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The Platformisation of the Audiovisual Industry

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Tom Evens

Abstract

Media markets are marked by the presence of two-sided market platforms. Television broadcasters intermediate between advertisers and viewers. However, the TV industry has evolved into a multi-sided market in recent years, with distribution platforms increasingly occupying a central position in the market. Whereas until recently their business models resembled that of utility providers, distributors start playing a multi-sided role, liaising with third-party content providers, advertisers and viewers. As a result, we might expect a struggle for platform leadership between TV broadcasters and distributors. This struggle is further intensified by the rise of over-the-top (OTT) TV platforms, which challenge existing power relationships in the TV industry and give rise to conflicts of interests in the media value chain. This paper attempts to provide a deeper understanding of the platformisation in the TV industry, by comparing the different types of platforms engaged in this platform competition. It is concluded that both broadcasters and distributors are transforming into integrator platforms. Moreover, we suggest that this struggle for platform leadership may prove counterproductive in the longer term and question to what extent this competition create mutual benefits for both broadcasters and distributors.

Introduction

Both traditional media (e.g. the broadcasting market) and new media (e.g. the mobile applications market) can be characterised as two-sided platform markets. Platforms are typically powerful and durable industry leaders, whereby a platform leader controls a bottleneck, and increases his appeal by sporting a varied ecosystem of providers of complementary products and services (Gawer, 2009). As the scholarly understanding of platform markets improves, it is becoming clear that very different types of platforms exist, deploying a variety of business models, strategies and forms of collaboration (Ballon, 2009). Audiovisual media, especially commercial television broadcasters, traditionally operate as a two-sided market, in which they function as platforms intermediating between advertisers on the one hand, and viewers of content on the other hand. The specificity in this market lies in the fact that advertisers derive a positive utility from dense audience ratings, while for viewers mostly negative effects are associated with being exposed to advertising messages. This is one of the reasons why broadcasters usually let one side of the market (i.e. advertisers) cross-subsidise the participation of the other side of the market (i.e. viewers) (Rochet & Tirole, 2003).

This basic model of operation of the TV industry has become increasingly complex over the past decade. First, the TV industry is evolving from a two-sided into a multi-sided market,

with amongst others the introduction of independent production companies that produce content for various broadcasters' and distributors' platforms. The independent producers and rights holders, then, in a sense become a third side of the platform market with which broadcasters and distributors need to liaise. Second, the digital switchover has expanded the number of channels, and audience fragmentation put pressure on incumbent broadcasters. Digital TV has enabled distributors to exploit interactive and on-demand content services themselves, control a direct customer interface in the form of the electronic programming guide (EPG) and therefore occupy a central position in the market. Whereas former business models up to that point had resembled that of utility providers (e.g. cable access like water or electricity), distributors start playing a multi-sided role themselves, and mediate between third-party content providers (broadcasters, independent producers), advertisers and viewers. As a result, there are now two platforms that interact with each other and serve as buyer/supplier for each other, namely broadcasters and distributors (Evens & Donders, 2013).

Another important development is the popularity of over-the-top (OTT) TV distribution platforms that deliver video programming over the Internet without a network operator being involved in the control or distribution of the content. Undeniably, this evolution will challenge existing power relationships in the TV industry, and give rise to conflicts of interests in the media value chain. It is clear that there will be strong tensions between all these platform 'wannabes', but at the same time they can be collaborators within the media value chain and are highly dependent upon each other. Because power conflicts are expected to inflate in the coming years, this paper intends to contribute to the understanding of the struggle for platform leadership in the TV industry, by comparing the different types of platforms engaged in this struggle. First, the paper provides an overview of multi-sided platform theory and introduces a typology of platform models. Second, the paper describes the 'platformisation' of the TV industry and explores the competitive strategies that are used by each of the platform wannabes.

Platform Theory: Power and Control

Bottlenecks and Gatekeeper Functions

Evans & Schmalensee (2007) argue that two-sided platforms arise in situations in which externalities arise from the interaction between agents that operate on different sides of the market, and in which transaction costs prevent the two sides from solving this externality directly. The platform thus serves as a way of solving the externality in a way that minimises transaction costs. The indirect network externalities between the two sides of the platform affect the platform's pricing and other strategies. Indeed, many two-sided platforms charge prices at one side below marginal cost (and in some cases even negative) to enhance total profits across the two sides of the market. In this context, it has been noted that the so-called Coase theorem fails in the case of two-sided or multi-sided networks. The Coase theorem states that, regardless of externalities, transaction volumes will be efficient as long as property rights are clearly defined and there are no information asymmetries or transaction costs; i.e., buyers and sellers will bargain their way to efficiency. However, in the presence of one

consumer type that creates value for the other type, the conditions stated by the Coase theorem do not appear to suffice for an efficient trading volume, but rather there are likely to be continuing subsidies from one side to another side of the market. Parker & Van Alstyne (2005) give as examples of continuing subsidies to one side of the market (often even resulting in completely free offerings for one side of the market) ladies' nights, developer toolkits, ad-supported content, as well as frequent flyer points on credit cards.

Most literature refers to the concept of bottlenecks to explain how platforms arise. As an example, Jacobides et al. (2006) argue that powerful firms have an incentive to manage the industry's architecture carefully so they become the bottlenecks of their industry and profit durably from 'architectural advantage'. Bottlenecks can be defined as segments where mobility (both in terms of switching costs and potential entry) is limited and competition is softened. Another explanation of platform ownership lies in the ownership and specification of particular critical interfaces (Gawer & Cusumano, 2002). Baldwin (2007) argues that interfaces usually arise at thin crossing points within a task network. Thin crossing points are associated with low transaction costs and with information hiding between the various stakeholders. The related concept of gatekeeper functionalities (Ballon, 2009) adds the element of critical information processing capabilities to the bottleneck and transaction cost arguments. Included in this concept is the notion that gatekeepers in information markets filter and select information (i.e. the gatekeeper acts as a bottleneck) but also significantly alter the informational content (for better or for worse) through active accumulation, processing and packaging (i.e. the gatekeeper adds critical 'value'). The gatekeeper concept is thus linked to specific information gathering, processing and filtering functionalities that enable its owners to adopt a platform position within the value network.

A platform should therefore be considered as a collection of gatekeeper functions that may be used to attract as well as to lock in (at least to some extent) its various types of customers. Platform wannabes need to build a business model around a set of crucial gatekeeper functions that help them to exercise a form of control over the different sides of the market, and to add and capture value in the process. The form that this control takes may differ and shift strongly between various types of platforms, and for each individual platform as it evolves over time.

A Typology of Platform Models

In order to find a profitable and durable platform model, the level of control executed by the platform beyond its own borders of the platform is thus of crucial importance, and a useful typology of different platforms in this context should thus focus on control patterns associated with the platform.

A few platform typologies have been put forward during the past decade. Schiff (2003) distinguishes between a platform that delivers an active 'matching service' (e.g. an Internet search engine), and a platform that passively mediates (e.g. Adobe Acrobat). Eisenmann (2007) identifies proprietary platforms, which have a single provider that solely controls its

technology (e.g. Apple Macintosh or Google), and shared platforms, in which multiple firms collaborate in developing the platform's technology, and then compete in offering users different but compatible versions of the platform (e.g. Visa or Linux). Evans et al. (2005) propose a typology of four types of multi-sided platforms. 'Matchmakers' aid members of one or both sides in their quest for a match on the other side (e.g. real-estate brokers). 'Audience-makers' bring advertisers and audiences together, matching buyers and sellers (e.g. yellow page directories). 'Transaction-based' businesses meter transactions between the two sides of a market (e.g. credit cards, advanced-generation mobile phone networks). The fourth type, 'shared-input platforms', includes hardware and software platforms where participants on at least one side need to obtain access to the platform to provide value to participants on at least one other side (e.g. software developers need to obtain access to the APIs and other features of the software platform in order to write applications for end users). Likewise, software platform designers and hardware peripheral manufacturers need access to the functionality of the hardware platform to develop products for that platform). Gawer (2009) has also introduced a general typology, composed of platforms that are internal to firms, supply chain platforms, and industry platforms.

Ballon (2009) distinguishes between platform owners that may or may not have control over the customer (i.e. end-user) relationship, and platform owners that may or may not control the assets needed to 'assemble' the value proposition of the goods and services traded over the platform. This platform typology takes as point of departure the notion that all platforms aim at the control over a set of crucial 'gatekeeper functions', but may differ fundamentally both in terms of the control they have over the set of additional business roles that they integrate beyond this, and over the so-called end customers of the platform. In this way, four basic platform types can be distinguished (see for further explanation; Ballon, 2009).

The first type of platform, in which the platform owner doesn't control most of the assets necessary for establishing the complementors' value proposition, and on top of this does not appropriate the customer ownership (e.g. because it does not establish a billing relationship with the end-user and may be even invisible to the end-user) can be labelled a 'Neutral Platform'. Paypal and Google search are typical cases in point. The Google search engine platform, for instance, does not intervene in the specification of the content and services to which it refers people. Also, customer lock-in is minimal, and no subscription or billing relationship with the user exists. Still, a neutral platform such as Google is able to internalise a significant part of the externalities created between the different sides of the market, i.e. through capturing advertisement revenues, both on its search portal and on a significant number of affiliated websites.

The second type is a 'Broker Platform'. In this case, the platform relies on other actors that control most of the assets for establishing the value proposition, but does integrate customer ownership. Facebook and eBay are typical examples of such a broker platform. In the case of eBay, the independent sellers provide their value proposition to the buyers, with eBay merely

offering the place where both constituencies meet. Yet, in terms of the customer relationship, people are very aware of the brand (and associated guarantees) of eBay, and generally do not know or care about the seller's identity (except for the data on their past sales, which eBay provides). Also, eBay supports the transaction and billing process, which is another important aspect of customer ownership.

The third type of platform is an 'Enabler Platform'. This refers to the case where the platform owner controls many or most of the assets involved in service provision, but leaves the customer relationship to third-party developers. The Intel platform is an example of this type. For instance, Intel has a firm grip on the hardware architecture, standards and application programming interfaces, and represents a large part of the value-add, of any Intel-powered PC. Thus, it controls many of the assets involved in the overall value proposition, which is highlighted by the 'Intel inside' quality label. At the same time, the main PC brand that consumers recognise is still that of the PC manufacturer, who also takes care of the marketing, sales and aftersales.

The fourth type of platform is the 'Integrator Platform', which controls many or most of the assets related to the value proposition, as well as the customer ownership. Still, this actor actively facilitates and encourages entry of 'third parties' in order to establish a thriving multi-sided market, e.g. by not 'squeezing' complementary actors out of the market. In other words, it allows other service providers to use its platform, in order to increase value. Typical examples of such a platform model are the MS Windows Platform and the Apple iPhone. In the case of the iPhone, Apple controls the hardware, OS and other middleware components, the appstore portal and transaction system, as well as several individual applications themselves. It is able to extract significant rents and set barriers to exit for application providers. Moreover, it controls the relationship with end-users in terms of branding, finding and selecting applications, and paying for it. Still, it acts as a platform, actively promoting the addition of a multitude of application developers to the iPhone application 'ecosystem' through an easily available software development kit, application developer programmes, a transparent and uniform revenue sharing model, and so on.

This platform typology demonstrates that platforms may control the same gatekeeper functions (e.g. collecting and processing profile data, or enabling transactions), but have radically different types of business models, dependent on the degree to which they control the value proposition and the customer relationship of the services that make use of the platform.

Table 1: Typology of Platform Models (see also Ballon, 2009)

	No Control over Customers	Control over Customers
No Control over	Neutral Platform	Broker Platform

Assets	The platform owner is strongly reliant on the assets of other actors to create the value proposition, and does not control the customer relationship	The platform owner is strongly reliant on the assets of other actors to create the value proposition, but does control the customer relationship
	Examples: Google search, PayPal	*Examples: Facebook, eBay*
Control over Assets	Enabler Platform	Integrator Platform
	The platform owner controls many of the necessary assets to ensure the value proposition, but does not control the customer relationship	The platform owner controls many of the assets to ensure the value proposition, and establishes a relationship with end-users. Entry of 'third-party' service providers is actively encouraged
	Example: Intel	*Examples: Apple iPhone, Microsoft OS*

It has been suggested that this typology may serve to operationalise research into platform competition, to explore the different characteristics of platform types and to link these to various outcomes for service developers as well as for end users. The choice of platform type may be determined by the resources available to a firm, by technological and architectural factors, competitive strategies, historical circumstances and conventions within an industry, regulation, and so on. It is clear that the kind of platforms involved will exert a strong influence on both the platform ecosystem as on the competition between platforms. While these aspects have been demonstrated for the mobile applications market (Ballon, 2009), this paper will explore to which extent they are at play in the TV industry.

## Platformisation of the TV Industry

Clash of TV Platforms

As suggested earlier, the digitisation of television has reshuffled the configurations of power and control in the audiovisual industry. More in particular, digitisation has created a window of opportunities for innovative video services and has enabled firms to play a much more active role in the financing, production, aggregation and distribution of programming (Given et al., 2012). Telecommunications and cable operators have moved beyond their traditional roles of transmitting channels, but are increasingly involved in (commissioning) content creation as well as in directly monetising TV consumption (e.g. through video-on-

demand) and even in advertising. Cable operators have not only launched their own TV channels, often targeting a niche, special-interest audience, but are more and more investing in original content, buying sports rights or liaising with independent producers of TV shows and series. Due to long-term contracts with Hollywood studios, most distributors have access to the exclusive first-run pay-TV window and control video-on-demand platforms that sell previews to first-run programming (D'Arma, 2011). Consequently, one can ask to what extent distributors, formerly acting as a utility providers, now function as a mediating platform and play a powerful role in the TV industry. However, the emergence of global OTT platforms like Netflix and iTunes, and streaming players including Roku and Google's Chromecast begs the question how long traditional distributors, usually operating on a local scale, will retain this leading position in the audiovisual industry.

Figure 1: Audiovisual value chain
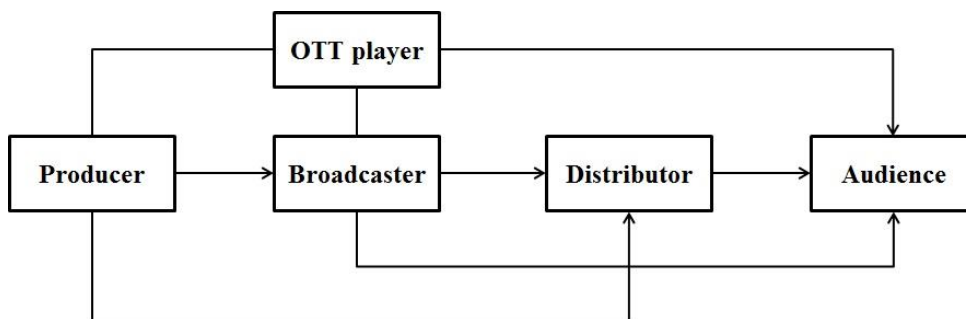
Due to the rapidly growing popularity of Internet-based video delivery, the TV industry has evolved in a complex ecosystem, characterised by the emergence of (potentially) disruptive business models and hyper-competition from OTT services (e.g. Netflix, Apple, etc.). One key feature of this complex, multi-player environment is the possibility (or risk) of disintermediation. Figure 1 illustrates that the value creation process no longer follows a linear value chain, but that digital technology allows plenty of opportunities to lessen reliance on their traditional suppliers/buyers (Evens, 2010). Indeed, content producers and TV broadcasters can bypass traditional distributors like cable/satellite operators, and build a direct relationship with the customer. Whereas in the past producers and broadcasters highly depended on the business terms imposed by traditional distributors, they can now use technology and offer their content directly to the audience. In the United States, broadcast networks ABC, NBC and Fox have launched the Hulu platform, which allows consumers to watch their favourite shows directly over the Internet across multiple screens. The opportunity of OTT platforms, which entail a process of remediation and renew gatekeeping positions, requires content producers and broadcasters to build straight-forward relationships with numerous distribution platforms in the TV ecosystem in order to benefit from a multiplatform strategy. Hence, partnerships with as many distribution platforms as possible form one of the major strategies for creating competitive advantage in the future TV industry (Doyle, 2010).

Figure 2: Clash of Platforms (Evens, 2013)
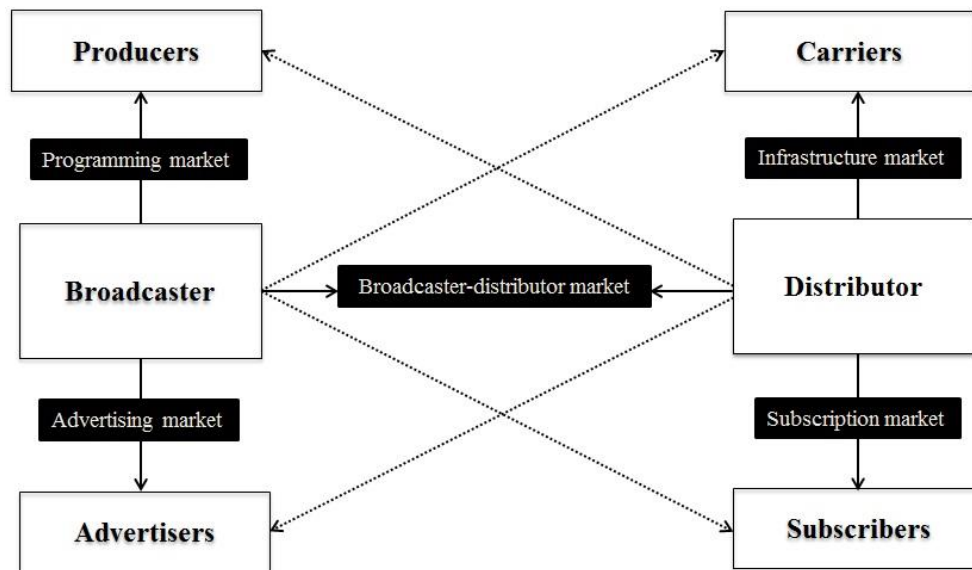
These developments towards a multi-player environment reflect the evolution of the TV industry from a two-sided into a multi-sided market. Although both broadcasters and distributors operate on a two-sided market, they increasingly depend on the interaction between multiple sides of the market. Television broadcasters need to coordinate the supply of attractive programming with the demand of advertisers, and instead manage distribution. In a similar vein, distributors need to have access to a content delivery network (cable, satellite etc.) and need popular programming to entice subscribers (Evens & Donders, 2013). However, since broadcasters and distributors both operate as a multi-sided platform, leveraging common components and shared user relationships, they are moving into each other's market, resulting in a multi-platform bundle, a phenomenon called platform envelopment (Eisenmann et al., 2011). As platform envelopment occurs, previously separate products and markets evolve, and integrate into ever-larger platforms. Figure 2 shows that distributors are looking to partner with content producers (e.g. sports rights owners) and advertisers whereas broadcasters are directly connecting with viewers (e.g. Hulu) and network carriers (e.g. mobile services). In light of the enduring convergence of media and telecommunication services, TV broadcasters as well as distributors (including OTT platforms) are now directly competing in the online video marketplace, and therefore deploying competitive rather than cooperative strategies to become a platform leader.

This strategic by-passing behaviour, driven by the struggle for platform leadership, might eventually end up in a battle for power and control in the TV industry. The evolution towards platform envelopment, whereby both TV broadcasters and distributors expand into a multi-sided platform to play the first fiddle in the TV industry, often leads to a clash of platforms. Although one might suggest that both platforms heavily rely on each other and benefit from their complementary interests (e.g. content producers benefit from distribution whereas distributors need compelling programming), both platforms are able to deploy strategies to

internalise market externalities and simultaneously harm the other platform's interests. Since distributors have pricing power and decide upon the carriage of TV channels (including positioning and numbering on the EPG), they can reduce the availability of these channels and therefore negatively influence a channel's advertising and/or subscription revenues (Kind et al, 2010). In a similar vein, retransmission disputes between TV broadcasters and cable/satellite operators have increasingly risen over the last couple of years. Whereas TV broadcasters claim a higher payment for retransmission of their programming, distributors are keen on squeezing the margins of TV broadcasters. Platform envelopment has been identified as the most successful business strategy undertaken by platform wannabes, but Hidding et al. (2011) show that successful platforms stimulate third parties by creating incentives to bring them on-board. It can be questioned to what extent the current platform clash between TV broadcasters and distributors helps in building a sustainable TV ecosystem.

Platform Models in the TV Industry

Now that we have discussed the on-going platformisation of the TV industry in the previous section, it is time to have a look at the different platform models being used by TV broadcasters and distributors respectively. We therefore need to take into account the multi-sided character of the industry and consider the gatekeeping position of TV broadcasters and distributors with regard to third parties in the ecosystem, more in particular advertisers and independent producers. As previously discussed, it is of vital importance for the performance of a platform's business model to bring all these parties on board and coordinate the factors of supply and demand around the platform. The interplay of the various markets (advertising, programming, etc.) and the subsequent indirect network effects constitute an important element of the underlying dynamics of platform competition. Hence, management must focus on the strategies to turn the platform into a winner-takes-all market in order to become a platform leader finally.

With regard to the *advertisers*, broadcasters are a broker platform. Essentially, the core business of commercial broadcasters is selling advertising to providers of goods and services interested in reaching and targeting an audience, and thus bringing advertisers and viewers together. Digital technology and the Internet has broken the distribution bottleneck to some extent, so that the TV industry is evolving from a distribution economy to an attention economy. As audience fragmentation continues, popular TV channels that successfully capture and aggregate consumer attention may benefit from scarcity and gain gatekeeping power. In this context, a broadcaster's ability to attract and maintain mass audiences puts broadcasters in a powerful position with regard to advertisers. Broadcasters may take the customer relationship with the viewers, but they fail to control the value proposition of the advertisers. Although they control the timeslot in which a particular advertisement is placed, broadcasters have almost no control of the commercial itself. But as most broadcasters are starting to develop online platforms to build a direct relationship with the viewer (including audience data), it is only a matter of time until they will perform as integrator platforms.

In contrast to broadcasters, distributors have expanded into integrator platforms, or, at least, they have the ability to control the value proposition of the advertisements. Even more than broadcasters, distribution platforms control the relationship with the viewer. Pay-TV operators, most notably operators of digital platforms (cable/satellite/IPTV) own the customer and have a billing relationship with their customers. They not only know administrative details such as address and credit card data, but also have insight about real-life viewer behaviour and audience figures through the use of set-top boxes or common interface (CI) modules. Whereas operators just 'sat' on these databases, advertising forms an enormous opportunity for monetising the billing relationship. Distribution could move beyond their role as data broker (e.g. for audience measurement purposes) and create opportunities that allows the advertising industry to better target and personalise marketing messages. Analysis of subscriber data management, through the provision of individualised and interactive advertising, constitutes a strong asset that allows distributors to change the nature of advertisements and, hence, control the value proposition of the advertisers.

With regard to the *independent producers*, broadcasters used to find themselves in a relatively comfortable gatekeeping position. Whereas public service broadcasters usually produced much of the programmes in-house, commercial broadcasters used to support the development of a local television production sector from which they could commission TV series and shows. Because distribution outlets were rather scarce, content producers and rights holders had little bargaining power and thus negotiated with broadcasters to bring their shows on air. Although the Internet has certainly opened up opportunities to go over-the-top (e.g. by developing their own platform), broadcasters are still the primary commissioner of original programming. Since broadcasters leverage their brand to build mass audiences, independent producers choose to liaise with broadcaster (but they can also consider to start their own channel to reap the fruits of their reputed brand name as some sports leagues have done). By commissioning or developing programmes, broadcasters have the ability to build a clear-cut channel profile and create audience flow. Having full control of the customer relationship and value proposition, broadcasters certainly fulfil the role of integrator platforms.

In contrast to broadcasters, distributors used to focus on their technical competence to efficiently deliver content over their physical network infrastructure, and passed a bundle of channels to subscribing households. Hence, they had little control of the value proposition and behaved as broker platforms. In recent years, however, distributors started developing a multitenant platform that integrate many competing leisure activities, including watching movies, gaming, browsing the Internet and updating social media accounts. By means of interactive services and social media overlays, distributors have the opportunity to shape, control and monetise the customer experience. Furthermore, many distributors are increasingly eager to close deals with independent producers, even before the programming has been broadcast on traditional networks. Sports rights have siphoned away from free-to-air to pay-TV channels, and distributors usually control the first windows of time after theatrical and DVD release (via pay-per-view or video on demand). Nowadays, many distributors also invest in regular programming such as fiction series in order to gain competitive advantage.

Even OTT platforms like Netflix (House of Cards) have adopted this successful strategy, which allows these platforms to strengthen control of the value proposition. With this in mind, it is fair to say that distributors are increasingly playing the role of integrator platforms.

Since broadcasters and distributors are both transforming into integrator platforms, with regard to both advertisers and independent content producers, the clash between the two platforms, still in its infancy, is likely to intensify in the coming years. Up until today, broadcasters are still the main commissioner of programmes, and claim the lion share of the advertising expenditure. As distributors are feeling competitive pressure from OTT platforms, they will move into advertising and especially content more and more. Hence, the key strategic issue for multi-sided platforms at play is to seduce as many stakeholders as possible in order to create a vibrant ecosystem of third-party content providers, advertisers and (paying, if possible) viewers. Moreover, platform leaders draw on a variety of tactics and strategies to construct a compelling customer experience built on cross-subsidisation and service bundling, thereby creating customer lock-in. In a market characterised by network effects, this impact of customer lock-in is of vital importance to claim platform leadership.

Conclusion

In this paper, the focus has been on the enduring platformisation of the TV industry and the clash of the platforms that follows from this evolution. We have put emphasis on the rise of distribution platforms as a powerful gatekeeper and the possible conflicts of interests with TV broadcasters. Following an evolution towards platform envelopment, it has become clear that the TV industry is marked by an intense competition between TV broadcasters and distributors, which have both the ambition to become the leading platform and to control the TV industry. This implies that the platforms aim at shaping the rules that facilitate interactions among a network of industry stakeholders: content producers, advertisers and the audience. It has been suggested that the party who controls this network of partners has the best cards for becoming a platform leader in the future TV industry.

Although it may have been suggested in this paper, platform leaders benefit from a cooperative approach, one that incentivises third parties to contribute to the leading platform. Instead of competitors, broadcasters and distributors should be regarded as complementors that share similar interests. Integrator platforms are said to encourage the entry of third parties to constitute a multi-sided market and create mutual benefits. It can therefore be regretted that broadcasters and distributors are attacking each other in such an aggressive way. Even they have been labelled integrator platforms in this paper, one can question whether both broadcasters and distributors behave like integrators and whether or not their envelopment strategies are self-destructive. Some of these strategies may generate considerable profits in the short term, but may prove counterproductive in the longer term. Indeed, the ability to convey a long-term commitment to cooperative relationships seems of utmost importance to act effectively as platform leader.

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