Setting the scene
The economics of Media and content industry (MCI)
Approaches, case study, economic effect of the digital transition

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Mission:

- to provide customer-driven support to the EU policy-making process

- by developing science-based responses to policy challenges

- having both socio-economic and scientific /technological dimension
Background

- IPTS initiated a research programme on the media and content industries.
- A study was commissioned (TNO-SMIT) to investigate the current status and dynamics affecting specific MCI sub-sectors setup.
- Expected outputs:
  - a reliable set of data (statistical analysis of the MCI sector)
  - and an industrial and economic analysis (case studies of subsectors).
- The goal:
  - To contribute significantly to the understanding and debate about the economic health and development conditions that would support the future competitiveness of the European MCI within the digital economy
Goals of the workshop

- An exploratory workshop
  - Combining different views (academic, industry, policy)
  - Proposing/reviewing some theoretical approaches

- To gauge the economic significance of the MCI

- To assess the economic impact of digitization

- To explore the relationships between the MCI and the ICT industry,

- To ascertain its place in the digital economy.
Programme

May 30
- 9.15- 9.30: Setting the scene
- 9.30-10h: Trends
- 10.15- 11.15: Two sided markets, two views
- 11.45-13.30: Pricing or Consumer Surplus
- 14.30-16.30: Films, TV, Video: trends
- 17.00- 18.00: Modelling MCI

May 31
- 9.00-10.00: Catching up with the digital impact.
- 10.00-11.30 The industrial economics of media and content
- 12.00-13.15 Catching up with the digital impact 1
- 14.15 -15.45 Moving toward e-services
- 16.15-17.30: Catching up with the digital impact 2.
- 17.30-18.00 Wrap up: Assessing the digital economy
Questions to be addressed (1)

- What are the main trends?
- How to account for the consequent changes in an appropriate fashion?
- How the market structure is being reshaped?
  - What kind of redistribution of the role of the different players is under way?
  - Who are the new players?
  - New value chain?
  - Ecosystem?
Questions to be addressed (2)

- What are the main shifts of value taking place (creation, destruction, substitution)?
  - How to measure these shifts?
- Under what kind of (new) business models?
- What is the influence of the new demand patterns:
  - More itemized/ non linear consumption.
- How do those business models address the European Single Market (cross border trade)?
- Are there lessons that can be generalized to other sectors of the economy?
Impact of technological changes: the wild card?

Source: Eli Noam
The traditional value chain was dominated by the publisher/aggregator segment
- Often integrated firms (production/publishing/distribution-retail)

Digitisation is disrupting this model in two ways:
- The switch to digital distribution drastically cuts the need for physical logistics. A whole part of the former business has shrunk, disappeared or will disappear:
  - Physical goods (CDs, DVDs, books), part of the legacy logistics (trucks…), retailers (e.g. Tower records (CDs) and Blockbuster (DVDs) in the US).
  - Re-allocation of costs: some disappearing, some appearing.
- Each segment become autonomous and may push its own model
The device-centred model:  
- Apple (i-tune and Apple apps), Nintendo, Samsung

The distributor-centred model, build upon an infrastructure capacity:  
- fixed and mobile operators, cable and satellite operators.

The aggregation-centered model: marketing its valuable contents  
- Sky, BBC, RTL

The search-centred model:  
- Google, Bing, Yahoo.

The community-centred model:  
- YouTube, Twitter, Facebook

They originate from different segments of the value chain and compete trying to derive the most of their respective assets.
Different economic sizes and growth rates

Business models in (re)construction

Main revenues models: retailing

Secondary revenue options: advertising

Additional revenue options: value added apps

HW
Manufacturer

Developers
& Publishers

ISPs
& Portals

Distributors
& Retailers
Main revenues models: retailing

Secondary revenue options: advertising

Additional revenue options: value added apps

HW Manufacturer

Developers & Publishers

ISPs & Portals

Distributors & Retailers
Business models in (re)construction

Main revenues models: retailing

Secondary revenue options: advertising

Additional revenue options: value added apps

- HW Manufacturer
- In-game advertising
- Virtual items
- Micro transactions
- Game extensions
- …

- Developers & Publishers
- - Virtual items
- - Micro transactions
- - Game extensions
- - …

- ISPs & Portals
- Portal Advertising

- Distributors & Retailers
Global view: revenues generated by/on the Internet: (Private Consumers)

Source: A.T. Kearney analysis, 2010
Digital impact? It’s time.....

...to drive a stake through that idea

Source: Blair Levin, Aspen Institute
Tentative mapping of the impact (1)

- Analysis of the Media consumption
  - Consumer Welfare ?
  - More Diversity
  - Consumer Surplus ?
  - Pricing
  - Changing Consumption ?
  - Changed consumption

- Analysis of the Media supply sector
  - Legacy Media Companies
  - Alternative Media Companies
  - Entering Non Media Companies
  - Changing Sector Companies
  - Alternative Sector Companies
  - Entering Companies

- Creative destruction of companies
- Sector Economic Growth
- Overall Economic Growth
Tentative mapping of the impact (2)

Analysis of the Media supply sector

Legacy Media Companies
Alternative Media Companies
Entering Non Media Companies

Analysis of the Media demand

Changing Production Processes
- in legacy processes
- user as producer (crowdsourcing)

More Efficient production processes?

Changing Distribution Processes
- for pay (new pricing models)
- adv income
- private and public funding

More Efficient distribution processes?

Changing Revenue Models
- adv income
- private and public funding

New b-models?

Rebalanced revenue streams?

Changing Value Chain
- New/Less/More intermediaries
- New Core businesses
- Mergers & Acquisitions

Concentration?

Rebalanced beneficiaries?

Changing products and services
- crowdsourcing
- IPR
- Other various services

New revenues streams?

Substitution/Compl?

Changing Consumption Profiles
- New/Less/More
- user as producer (crowdsourcing)

New demand/Users?

Towards a low(er) cost model

Affordability?

Towards new revenues / margins

Diversity?

Quality?
Thanks

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Pictures, source:
“Pirates of the Caribbean 2”,
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