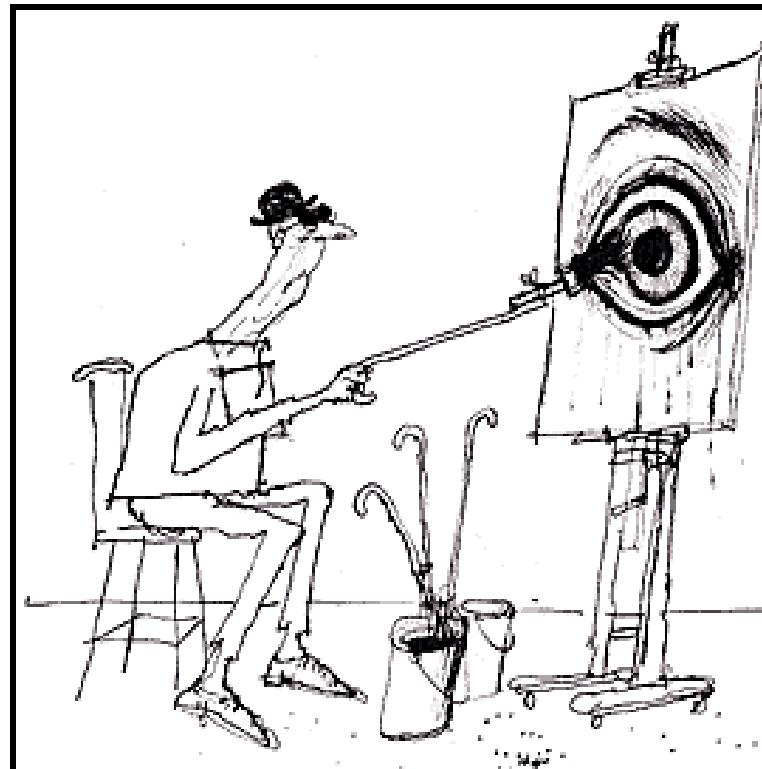


Blurring borders, blurring sectors: media in the new ICT ecosystem



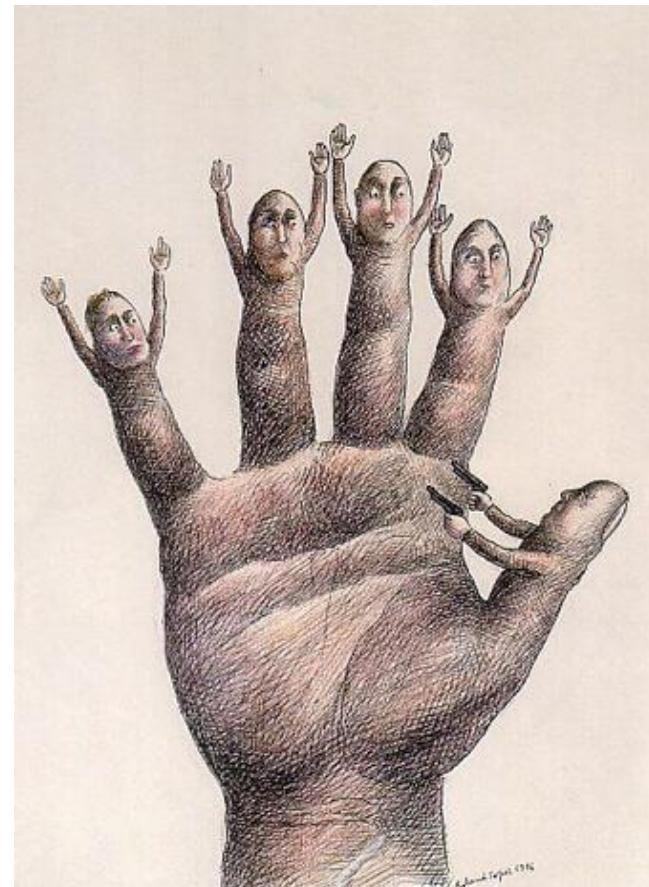
Source: R.Searle

Prepared by Jean Paul Simon for the plenary session.

Summary

- The changing nature of competition in the global technology/ media/ telecom ecosystem
- Transformational waves: toward new business models
- Moving to a multiscreen world
- Active prosumers
- Conclusion
- Appendixes: background data EU, reports.

➤ **The changing
nature of
competition in the
global
technology/
media/ telecom
ecosystem**

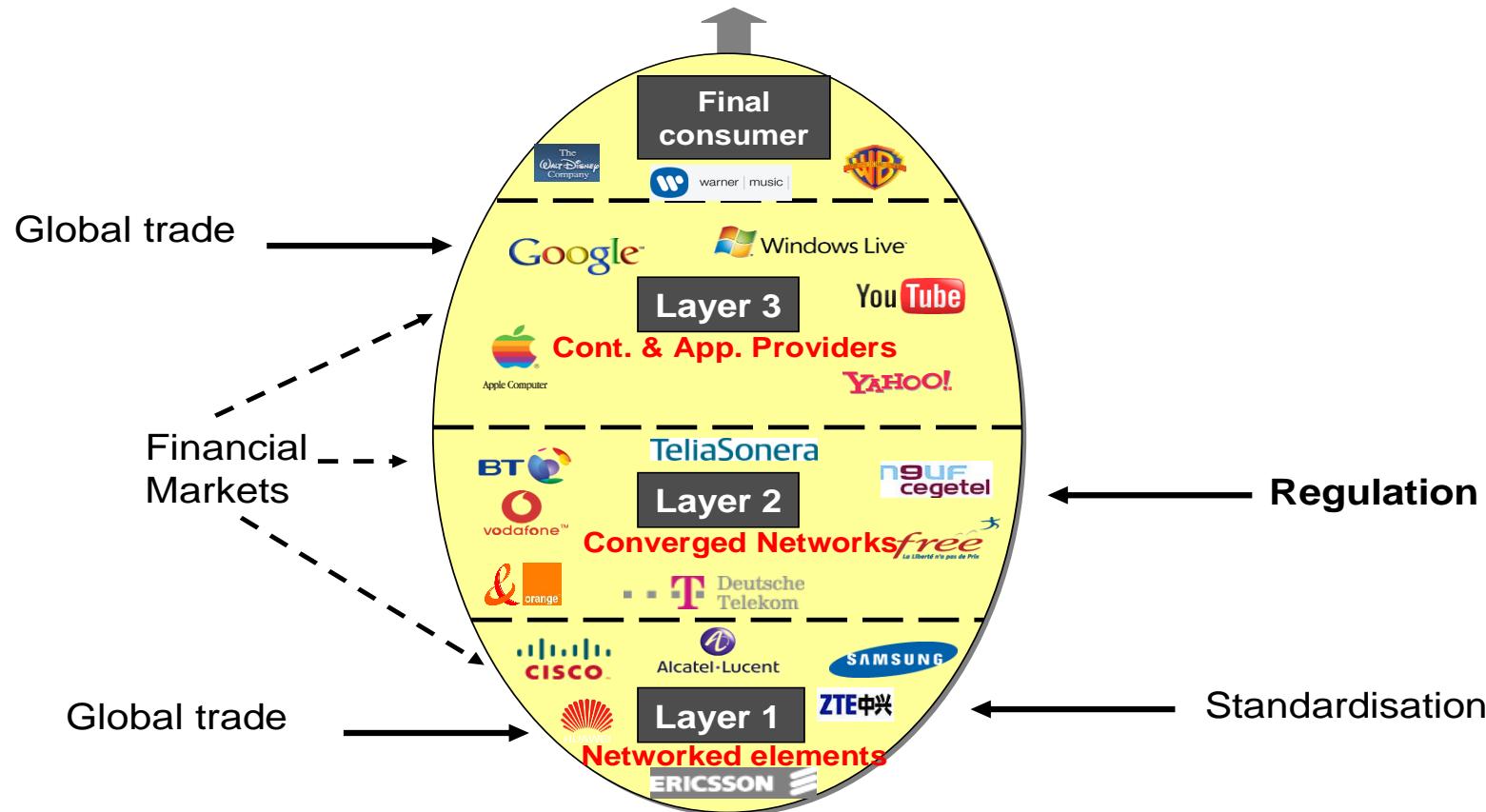


A new industry structure

- Progressive intermingling of the sectors that were separated before (telecom, media, IT).
- Creating a new industrial ecosystem that forces different types of companies, with different business cultures and performance to compete and collaborate.
 - This emerging global ecosystem features new interdependent relations
 - ✓ between the highly profitable Information Technologies (IT) companies, network providers with declining revenues,
 - ✓ and MCI companies with often rather tight margins (though some are also highly profitable e.g. broadcasting).
- Within this ecosystem each segment is now competing for the final consumers under its own business models fighting for becoming the primary gateways for content navigation and provision.

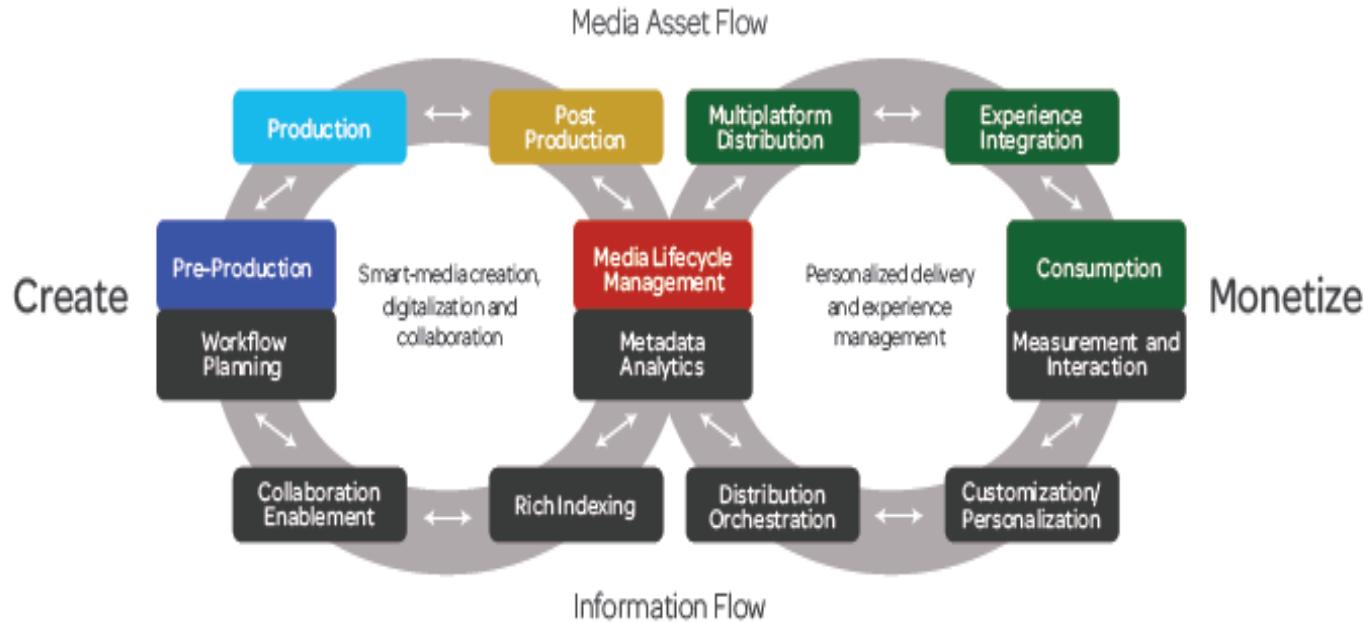
A Simplified Model of the New ICT Ecosystem

Output of innovative goods and services (from all three layers), (M.Fransman)



11

The new media value chain.



Source: Avid 2014

"It's not a value chain anymore. It's an ecosystem of networked collaborators"
(PwC, 2014)

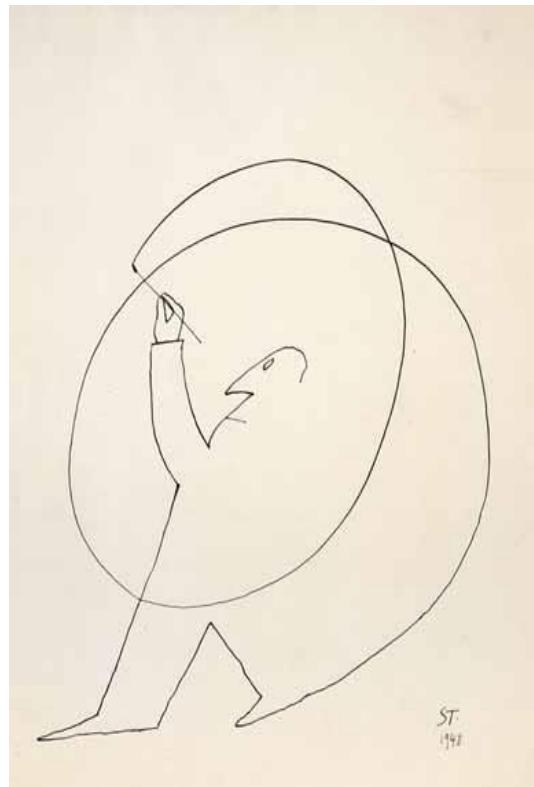
MCI: a small share of the global ecosystem

- The relative economic size of the Media and Content Industries (MCI) component, although is evolving over time, remains small.
- Compared to its industrial IT counterpart, e.g. the legacy telecom players.
 - This distribution of economic weight is not a new phenomenon (typically a ratio of 10 between telecom revenues and audiovisual revenues).
- Or IT companies
 - In 2013 Amazon had net sales of 74.45 billion US \$,, Apple had net sales of US\$ 170.9 billion (annual reports)
 - The same year, The Walt Disney Company, claimed to be the largest media conglomerate in the world in terms of revenues with US \$ 45,041 billion.

MCI: a still modest digital share

- Even if the digital share of global entertainment is growing steadily, for most content industries it remains modest or plainly low:
 - Less than 2% in the EU for e-books even in the fastest growing market the UK, with the exception of the music industry in the US and South Korea.
 - With the obvious exception of the “born digital” video games industry.
- As a channel, on line distribution of physical products is not the major distribution channel, retailers (small and big) remain the main channels typically for books and on both sides of the Atlantic,
 - with again the exception of music especially in the US and the UK with retailers and retail chains closing.

➤ Transformational waves: toward new business models



Source: Saul Steinberg

Transitioning away from legacy business models

- The traditional, oligopolistic and vertically integrated market structure of the media industry is being challenged,
- The industry is moving towards a value chain with many participants.
- Disintermediation:
 - Direct sales from the producer/ creator/ developer become possible.
- Reintermediation:
 - App shops are bringing new streams of secured revenues through their large customer base
 - Circumventing legacy players as they handle the relationship with the customers and set retail prices.

Three successive transformational waves

- Phase 1: Telcos entering looking for new streams of revenues to mitigate the loss of their more traditional revenues from the fixed networks (voice telephony).
- Phase 2: IT companies (search engines, e-dealers like Amazon and e-bay), then social networks and manufacturers like Apple took over to lead the process.
- Phase 3: Legacy media players are becoming more proactive players of the « app » age,
 - establishing new relationships, signing commercial agreements with new entrants
 - The Internet not seen as a threat any more but as an opportunity.
- Still looking for ways to monetize under various models: free/ freemium/pay/ subsidized.

The weight of the downstream

- In the “old” world each sector was focused on its core business, managing its own assets accordingly.
- The traditional value chain was dominated by the publisher/ aggregator segment with most often integrated firms (production/ publishing/ distribution-retail).
- The balance of power is shifting toward the downstream, away from the upstream, from the “production” side of the media toward the distribution side.
- In other words two different kinds of economics are colliding:
 - The economics of production of cultural goods and prototypes and the economics of distribution of digital goods and services.
- Such a move toward a greater control of the downstream is a feature of more mature markets

Challenges: downstream domination

- Even with leading EU companies (like in book publishing), the power struggle changed scale:
 - now competing with the world largest market cap companies: Apple and Google
- Illustration: the Amazon/Hachette controversy:
 - Denial to offer pre-sales, same with Disney.

Breakdown of Hachette Livre digital sales by e-retailers in 2013



➤ Moving to a multiscreen world



Re-allocating the costs

- The cost structure is obviously changing but the impact of the changes are not clear.
- Some costs disappear (manufacturing of the physical good, physical transportation),
- Some costs remain unaffected (creation/ development, editorial process, marketing and sales)
 - Marketing expenses in a highly competitive environment of diversified channels of sales are bound to increase.
- while others are shifted and new costs are appearing (on the software side).

Benefits from technologies (1)

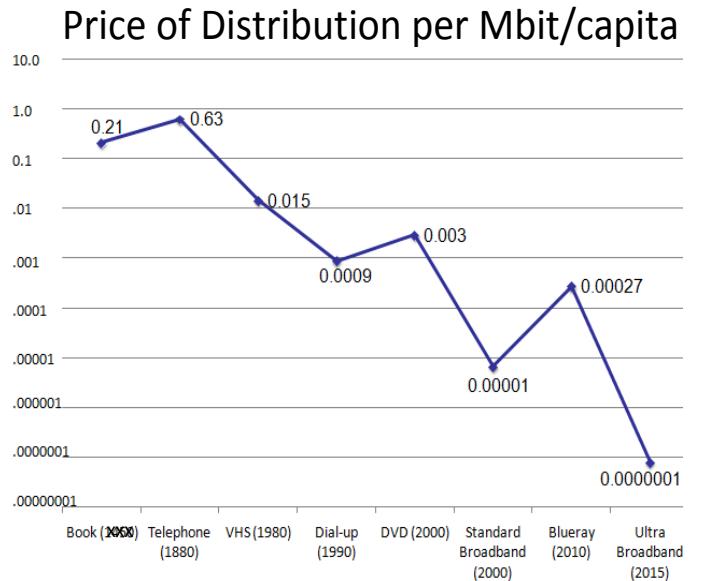
- These industries are prototype industries with fixed costs (from modest to very high) using overproduction as a way to deal with uncertainty.
- The main gains (cost efficiency, flexibility and enhanced quality) come from some elements of the production function (with sector specific variations).

Benefits from technologies (2)

- More flexible ways to market cultural goods
 - trend toward more itemized sales (song, article, pages of books, avatars).
 - ✓ In a virtual world almost anything can be itemized.
 - ✓ As illustrated with video games: 3 billion virtual items are used every day by Zynga customers.
- Tremendous decreases in the prices of media distribution and information on the distribution side

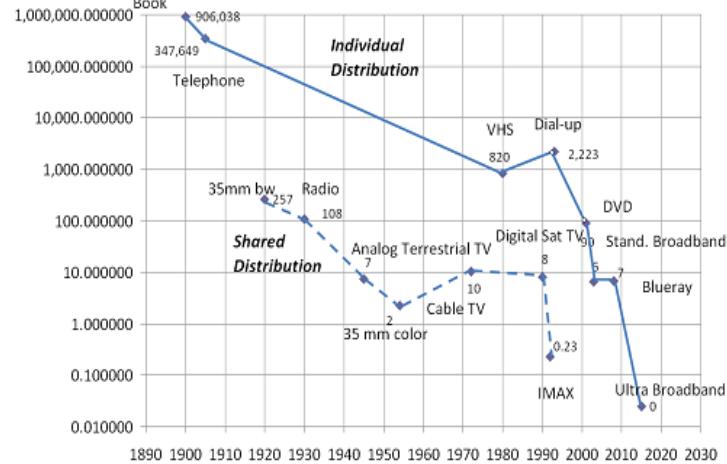
The logic of distribution/ access

Tremendous decreases



Source: Eli Noam, 2010.

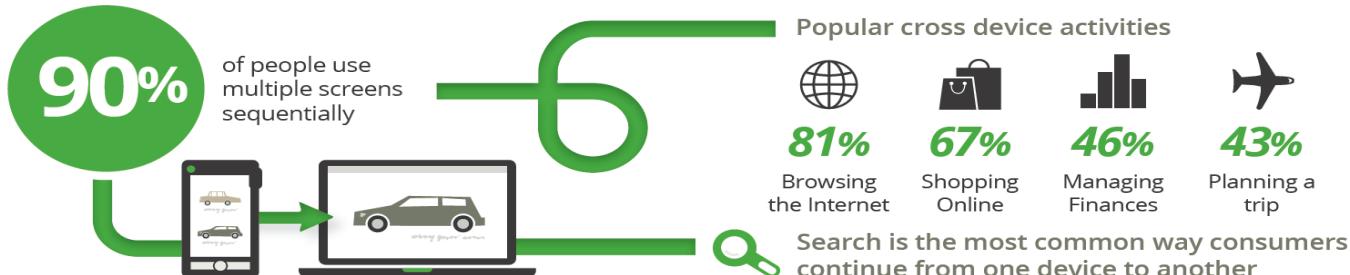
Price of Media Information per Gbit/cap;
P(B)



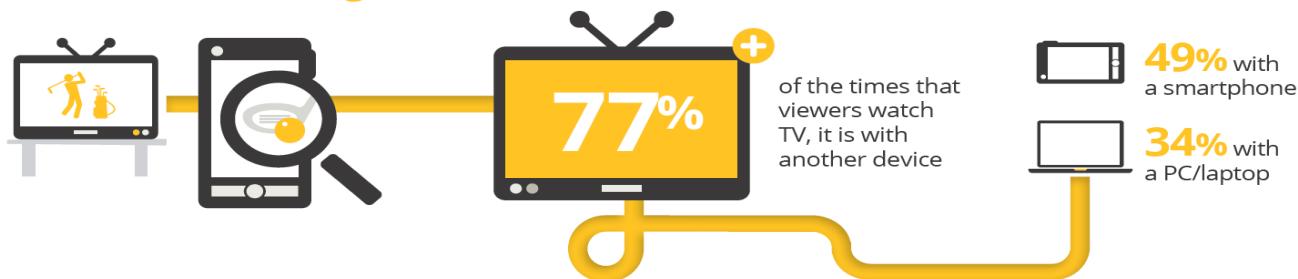
■ Majority of media consumption is screen-based



■ Consumers move between multiple devices to accomplish their goals



■ Television no longer commands our full attention



■ Online shopping is a multi-screen activity



CONSUMER MEDIA USAGE²

MONTHLY AVERAGE, Q2 2012

Traditional TV
6d:00h:54m
(144 hours 54 minutes)

Each month
consumers are spending
more time with more media,
across all devices under
the sun.

Video on mobile
phone 5h:20m
Video on Internet
5h:51m

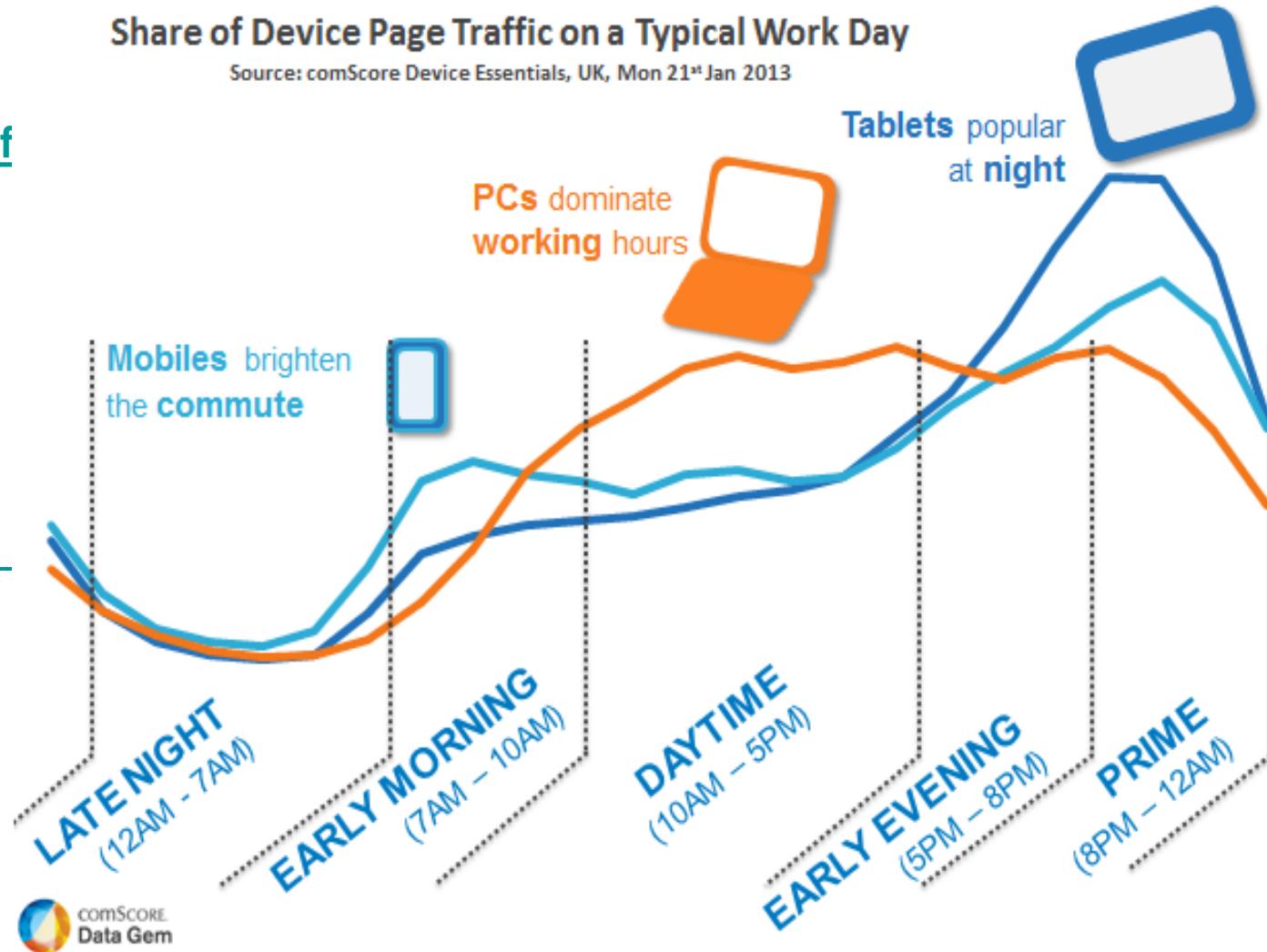
Internet on
a computer
1d:4h:29m
(28 hours 29 minutes)

Time-shifted TV
11h:33m
DVD/Blu-ray
5h:13m
Game console
6h:26m

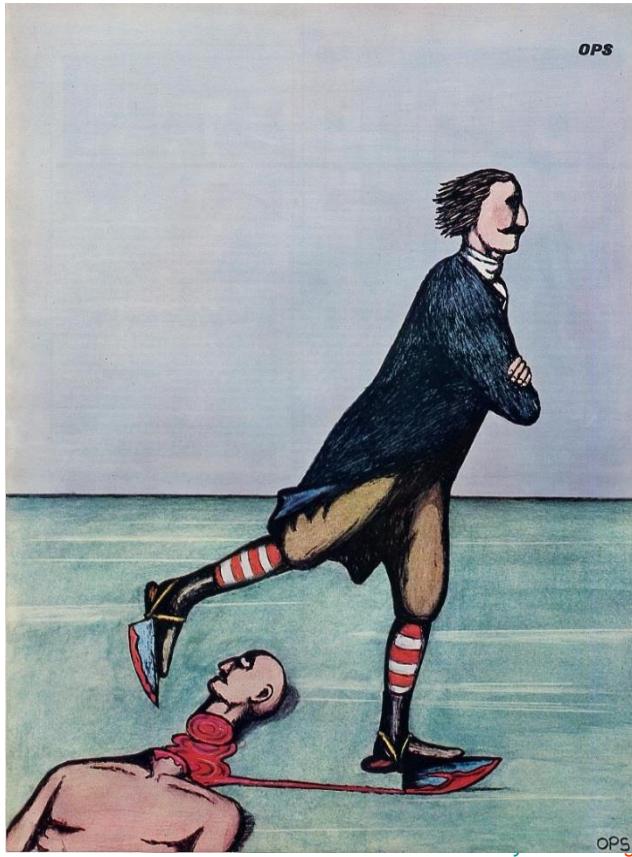
Share of Device Page Traffic on a Typical Work Day

Source: comScore Device Essentials, UK, Mon 21st Jan 2013

f



➤ Active prosumers



Source: OPS

The “consumerization” of content creation and distribution: from push to pull

- New forms of interpersonal communication (instant messaging, chatting...) are emerging and new kinds of contents are being added to or are enriching the legacy ones.
- The status of ownership of a media product has been transformed (management of access rather than ownership of the physical product).
- New ways of sharing are also emerging with social networks.
- New cross-media products and services, with numerous combinations have become possible.
- Media consumption is gliding from push to pull.
 - *“Gone are the days when content creators had the ability to dictate when, where, and how consumers enjoyed media”* (Avid White Paper, 2014).
 - IT companies are better equipped to deal with this demand.

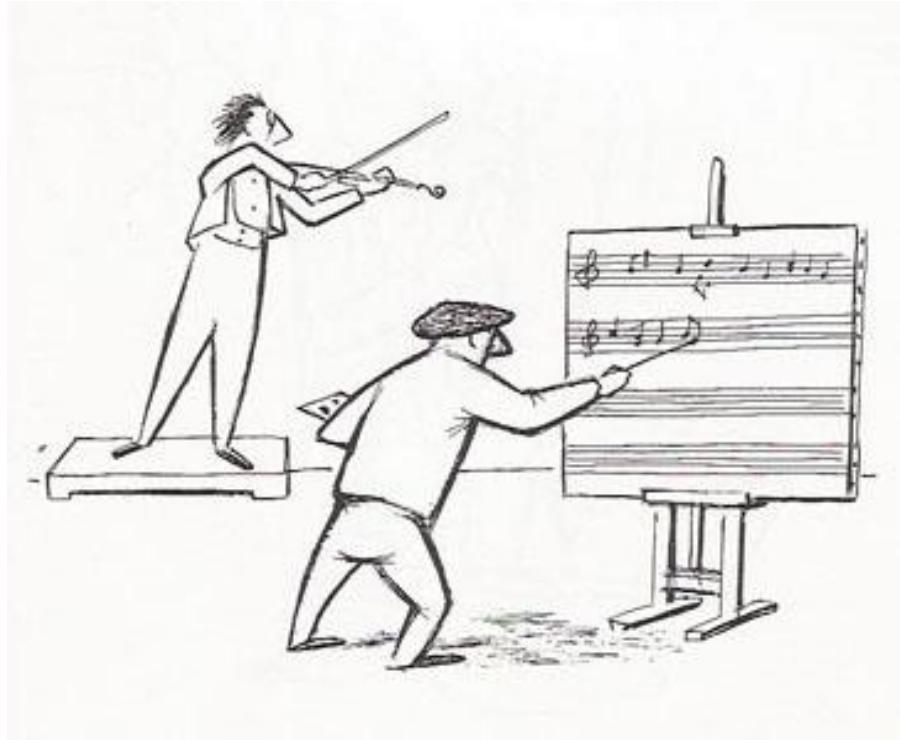
The rise of prosumerism

- There is a new tension between the logic of prototype firmly rooted in this industry and the logic of demand that is gaining much momentum.
- The dramatic fall of the costs audio-visual production tools contributes to the blurring of the borders between professional and amateurs:
 - Amazon is providing would-be musicians and writers with tools and even some funds to self-produce.
 - In the field of music, the DIY (Do it yourself) model adds another source of production.
 - The iPhones already allow for some kind of motion pictures; manufacturers are introducing new cameras that may not be different from the camera they produced for the professional sectors, at least for the lighter ones.
 - ✓ Voci (2013) spotted some interesting examples, in a fast growing mobile market such as China, of amateurs circulating short videos shot with their mobile cameras: “portable movies”.

Consumers under steroid

- The blurring of firm frontiers in digitized industries allows for fluid interactions between user communities and firms:
 - In the video games industry, several firms actually rely on communities of users in order to design new products and services.
- However, the role of user generated contents (UGC) may be overstated as it will probably not become the main source for the provision of content at least in the case of cinema or other media with high fixed costs of production.
 - “*Crowd funding today represents less than 1% of the investments*” in the book, cinema, and video games industries (Salmon, 2013: 46).
 - Nevertheless, crowd funding allows the consumer to participate in the emergence of tomorrow’s artists.
- Besides, this enhanced consumer welfare (diversity, choice, pricing, etc.) is also the object of considerable controversy as regards the legitimate use of the automatically collected data and its exploitation, raising issues of privacy and data protection.

➤ Conclusion



Source: Chaval

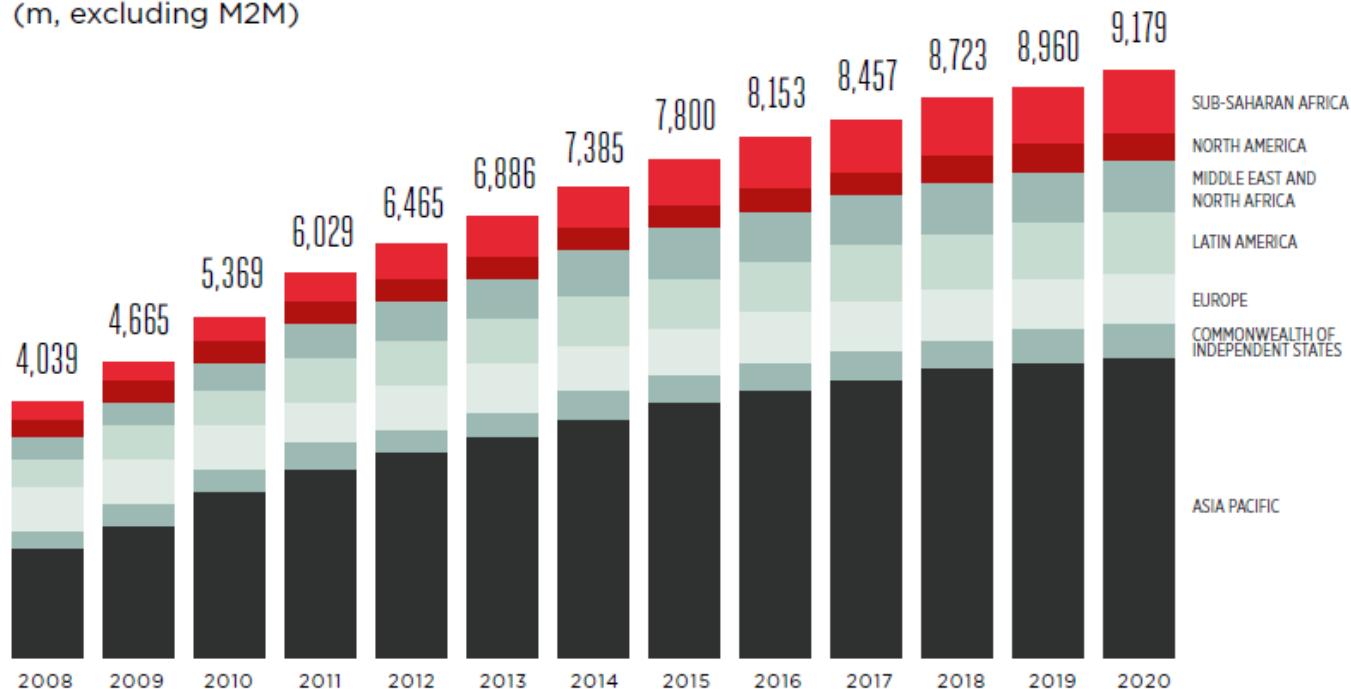
Conclusion (1)

- Economies of scale matters more and more
- The entertainment industry will be the trailblazer in terms of user experience.
 - Major media firms may morph into coordinators, integrators, and financiers of the specialist firms,
 - Within global networks
 - and the branders of the final products in a global market.
 - The Apple model?
- Innovative business models offer novel ways to monetize the service
- We may not be there yet and the sustainability of most business models is still a question mark.

Going mobile

Global Mobile Connections

(m, excluding M2M)



11.3% → 4.2%

CAGR 2008-2013 CAGR 2013-2017

Source: GSMA (2014)

JPS Public Policy Consulting

28

Conclusion (2): more to come

➤ Moving toward a mobile world

- Wireless Intelligence (2012, 2014) forecast 8.5 billion mobile connections by 2017,
- with 50% from the new generation of mobile networks,
- Mobile Internet being the leading disruptive technologies according to McKinsey Global with the highest economic impact in 2025.

➤ Emerging countries have a growing role:

- Market leaders for smart phones,
- New media where Asia had a dominant position (UNCTAD, 2010).

Thanks Questions, comments welcome



Source: Desclozeaux

jpsmultimedia@hotmail.com

➤ Appendix: Background data for the EU

Background data (size) 1: value added 2010

(billion euro, overall economy, MCI, Europe, constant
prices 2000).

<i>Value added, absolute</i>	EU27	EU 6	EU 9	EU15	EU new
	<i>Billion EUR</i>				
Total EU27 economy	9 812.0	5 727.7	3 387.4	9 115.1	696.9
Total MCI	219.5	146.0	65.1	211.1	8.4
Publishing, printing, reproduction of recorded media	38.5	20.2	16.4	36.6	1.9
Publishing of books	9.1	4.5	4.0	8.5	0.6
Publishing of newspapers	13.0	7.3	5.2	12.5	0.5
Publishing of journals and periodicals	12.4	6.3	5.5	11.8	0.5
Publishing of sound recordings	1.8	1.0	0.7	1.7	0.1
Other publishing	2.3	1.0	1.1	2.0	0.2
Recreational, cultural and sporting activities	180.9	125.9	48.6	174.6	6.5

Source: Leurdijk & al, in De Prato & al (2014)

Background data (size) 2: Distribution of Value added of MCI and share of entire economy, 2010

	EU27	EU 6	EU 9	EU15	EU new
Total MCI as share of entire economy	2.2	2.5	1.9	2.3	1.2
Publishing, printing, reproduction of recorded media as share of MCI	18	14	25	17	23
Publishing of books	24	22	24	23	31
Publishing of newspapers	34	36	32	34	26
Publishing of journals and periodicals	32	31	33	32	26
Publishing of sound recordings	5	5	4	5	5
Other publishing	6	5	7	5	10
Recreational, cultural and sporting activities	82	86	75	83	77

Source: Leurdjiik & al, 2014 in De Prato & al 2014

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