solutions.

	Alpha	Beta	Gamma	Delta	Zeta	Overall
Need for new Measurement Standards	x	x	x	x	x	5/5
Lack of Investments	x	x		x	x	4/5
Need for new Business Models				x	x	2/5
Lack of Technological solutions					x	1/5

TABLE 6: SUMMARY OF THE FINDINGS ON TWO-SIDED MARKET ISSUES

Furthermore, all of our interviewees believe that multiple platform standards will co-exist, at least in the short run.

Markets as configurations and market strategies

Different concepts have been analysed under the markets as configurations perspective:

- In terms of market boundaries, most of our interviewees consider the markets in which commercial broadcasters and digital services operate as two separate ones, but with an international character.

- As concerns market phase, interviewees who have identified it as one market consider it as new and emergent. Only Alpha, who distinguished two separate environments, consider the market for linear broadcasters as still well established.
- In terms of market opportunities, most of our respondents consider commercial broadcasters as having a low ability to influence market structure, with only Alpha stating the opposite.
- Regarding co-creation and resource integration, the issues raised during the interviews concerned the need for analysing audiences, spreading investments along the market network, cooperation between old and new players as well as providers of complementary products (such as broadband or hardware providers).

		Alpha	Beta	Gamma	Delta	Zeta	Overall
Market boundaries	Two separate markets	x		x	x		3/5
	One market		x			x	2/5
	International character		x	x	x		3/5
Market phase	New market		x			x	2/5
	Established market	x					1/5
Market opportunity	Low ability to influence market structure			x	x	x	3/5
	High ability to influence market structure	x					1/5
Co-creation and resource integration	Analysis of audiences	x				x	2/5
	Spreading investments		x				1/5
	Cooperation between old and new services				x		1/5
	Bundle with complementary products		x				1/5

TABLE 7: SUMMARY OF THE FINDINGS ON MARKETS AS CONFIGURATIONS TOPICS

Institutions & audiences and market strategies

Several institutional issues have been raised by our interviewees, including the facts that regulations are irrelevant, outdated and have a national character that is unsuitable for the new international environment. However, Alpha and Delta also state that they are so strong that they are hindering development.

	Alpha	Beta	Gamma	Delta	Zeta	Overall
Regulations are irrelevant		x	x		x	3/5
Regulations are outdated				x		1/5
Regulations need to have an international character				x	x	2/5
Regulations are hindering development	x					1/5

TABLE 8: SUMMARY OF THE FINDINGS ON INSTITUTIONAL ISSUES

Concerning the ability of audiences of driving market change, most of our interviewees believe that the disruption is not strong enough to impose strategic directions to broadcasters, with only Gamma stating that the disruption is made less obvious by the fact that consumer attitude as not changed, but rather consumer behaviour

	Alpha	Beta	Gamma	Delta	Zeta	Overall
Disruption is not strong enough		x		x	x	3/5
Disruption is occurring but is less obvious than in other industries			x			1/5

TABLE 9: SUMMARY OF THE FINDINGS ON AUDIENCES AS DRIVERS OF MARKET CHANGE

5.4 Analysis of the findings

The Swedish TV industry is undergoing a period of crisis. New actors have disrupted conceptions of control that had been in place for decades. The result of the interaction between old a new technologies has been a new, emergent market, whose market boundaries and conceptions are blurry. Until consensus is reached by all parties,

either through consensus or imposed by external entities, the market will not reach stability (cf.. Appendix 8.7).

In terms of market plasticity, the TV market has historically been characterised by low fluidity and high stability, since structures, practices, exchange objects and actors have been established and survived several market disruptions brought about by technology, from the introduction of home recording systems to the digitisation of delivering signals. However, a technological disruption of this magnitude has never occurred in the industry, and it is unclear whether legacy players will be able to maintain their favourable position on the market.

From the point of view of commercial broadcasters, the process of taking form can be characterised as emergent, as it does not involve any intentional effort from their part. As a consequence, strategies adopted in the past few years have had an imposed nature, whereby legacy players have been forced to engage in digital delivery of content, both willingly and unwillingly, to survive in a changing environment.

In the following three paragraphs we will analyse the effects these emergent processes have on market strategies.

5.5.1 How a specific firm's choices affect market strategies

The overall opinion on legacy players is that the revenue of users lost on the linear side is not picked up on the digital side, especially in the case of advertising funded broadcasters, who are particularly affected by the effects of pricing in a two-sided market. The following market strategy can be either to increase the number of users/viewers or increase prices on the advertiser side. Today the number of viewers using legacy players' digital services are by far less than users on the linear side and therefore the price per connection to the advertiser is higher than on the linear platforms.

In terms of pricing, in order to understand how the pricing of advertising in linear TV works, two concepts have to be explained. First of all, the word rating refers to the number of viewers in a particular target group. The term is used as a measurement standard in both radio and TV advertising. The number of viewers of a particular show is often explained in absolute numbers, which is the rating figure multiplied with the target group. The target groups in linear tv advertising in Sweden are segmented according to demographic variables. When the a TV ad is placed in Sweden, advertisers buy target rating points or TRPs, which is the percentage of the target group (i.e. the rating figure), but specified in absolute numbers. For example, if an advertisers buys 100 TRPs, then the advertiser buys 100% of their target group (Sveriges Annonsörer, 2011). The second term that need further explanation is reach, which is the number of TV viewers who have seen a specified minimum number of minutes cohesively during a period of time, or a specific percentage of time, of a programme. Usually three cohesive minutes is used to measure programme reach or for daily reach five cohesive minutes is used and every viewer is only counted for once and this is where it becomes an issue when comparing advertising in on linear TV and on the digital services of commercial broadcasters. Even though the TRPs is what is sold, campaigns effectiveness is evaluated based on reach; this is one of the reasons why TV advertising is so popular among advertisers (Sveriges Annonsörer, 2011). On the other hand, advertising on digital platforms such as Youtube and Aftonbladet TV is a much more easily understandable system. Advertising price is measured in cost per mille or CPM, which literally means “one thousand advertising views”. Today, in Sweden, there is no way of merging the linear and the digital measurement by applying the concept of reach to digitally delivered video content (Sveriges Annonsörer, 2014). Our empirical findings show that there is consensus regarding the lack of measurement standards and thereby a proper pricing benchmark on the digital side; there is an evident need in the market for a common language between the two systems, which is currently non-existent. This would directly affect platform openness, due to the fact that a common standards allow for horizontal integration practices in a network of players, favouring monopoly-like pricing practices. Opinions differ on how these two currencies should be aligned and there seems to be challenges in applying the linear metrics on the digital platform, as the market actor MMS has been trying to

do for over eight years. The constant change of the landscape, with new players and platforms emerging, is slowing down this process and making it extremely complex for participating actors to agree on any standard. Another force identified, working in the opposite direction, is the fact that digital terrestrial signal might be abandoned in favour of IP delivery, which would open up for purely digital measurements and pricing standards. This would afterwards allow moving from an advertising offering and business model, as described by Zeta, based on “one-to-many, to a “one-to-one”.

Another opinion raised, although not mentioned by a majority of respondents, is that although audiences on digital platforms have reached substantial numbers, they are not staying within traditional broadcasting formats, but moving towards purely digital platforms. Online viewing entails different technical characteristic than linear delivery, as mentioned by commercial broadcaster Alpha, due to the fact that it is usually consumed on a smaller screen and in a different social context.

An issue raised during the interviews, which affects both free-tv and pay-tv players in the digital environment is whether a two-sided market will evolve into a winner-takes-it-all condition or if different platforms will be able to co-exist. Our empirical findings show that there is consensus about the fact that multiple platform standards will co-exist, at least in the short run. Even today different standards co-exists independently in the same market, and our empirical findings show that there is no high fixed cost tied to producing content for different platforms, neither for content producers nor advertisers. According to the theory of two-sided markets, this would prevent market forces from pushing towards a winner-takes-it-all market

5.4.2 How business interaction affect market strategies

The traditional Swedish TV market can be described as a high marketness situation, as commonly agreed norms for trade, exchange objects and mechanism for price formation are set, as described in the introduction and background and shown by our empirical findings. Our empirical findings also confirm that there is no clear view on what are the boundaries of the market where Swedish commercial broadcasters are

operating today, in terms of both substitute services, geographical or technical boundaries. Some interviewees consider competition as occurring in between two different markets, linear and digital, while others recognise the market as one. This causes the situation of lower marketness compared to before, where there is poor fit between market elements and market actors are currently engaging in market creation activities in order for potential customers, providers and competitors to recognise their proposed value proposition. As shown by the empirical findings and mentioned in the previous paragraph, exchange practices require a lot of time and repetition before the market actors can agree on market boundaries. Normalising practices in this situation are characterised by different and competing viewpoints and few commonly accepted norms and rules. Representational practices aim at displaying market actors and the units of exchange through symbolic representation, mainly by various activities by MMS. An example of the difficulty in defining the market boundaries, is due to the abolition of geographical boundaries in the Internet infrastructure, since commercial broadcasters are traditionally mainly competing on a national or regional level, while many new digital services have an international nature.

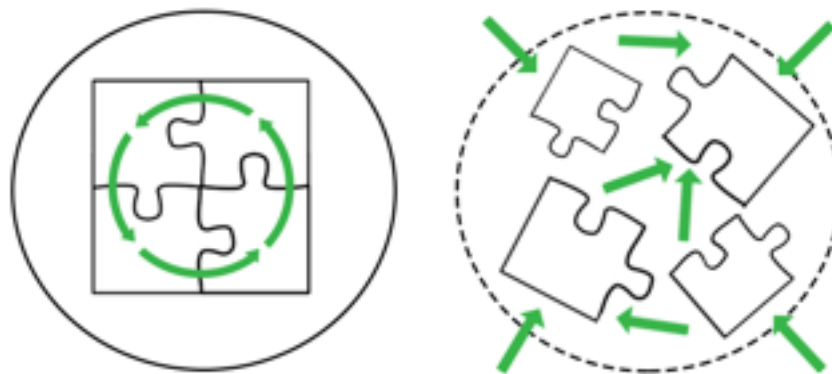


FIGURE 10: HIGH MARKETNESS VS. LOW MARKETNESS

As mentioned in our theoretical framework, there are four key capabilities through which market actors can influence the market configuration. Even though it is hard to make an objective judgment, our empirical findings point in the direction of legacy players lack capabilities on the free tv side when it comes to measuring the value of market configurations and price formation (“common currency”) and they have a reactive attitude to value sensing. They are engaging in market scripting activities

mainly through MMS, but these activities has been ongoing for a long time and not lead to any significant results. As mentioned in the previous paragraph, the Swedish TV legacy players comes from a high marketness situation. This situation of established practices and rules has allowed for the formation of mental barriers for commercial broadcasters, making it difficult for them to view the market in an alternative way.

The traditional pay-TV model, on the other hand, is easier to apply in the digital environment, as the issue of measurement standards is not present. Therefore, the mental model formed in the linear world, does not hinder pay-tv legacy players to the same extent in acknowledging the emerging market configuration. However, our empirical findings show that they face increased competition from international players and the opposition of conservative right holders, which inhibit the creation of consumer-friendly services, as infrastructure is built around a linear broadcast and geographical boundaries. According to our theoretical framework, it is through its business model that a market actor can attempt to influence a market configuration in their favour. Empirical findings confirmed that legacy players are adapting their original linear business model to the digital environment, rather than experimenting with new tailored business models and, in doing so, influencing the market configuration in their favour.

To summarise, a market actor influence a market configuration through its business model and our empirical findings show that the Swedish TV legacy players currently apply their traditional business model in the digital context, trying to influence the market configuration to fit the traditional linear environment.

5.4.3 How institutions and society and affect market strategies

With reference to institutions, no firm can be immune from the institutional framework in which it operates, but the intensity of the influence may vary. Historically, TV used to be a highly regulated market, but this is not the case anymore. Since geographical boundaries have decreased or have been eliminated,

there is a need for international regulations, especially regarding copyright. However, our interviewees had mixed opinions about illegitimate or illegal video content provider: some consider it as a neglectable issue, others look at it as a problem that does not have to be addressed by legislation but more as a consumer behaviour issue, recognising the need for educational efforts.

When moving from linear to digital environments, commercial broadcasters face barriers to mobility rather than barriers to entry, since they are expanding horizontally in providing a different service. Picard and Chon (2004) state that firms expanding in new markets through new technique and methods can overcome traditional cost structures and overcome barriers to entry. In this specific case, this dynamic does not necessarily hold, since first pre-existing cost structures cannot be eliminated and second technical investments are required. The authors also analyse the effects of increased competitions. They list increased consumer choice, the correction of inefficiencies in processes and lower advertising prices as positive effects. The latter is not necessarily a beneficial effect, since, especially for free TV, advertising constitutes the main source of income and advertising prices are high. Furthermore, it is not necessarily true, since, as our interviewees stated, the cost per contact on digital platforms is actually higher than on linear platforms. On the negative side, Picard and Chon list disrupted audience behaviour and advertising patterns. These conclusions were confirmed by our interviewees.

From the audience point of view, Picard and Chon state similarity in programming among different broadcasters causes concentration of viewers around few different channels, creating an anti-competitive environment where smaller channels are destined to fail. In an environment characterised by increased competition brought about by digital services, this can be proved by audience levels. As confirmed by our interviewees, Several legacy players had to return advertising money as they were incapable of fulfilling contractual obligations.

As mentioned in the theoretical framework, the audience appetite for programming has been the driver of the success of the television industry. Before digitisation,

audiences had different channel choices and pay-TV preferences in a limited set. Today, the wide availability of services, legitimate or illegitimate, causes audiences to be even more fragmented and more polarised, this time due to different broadband technical infrastructures in specific regions of the country. However, Webster & Ksiazek (2012) believe that audiences will remain relatively concentrated due to different quality of broadcasters, for reasons of social desirability and media measures/recommendations (cf. 2.2.2). Our interviewees seem to support a different perspective, whereby personal preferences will cause audiences to remain spread out and loyal to different services.

6. CONCLUSIONS AND IMPLICATIONS

6.1 Conclusions

Analysing the dynamics of change in an industry while the change is undergoing is no easy task. Through this manuscript, we are attempting to depict these dynamics and to build a theoretical framework for our analysis. A summary of the answers we provided to our initial research questions will be provided below.

(R1) What are the current patterns of change in the market within which the Swedish TV legacy players operate?

First, we analysed developments across other media industries that have been affected by digitisation before the TV industry. We identified different touch points and similar developments and identified three common issues:

- i. Shifts in revenues and in costs structures
- ii. Monetisation on digital audiences
- iii. Audience fragmentation

We then investigated these three issues in our pre-study, by interviewing business- and revenue-model experts at the main Swedish legacy players. Such pre-study gave us valuable insights and understanding on how legacy players are analysing the current market developments and challenges they are facing in the problem-areas identified through the background research.

(R2) How can we analyse the environment with the help of theory?

Market strategies in the TV industry are affected on three different levels:

- The firm-to-customer level concerns strategic choices addresses to B2C or B2B customers through pricing and openness choices in two-sided markets. These interactions can be categorised as signalling out of the firm.
- The firm-to-firm level addresses interactions between different players in the industry, and how they cooperate and pool value together as a network. These interactions can be categorised as signalling through the market.

- The Society-to-firm level analyses how audience behaviour and institutions (norms, rules and regulations) affect market strategies. These interactions can be categorised as signalling in the firm and the market

(R3) How are the shaping forces identified in (1) affecting the market?

According to the results of our main study, commercial broadcasters are not fully equipped to face this changing environment, neither through mental models nor through business models. New technology and new actors have formed a new emergent market, where boundaries and conceptions are blurry and until consensus reached, the market will not reach stability. The disruption from new technology of this magnitude never occurred before in the market where the Swedish TV legacy players operate and it is unsure if they will be able to maintain their former favourable position. The market is no longer defined by geographical boundaries. This has increased competition and lowered the power and importance of institutions and regulations.

In this new emergent market there seems to be a will to align the currencies of the linear and digital advertising offers among the market actors. At the same time, market actors have not yet agreed on a common unit of exchange. In this process, two parallel processes can be identified:

- i. Expansion of the linear metrics into the digital environment, a process which has been ongoing for some years and seem to be challenging for the market actors.
- ii. Expansion of digital metrics into the linear environment, a process made possible if TV signals are delivered exclusively through IP and the digital terrestrial signal is eliminated.

In addition, in the new digital environment viewers show a tendency of not staying within the traditional broadcasting formats. This causes the digital viewing not picking up on the digital side of the legacy players services as linear viewing is decreasing and increasing the market fragmentation.

In terms of digital platforms the market show little indication of becoming a “winner-takes-it all” market and multiple standards will probably co-exist for some time.

The market where the Swedish TV legacy players operate has moved towards a lower level of marketness, where resource integration is less effective and the different

actors are engaging in various market creation activities through exchange, normalising and representational practices. The Swedish TV legacy players, hindered by their mental models, predominantly apply their traditional business model in the digital context, trying to influence the market configuration to fit the traditional linear environment. This process is harder for the free TV players, than the pay TV players, although the latter faces tougher competition from new players with alike business models.

With reference to institutions, as mentioned in the previous paragraphs, regulations have become obsolete and hard to enforce, due to decreased geographical boundaries and to the open character of the digital environment. Audiences are moving towards digital platforms by means of both legitimate and illegitimate services, disrupting not only viewing but advertising patterns (due to changing audience levels). The result is a fragmented environment where viewer's choice is affected by personal preference and content availability

6.2 Managerial implications

From the results of this study, we can conclude that the digitisation of the TV industry is as much of a challenge to the legacy players in this industry as it has been for the legacy players in any other media industry. All media industries have experienced increasing competition as a result of lower entry barriers and, according to the results of our study, fragmentation of the market will most likely endure in the long run. Commercial broadcasters need to acknowledge this phenomenon and direct their efforts towards adapting to this new environment. Therefore, our first and main recommendation is for professional to foster the construction of one panel that includes both digital and linear viewers; in the long run, the desirable setting will involve exclusively IP based delivery: besides counteracting fragmentation, digital services will be able to provide "one-to-one", targeted advertising offerings, which will allow to charge premium prices. Second, as shown in the background research and confirmed in our main study digital audiences have reached substantial numbers, but have been shifting towards services outside the ones provided by traditional

broadcasters. In order to attract viewers, legacy players should research market opportunities and afterwards experiment with digital formats and new business models. Third, our conclusions show that the view of what is the tv market is not as clear as it used to be and a therefore TV legacy players must influence and describe the market in terms beneficial to themselves. For example, MMS issued a press release on the 4th of December 2014 regarding that the tv viewing has never been higher which among other Dagens Media wrote about (Thomsen, 2014) which included both linear, digital and downloaded tv. This is a way of constructing the market and influencing other to take on this view of the market is positive. This way they can better assess competition and find their create their favourable place in the market. Fourth, due to lower importance of institutions and geographical boundaries in the digital environment , it needs to be recognised that Pay TV providers will face an ever-increasing competition from SVOD services, especially on an international level. Competition for local players is going to be fierce, and they should therefore attempt to compete on adequate content as well as to invest in digital experiences and on multi-platform delivery to create more consumer friendly services.

6.3 Directions for further research

The main limitations listed in sections 1.2 and in paragraph 5.1.4 include the fact that the study is concentrated to the Swedish markets and that public television has been excluded from the analysis. In order to address the former, cross-country analysis should be carried out, since geographical boundaries become almost irrelevant through digitisation. The latter should be address by revisiting the role of public television within this changing environment, first and foremost due to their prominent role in the Swedish market, and second due to the fact that they are most likely to be affected by institutional forces. Furthermore, due to the limited scope of qualitative analysis, the research should be coupled with quantitative data, both addressed to the advertiser and to the audience. Last but not least, results emerged from our research were mainly related to advertising-funded business models; further research should focus on in depth investigation of subscription-based services.

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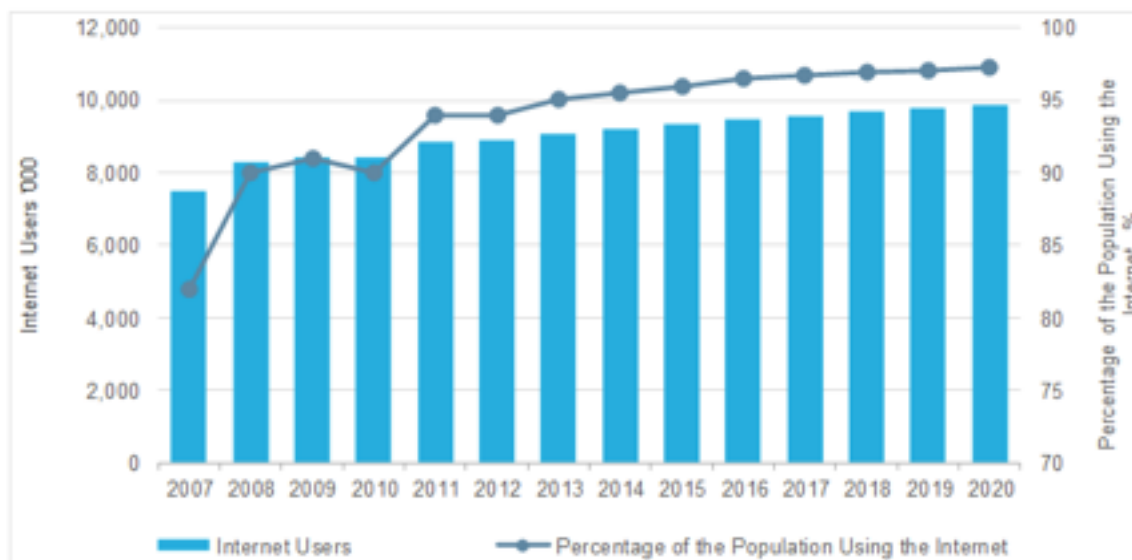
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8. APPENDIX

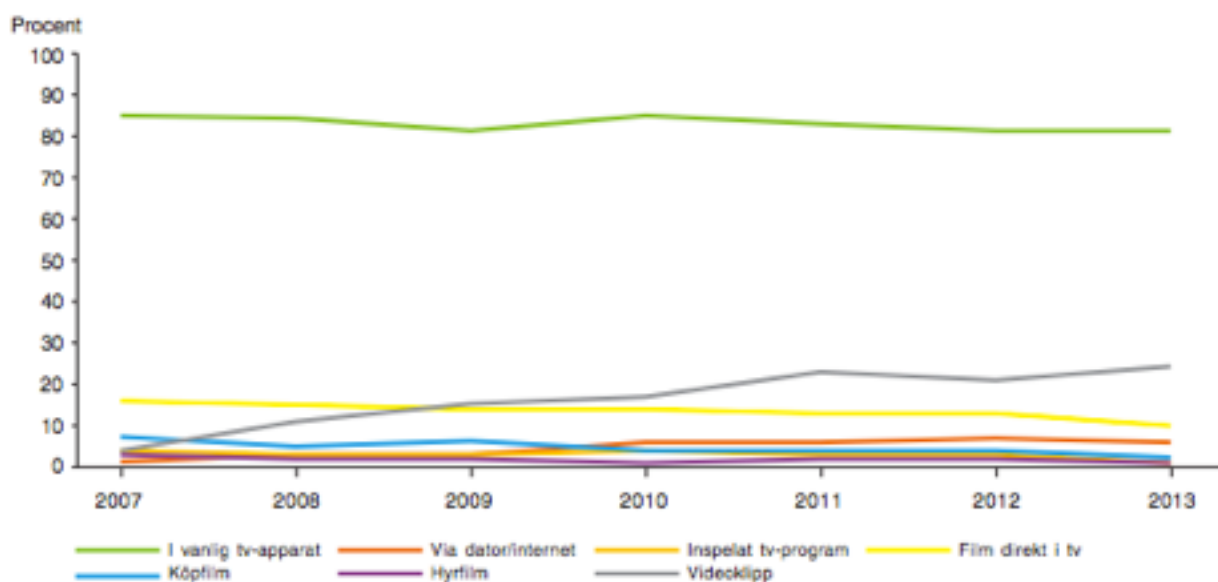
8.1 Internet Users and Percentage of the Population using the Internet



Source: Euromonitor.

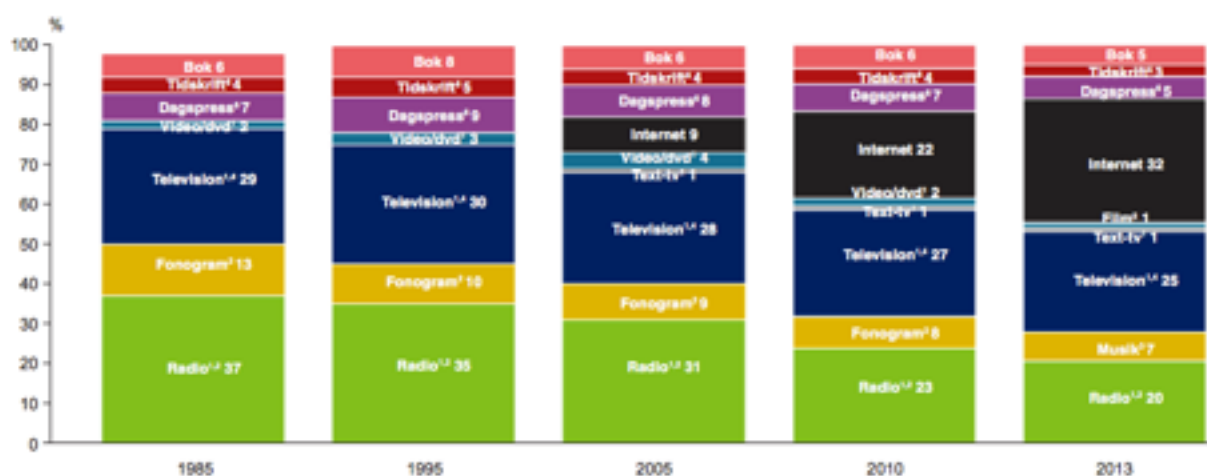
8.2 Video viewing percentages on the Swedish market (age 9-79)

	2007	2008	2009	2010	2011	2012	2013
I vanlig tv-apparat	85	84	81	85	83	81	81
Via dator/internet	1	3	3	6	6	7	6
Inspelat tv-program	4	3	3	4	3	3	1
<i>Långfilm en genomsnittlig dag</i>							
Film direkt i tv	16	15	14	14	13	13	17
Köpfilm	7	5	6	4	4	4	2
Hyrfilm	3	2	2	1	2	2	1
Nedladdad film	1	1	1	1	1	1	1
Film på bio	1	1	1	1	1	1	1
Videoklipp	4	11	15	17	23	21	24



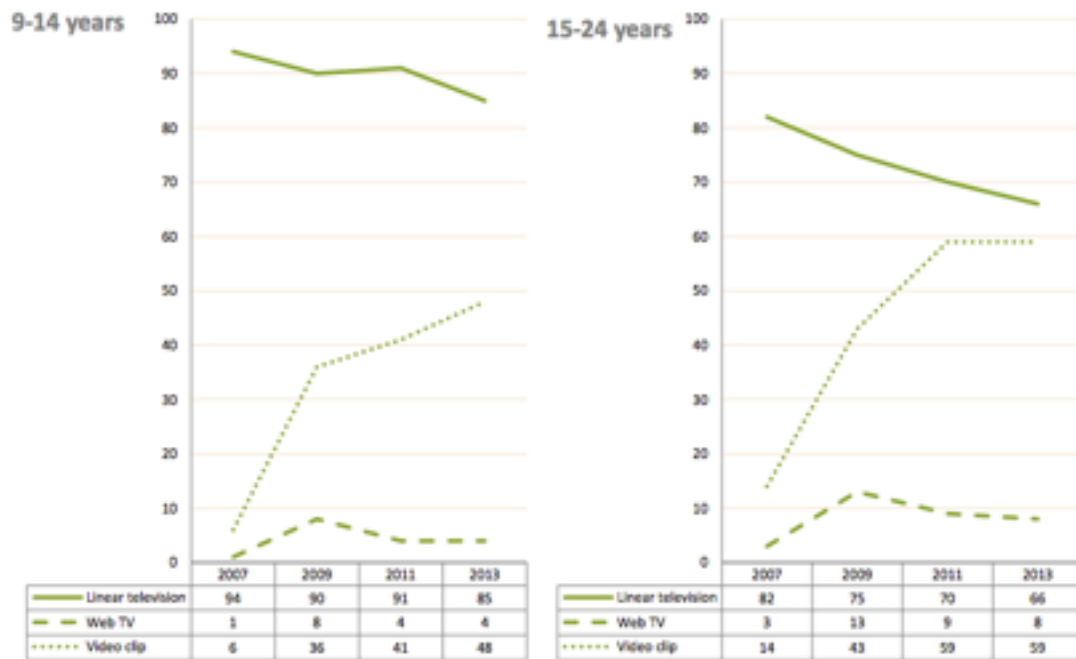
Source: Nordicom Mediebarometern 2013: Fokus internet och medier

8.3 The Media Day in Sweden 1985-2013 (Percentages)



Source: Nordicom Mediebarometern 2013 - Fokus internet och medier

8.4 TV viewing percentages on the Swedish market (age 9-24)



Source: Nordicom Mediebarometern 2013 - Special Issue: Young People & Media

8.5 Swedish Media Adspend

Ad Spending in Sweden, by Media, 2013		
<i>millions of Swedish kronor and % change vs. prior year</i>		
	Ad spending	% change vs. prior year
Internet	8,352	7.9%
Newspapers	5,972	-13.4%
TV	5,938	0.1%
Direct advertising	3,746	-2.4%
Free newspapers	2,347	-7.0%
Magazines	1,511	-14.5%
Outdoor	992	-8.9%
Mobile marketing	901	114.8%
Radio	608	-9.5%
Ad inserts	433	-5.2%
Print catalogs	328	-32.5%
Cinema	117	3.3%
In-store media	99	4.5%
Teletext	7	-27.2%
Total	31,352	-2.1%

Note: net including advertising taxes
Source: Institutet för Reklam-och Mediestatistik (IRM) as cited in press release, April 15, 2014

Source: IRM 2014 on eMarketer

8.6 Background research

8.6.1 Evolution of the TV industry

The first electronic television was presented in San Francisco in 1927. The first devices functioned through radio technologies, and very few frequencies were available for channels to broadcast. During the war, the attention turned back to military production and it was not before 1947 that full-scale commercial television broadcasting began in the United States. During the fifties, cable technology was invented, and the first networks specifically designed for cable appeared in the seventies.

In the 80s, home VCR (Video Cassette Recorder) devices appeared on the market, and improved cable technology made many different channels available to a single viewer (Braw 2014). In the late 1990s, a new turning point was reached: digitisation (replacement of analogue broadcasting) and the gradual emergence of an interactive, convergent culture (Jenkins, 2006) in the production and consumption of content. The falling costs of hardware and software made the editing and publishing of content more accessible, lowering the barriers of entry for production and distribution and allowing the emergence of web-based delivery services (Sanz, 2012). Today, digital television can be received in 4 ways:

- Digital Terrestrial Television
- Digital Satellite Television
- Digital Cable Television
- Internet-based services (e.g. IPTV)

This new television environment is much more complex than the previous dual system. Debates are currently ongoing about where to set the boundaries of the TV market. It can be stated, however, that since there is always a certain amount of hours a consumer can dedicate to the consumption of video content, traditional broadcasters are competing with any service that offers video on demand.

8.6.2 The Swedish Market

Television transmission in Sweden began in the 1950s, and it was only in the 80s that commercial television was introduced, first through cable television, and, in 1992, through terrestrial. The switch from analogue to digital finally started in 2005.

Besides public broadcaster SVT, the main commercial players in the linear TV Swedish Market are:

- The TV4 Group
- C More Entertainment
- SBS Discovery Media
- The Modern Times Group (Free TV & Viasat pay TV services)

The TV4 group was founded in 1984 and is currently fully owned by media conglomerate Bonnier. TV4 delivers free TV linear TV through several digital terrestrial channels. Bonnier also owns the cable pay-TV operator C More entertainment, acquired in 2008. SBS Discovery Media owns Kanal 5, Kanal 9, Kanal 11 and the Discovery channels. It was formed on April 9, 2013, when Discovery's acquisition of SBS Nordic from German media group ProSiebenSat.1 was finalised. The Modern Times Group (MTG) was founded in 1997 and has been since owned by the Kinnevik group. Viasat Broadcasting is by far the largest business area, accounting for 70.0 per cent of the Group's total revenue. Viasat Broadcasting in Sweden delivers free TV (TV3, TV6, TV8 and TV10) and pay TV (under the brand name Viasat). The Modern Times Group also owns Viaplay, a OTT service that developed in 2011 from Viasat OnDemand.

Besides being a pay-TV operator, Viasat is also a satellite broadcaster, competing in Sweden with Canal Digital, which also offers IPTV. Other big players include Com-Hem, as a pay TV cable distributor, and TeliaSonera as the leading IPTV provider (Mavise 2014).

Considering the bigger picture and including video-on-demand services, the OTT market is made up of Subscription Video On Demand services (SVOD), such as Netflix and Viaplay, of Transaction Video on Demand services (TVOD), such as iTunes and SF Anytime, and of Advertising Video on Demand services (AVOD) such as TV4 Play. Last but not least, community-based services Youtube and Vimeo dominate the online videoclip market. The overall picture of the market is summarised in Figure 1.

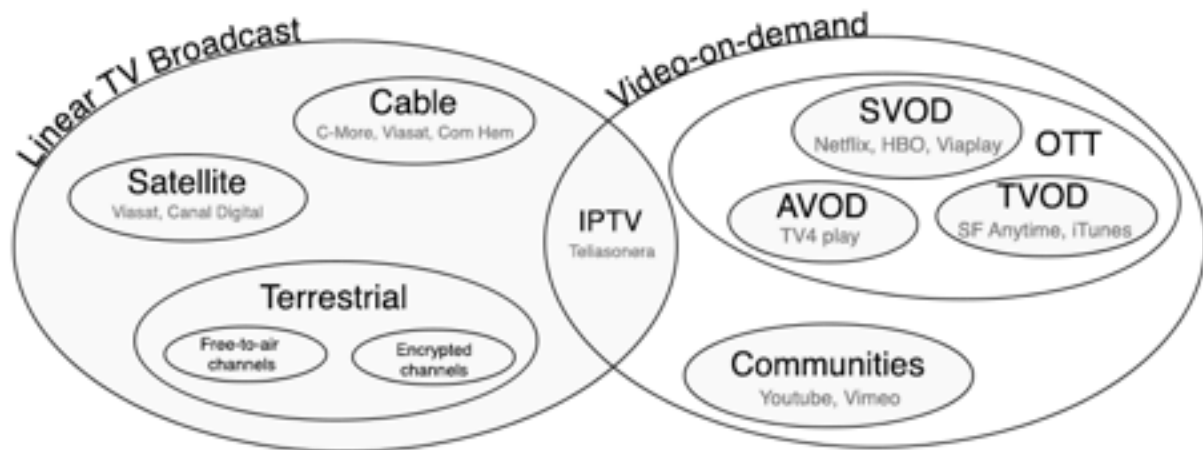


FIGURE 1: OVERVIEW OF THE SWEDISH MARKET

8.6.2 A new broadcasting environment for legacy players

Looking at historical figures about TV and Film viewing percentages on the Swedish TV market, data does not seem to have changed substantially between 2007 and 2013 (Appendix 8.2). Television devices are still the most widespread medium to consume video content. The only spike can be observed in Videoclips consumption, that rocketed from 4 per cent of the population in 2007 to 24 per cent in 2013.

Likewise, if look at historical data about the “media day” of the average Swedish citizen (Appendix 8.3) we can observe that the percentage occupied by television consumption has not changed since 1986. However, we can notice that radio consumption had gradually been dropping and that Internet usage shares have rocked, from 9 per cent in 2005 to 24 per cent in 2013. Analysing both the tables at the

same time, it can be intuitively concluded that a good part of that share is dedicated to Videoclip viewing.

If we concentrate on the younger segments of the population, the situation seems more dramatic and challenging to understand (Appendix 8.4), especially concerning 14-25 year olds (and therefore both generation Y and generation Z of digital natives). Since 2007, both linear and web TV have been decreasing at a steady rate (although web TV experienced a sudden peak in 2009) while Videoclip consumption has been rocketing and has reached almost the same consumption level as linear TV. As mentioned before, digital natives demand content to be accessible anywhere and at anytime, on any kind of device. Digital online services are convenient, flexible, they offer a wide variety of content for free or in exchange for a small monthly fee. OTT services are becoming a concrete alternative to linear broadcast (Simon, 2012), and an Informa Telecom and Media report (2013) states that there will be twice as many OTT TV viewers than IPTV viewers globally by 2015 but in some markets, this contrast will be even more stark. In the UK, for example, there are already more OTT TV viewers than IPTV viewers, and by 2015, while only 3.6 million people will be watching managed IPTV, 27 millions will be watching online video via through television devices (Hunter 2011)

How is this changing audience behaviour affecting advertising expenditures? Data collected by the Institutet för Reklam-och Mediestatistik (IRM) (Appendix 8.5) show that, despite the Internet being the most valuable ad market in Sweden, the value of TV adspend is standing strong, experiencing a 0,1 per cent increase overall. However, advertising expenditures online are growing, and the introduction of new and improved techniques, such as programmatic advertising, will definitely disrupt market values in the near future.

As suggested by Waterman et al. (2013), in order to understand how different forces are determining these dynamics, is to develop an understanding of historical analogies with other media industries, and the next two paragraphs are therefore dedicated to

the analysis of general media trends and to a review of recent shifts in the music, newspaper and book publishing industries.

8.6.3 Trends in the media industry

As stated in the Introduction, the growing interaction between media and technology has caused many disruptions to occur in the whole media industry. In the book *Digital Media Worlds: the new Economy of Media*, the authors try to examine where this interaction has caused different industries to move. Although they realise that each media industry is complex and different from another, some common development traits can be identified.

The interaction between media and technologies involves several parameters and is extremely complex. Drivers of adoption and change vary and each industry is organised around a large network of players and specific technologies, some of which are disruptive and some are not. But in order to understand the current digitisation changes occurring in the different media industries altogether, the starting point is the comparison between traditional and “Internet” value chains (De Prato et al. 2014 - pp. 2-3):

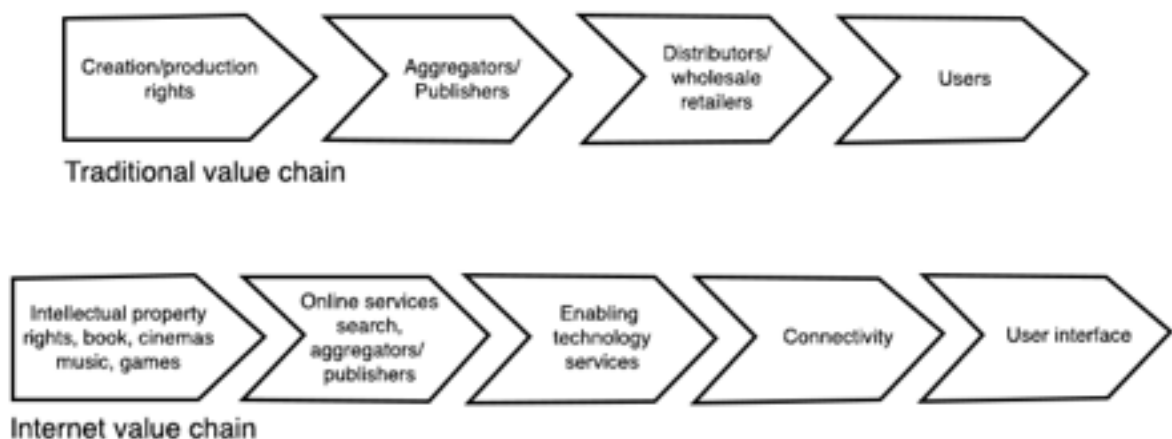


FIGURE 2: TRADITIONAL VS. INTERNET VALUE CHAIN

The traditional value chain of the media industry is oligopolistic and vertically

integrated, as opposed to the new value chain having many networked participants. The digital shift created a new industrial ecosystem: before, publishers/aggregators dominated the traditional value chain and controlled distribution (Simon, 2012). The only link that publishers did not control was enabling devices (radios, TVs, recorders). Media and telecommunication networks were hierarchical and centralised by architecture, opposite of internet being open, flexible and decentralised in its architecture allowing interaction at both ends. This poses threat to legacy players as easy access and inexpensive tools and web services allows both new entrants to duplicate the old ones using lightweight technologies. New entrants usually provide the services at lower cost, under different business models which are disruptive but a continuation in progression of the media industry as a whole (Simon, 2012).

8.6.4 Three successive transformational waves

Three transformational waves helped shape the new digital media world. The first wave was initiated by the telecom industry as they looked for new revenue streams from their fixed networks. ADSL was born, which made broadband networks available for the majority of households in the developed world (De Prato et al. 2014 - p. 28).

The second wave was initiated by IT companies e.g. first search engines and e-commerce sites like Amazon and eBay, and later social networks, hardware and software manufacturers like Apple. These companies disrupted legacy players in two ways: first, by fostering the switch from physical to digital distribution and naturally cutting the need for physical logistics, thereby drastically decreasing or eliminating revenues for all players distributing physical goods (CDs, DVDs etc), retailers (Mega Store) and renting services (Blockbuster); second, by disrupting the legacy value chain, as the online value chain created a much more complex and unstable market structure by shifting the balance of value and power downstream to consumers (De Prato et al. 2014 - pp. 28,29).

The third and current wave was initiated by the legacy players themselves. It involves the co-operation between legacy players and new players, giving access to their

platforms under their own conditions and managing the direct relationship with customers. However, the willingness of content providers to strike deals with the new players cannot be taken for granted, and search engine providers will be more and more challenged by rights holders (De Prato et al. 2014 - p. 29).

8.6.5 New models of consumption, production and business

In this new digital landscape new models of consumption, of production and of business are emerging. Consumption-wise, the most disruptive shift involves moving away from using a physical product to using the product as a service anywhere and anytime, i.e., moving from owning to accessing (De Prato et al. 2014 - p.42). Another change concerns legacy bundling: people would rather access an article than a newspaper, a song rather than an album, a film rather than a cable network. Willingness to pay is still not very clear online, after a period of “free culture” in the beginning of the Internet revolution. However, there is a trend toward paid services rather than free (Waterman, 2013).

Nonetheless, a substantial characteristic of the industry survived: viewers want content. Therefore, production-wise, efforts are being made to provide richer content, i.e., more expensive content, requiring creativity and high investments. Expensive content therefore requires strong economies of scale on the content production side and network externalities on the demand side. Content providers should therefore have substantial budgets and be able to diversify risk and re-distribute it over other platforms with a strong brand. The major media firms should become their coordinators, integrators and financiers and later brand content on the global market (Simon, 2012). Another observed trend is the formation of a networked community model in which modules of media creation and play modules will be created by decentralised peers, collaborating loosely with each other.

Business models are unsurprisingly changing in the digitisation of media industries. Costs are being reallocated and some costs disappear; other costs remain unaffected, e.g. production and development, while others are shifted (Waldfogel 2011b). New

costs are appearing in the form of software from enabling technology providers. The evolving business models are a result of two processes that act simultaneously, the transformation of digital products into services and process of disintermediation and reintermediation. Disintermediation occurs in the form of direct sales from the producer/creator/developer; one example of reintermediation are app stores, which are bringing new revenue through their large customer base (De Prato et al. 2014 - pp 47-48).

8.6.6 The Media-IT-Telecom Ecosystem

The deployment of broadband networks and spreading of new devices such as smartphones and tablets, have been identified as major enablers of growth for new markets and services. The availability of telecommunications conditions both the type of content and patterns of its creation, sharing and use over the network (Simon, 2012). The penetration of smartphones have changed the way customers use their cellphones, allowing access to all kinds of content, paving the way for the creation of an array of new applications and becoming a significant way to news, video and music and especially video streaming and communications applications like Youtube, Hulu and Netflix rank highest on both smartphones and tablets in terms of traffic (Simon, 2012).

Within the media-IT-telecom ecosystem there are five typical competing business models, battling to become primary gateway for consumers for content navigation, and for businesses to access to consumers and collect consumer data, while still relying on each other to provide their services (De Prato et al. 2014 - pp. 62-65). The largest portion, however declining, of business models is the “*distribution-centred*,” built upon the performance and capacity of the infrastructure, together with their billing capacity (A.T. Kearney 2010). The “*aggregation-centered*” model is based on marketing of its valuable content applications under own brand name (Sky, BBC, RTL, Hachette) using linear or non-linear platforms. The third model is the “*search-centred*” model, built on research algorithms navigating through the available content and being an access point to the web; search-centerer models require the creation of multisided

markets to drive traffic to the ads monetisation engine. The fourth model is the “*device-centred*” model, trying to circumvent the other players by getting them into their own ecosystem, giving birth to a new form of vertical integration, e.g. Apple iTunes and Samsung Smart-TV. Lastly, the “*community-centred*” model, e.g. Youtube, Twitter and Facebook, drives its strength from economies and network effects, aggregating contents by uses and others, generating inter user communication, while building their main strategic asset, data gathering (De Prato et al. 2014 - pp. 62-65).

8.6.7 *Public policy*

Public policy and public intervention are common features of media markets, since media products generate positive externalities for society at large; however, several existing public policies are not adapted and applicable to a digital context (De Prato et al. 2014 - p. 70). The relevant question from an economic viewpoint is whether we are facing a market failure and therefore public intervention is needed. The benefits of the digital shift in terms of revenue is clearly unevenly distributed, but the core question is if the new forms of distribution contribute to an enhanced consumer and producer surplus (De Prato et al. 2014 - p. 71,72).

Copyright is one example of an intervention enacted to correct a market failure, since creative goods are public goods with high fixed production costs but low reproduction costs. Intellectual property thus provides an exception to competition law, giving creators and owners legal monopoly in the form of protection from copying. In the digital context, copyright law faces a daunting challenge when it does not contribute to further revenues for its owner; furthermore, improved regulations are needed to protect co-creation and new collective or collaborative works and to determine and how to monetise such production.

8.6.8 Intra-Industry analysis

The Music industry

The music industry used to be characterised by high upfront investments, low marginal costs and high risk. The market structure has historically been dominated by a small number of vertically integrated multinational corporations on one side and a large number of SME on the other side; four major labels accounted for 75 per cent of the world market, and a large number of small independent record labels had (and still have) distribution deals with the large majors.

The music industry was the first and the hardest to be hit by digitisation dynamics, which enabled illegal sharing and downloading of audio content. It all started in 1999 with the creation of Napster, followed by LimeWire in 2000 and Kazaa in 2001. One decade later, sales revenues for record labels had experienced a 50 per cent cut (Goldman, 2010). Despite the illegal application of these services, Napster, Kazaa, and LimeWire had at least one commercially significant non-infringing use: demonstrating the ability to effectively transfer high quality music online. These players changed the way we conceived of receiving and sharing music, opening the door to the world of digital music (Nyasha, 2014). In 2012 ,for the first time in several years, the aggregated sales of digital and physical music experienced a small increase (De Prato et al. 2014 - p. 135). However, consumers have had real benefits from the digitisation of the music market, which made audio content less expensive and more widely available. Even though the digitisation of music started out as free for the consumers, an increasing number is showing a willingness to pay, either through subscription or through willingly being targeted by ads (De Prato et al. 2014 - pp. 138,139).

Furthermore, technological developments have enabled several of new market players to enter the market; these actors, in turn, have introduced new competing business models. Spotify, for instance, was the first company to successfully introduce a subscription model on a large scale, marking the “legal” online music services’ first foothold in the market. Legitimate online music services’ offer either a free advertising-based model, a subscription model, a pay-per-transaction model or a

combination of the previous. Besides revenue streams, cost structures have also changed with digitisation, e.g. physical production, sales and distribution costs. Marketing costs have most likely dropped because of more efficient use of new channels such as online advertising and promotion (De Prato et al. 2014 - pp. 136,137).

The Newspaper industry

Compared to other media industries, a lower level of concentration in the newspaper industry; the market is populated by a large number of newspaper publishers, by several media conglomerates and by numerous medium-sized and small publishers.

Newspapers gain revenues from advertising and sales, and the experienced decline in revenue can solely be attributed to a decline in advertising revenues on a global scale — the newspapers share of total advertising market in particular has been showing a steady decline over the years (De Prato et al. 2014 - pp. 148-150). Despite the declining newspaper readership, the demand for instant access to news has never been higher and available data indicate that online publications of legacy newspapers and broadcasters still attract a considerable share of views, but aggregators are getting increasing shares of online news readers (OECD, 2010). The cost structure of newspapers traditionally had the major posts of editorial department of 14-30 per cent of overall costs and production (actual printing and distribution) were 20-50 per cent of the overall costs. These protected the players in the industry with high entry barriers and promoted large economies of scale, but as digital publishing and distribution entered the market, these fixed costs have been almost eliminated, lowering the entry barriers and increasing competition also from news aggregator services, which have none of the editorial or production costs (De Prato et al. 2014 - pp. 152,153).

Furthermore, there is difficulty in monetising news: consumers do not value edited news anymore and they are expensive to produce (Waldman, 2011); compared to legacy news publishers, online-based news publishers have the advantage of avoiding sunk and physical costs faced by traditional companies. Search engines like Yahoo,

Google and MSN have grown into news aggregators, providing links to headlines of news and can be ranked and categorised according to user preferences. Legacy newspapers have largely criticised aggregators for earning revenue from aggregating news and placing ads besides them, being a direct competition to the newspaper ad sales (De Prato et al. 2014 - p. 158).

To cope with this changing market structures, newspapers have tried a number of different strategies. One of them was the launch of free newspapers in an attempt to win back both readers and advertisers. A second strategy involved shifting from broadsheet to tabloid, introducing Sunday newspapers and creating loyal readers from consumer clubs. Several newspapers have managed to become major internet players by building profitable advertising funded business models, but the revenues are still limited compared to print advertising (De Prato et al. 2014 - pp. 159,160): prices for online advertising are relatively low due to the abundance of advertising space available, fragmentation of readership and short time spent by online readers. Moreover, established and widely accepted measurements for Internet news consumption are still lacking. Some publishers attempted the introduction of pay models, but the abundance of news and information available on Internet reduces willingness to pay dramatically. Paywalls have thus not been able to compensate for the loss of advertising revenue. A recently emerging model, which has proved to be slightly successful, is the combination of print and digital edition subscription — the reason for its positive outcome might be related to the diffusion of tablets and e-readers. Furthermore, some published have introduced new revenue models based on new unbundled offerings, allowing the reader to pay for individual news stories rather than to a full newspaper and enabling them to access different content categories from several newspapers. These user-friendly pay models might be successful if a sufficient number of major newspapers cooperate, but their introduction is so recent that their effectivity cannot be assessed yet. Nevertheless, the most successful ventures are news aggregators, which have been able to attract a large number of users through the promotion of low-cost user-generated news and blogs like the Huffington Post (De Prato et al. 2014 - p. 160).


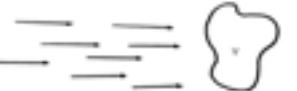
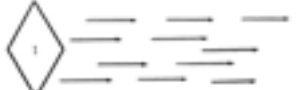

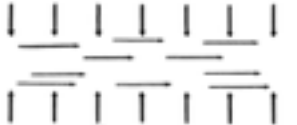
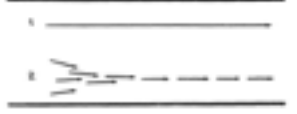
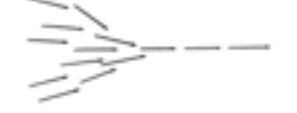
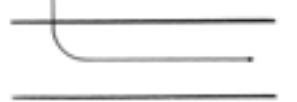
The Book publishing industry

The book publishing industry is one of the oldest media industries. Its business models have always been characterised by slim profit margins and stable value chains, resulting into careful portfolio building in order to gain revenue in the long term (Thompson 2010). Publishers take on a variety of roles, from aggregating content to pricing it, from marketing products to dealing with other parties in the value chain: they represent the core of the business and have strengthened their position as other actors in the value chain, such as printers and small retailers, have lost power, pressured by online distributors. (De Prato et al. 2014 - pp. 90-93).

For the book publishing industry, the Internet represents a cheaper and more efficient channel of distribution that allows the elimination of intermediaries. However, new aggregators and distributors are appearing: Amazon is dominating the online book sales market globally, building a successful distribution channel and building a semi-lock-in ecosystem (through Kindle devices) (De Prato et al. 2014 - p. 94). The introduction of the iPad led Apple to build their own ecosystem through iBooks. As regards devices, the market for e-readers has been rocketing since the beginning of the decade, as prices have decreased and took off only recently, eReaders prices declined and spending rose by 51 per cent in 2010 (PwC, 2011).

As in every other industry, compared to physical products revenues are still low on the digital side and cost structure have dramatically changed. In particular, new costs have appeared related to file formats and software (De Prato et al. 2014 - p. 95). On the demand side, consumers are still attached to physical books. This might be related to the scattered market in e-readers and in e-book formats. Nevertheless, their willingness to pay appears linked to price reduction compared to physical book ownership. So far, neither prices nor business model have reached a successful stable standard — several models and options are available, all evolving toward transforming books consumption into a service. Bookstores remain the major distribution channel for books and are consumers' preferred choice, and publishers are not expecting further destabilisations in their distribution channels (De Prato et al. 2014 - pp. 96,97).

8.7 Overview of strategies

Strategy	Features	Description
Planned	"leaders at the centre of authority formulate their intentions as precisely as possible and then strive for their implementation-their translation into collective action-with a minimum of distortion, 'surprise-free'."	
Entrepreneurial	"One individual in personal control of an organization is able to impose his or her vision of direction on it."	
Ideological	"When the members of an organization share a vision and identify so strongly with it that they pursue it as an ideology, then they are bound to exhibit patterns in their behaviour, so that clear realised strategies can be identified."	
Umbrella	"They [Leaders] set general guidelines for behaviour-define the boundaries-and then let other actors manoeuvre within them."	
Process	"Similar to the umbrella strategy, [...] But instead of trying to control strategy content at a general level, through boundaries or targets, the leadership instead [...] controls the <i>process</i> of strategy making while leaving the <i>content</i> of strategy to other actors."	
Unconnected	"One part of the organization with considerable discretion-a subunit, sometimes even a single individual- because it is only loosely coupled to the rest, is able to realise its own pattern in its stream of actions."	
Consensus	"...Many different actors naturally converge on the same theme, or pattern, so that it becomes pervasive in the organization, without the need for any central direction or control."	
Imposed	"...Strategies can be <i>imposed</i> from outside as well; that is, the environment can directly force the organization into a pattern in its stream of actions, regardless of the presence of central controls."	

Source: Mintzberg and Waters (1985)

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