

# Chapter XV

## Digital Convergence and Home Network Services in Korea: Part 2 – Business Models and Strategic Alliances<sup>1</sup>

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### ABSTRACT

*In this chapter, we proposed managerial implications and strategic alliance opportunities of the home network service providers in Korea. Based on in-depth analysis of recent industrial status of home network services in Korea, we first analyzed business models of each interested parties participating converging services of home network industry. Next, in order to complement the weakness of participant's business models, strategic business alliance opportunities and managerial implications were drawn upon resource-based view (RBV) theories. Subsequently, strategic propositions for the success of the home network are suggested at the firm level, with respect to three main converging home network services. Finally, we offer future directions and considerations to expedite home network service evolution. The findings and propositions suggested in this study could be exploited for further research on other digital convergence services.*

## **INTRODUCTION**

Home network is a digital convergence service on the base of integrated computer information technologies, telecom services, and home appliances in residential areas. Despite the promising expectations and significant impact of the home network on Korean economy as one of the major growth driver, the home network industry is lagging behind the initial government and experts forecasts.

In Part 1 of this study, we investigated why the progress of the home network industry fell short of expectations from the perspectives of customer value expectations and business interests of industrial participants. The analysis revealed the business conflicts among the participants were unavoidable due to the convergent nature of the home network. Subsequently, some government policy implications were proposed to enhance the customer service level through effectively resolving the conflicts among the participants.

In this chapter, we continue the discussion at firm level to provide the strategic implications for home network industry. Based on the premise that effective collaboration to resolve the conflicts among the participants should be necessary for the digital convergent services, our analysis focuses on exploring business alliance opportunities among the participants in the home network industry. We investigate business model of each participant to analyze the value proposition and strategic target. Subsequently, adopting resource capability theories (Barney, 1991), strategic alliance opportunities are explored. Finally, other considerations for the home network service expansion are discussed in light of digital convergence to offer strategic propositions at the firm level.

## **BUSINESS MODEL ANALYSIS OF HOME NETWORK**

This section provides comparative analysis of the business models of the various participants in the home network industry with reference to press release data and interviews conducted with industrial participants. In addition, literatures reporting the past experience of the Korean home network (Byeon, 2006; Kim, 2005; Korea Home Network Industries Association, 2005; Ministry of Construction & Transportation, 2006; Ministry of Information and Communication, 2005; Ministry of Information and Communication, 2006) were also referenced for our analysis.

Business model means a concept and implementation system that secures and uses an enterprise's resources to provide better customer value than that of the competitors. The theory of business model draws more attention as the proliferation of Internet based companies and verification necessity of the technological and commercial feasibility. Industrial participants of home network services were diverse due to inherent nature of convergence from many industrial sectors. In our study, the home network services were classified into three types; home control & automation service, home broadcasting & entertainment service, and home communication & information service. The companies participate in home network services were from various industrial sectors such as telecom, broadcasting, home appliances, construction, and contents and solution providers. The details for service classification and participant analysis were presented in Part 1 of this study. For the purpose of analyzing business models of home network services, we summarize the components of the business model as in Table 1 by referring to the study of Afuah and Tucci (2006).

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