Chapter 1
Disruptions and Value in the Interactive Digital Media Marketplace

Omar El-Sawy
University of Southern California, USA

Francis Pereira
University of Southern California, USA

ABSTRACT

This introductory chapter explains business modeling in the context of interactive digital products and services. The ADVISOR framework is presented as a useful means of articulating value. A review of other approaches suggests that business modeling is all about determining value and the ADVISOR framework is a valid one.

INTRODUCTION

The Interactive Digital Media (IDM) marketplace is not entirely new. Even before the current popularity of MMORPG, online music stores, IPTV and a host of social network applications, the digitization of content had been driven by the convergence of web services with telecommunications networks and devices. Today's ubiquity of the broadband (and often wireless) Internet is at the centre of how this content is produced, consumed, repackaged and traded. In such content delivery networks, there are various roles played by producers, consumers, syndicators, aggregators and distributors in the emerging marketplace. Topical examples of Interactive Digital Media include music, movies, games, software, books, social content on devices as diverse as networked TV sets, home and car entertainment systems, mobile communications devices, and online games consoles.

Whereas networks, content or services, and regulatory regimes have made progress through media, network and industry convergence, busi-

DOI: 10.4018/978-1-61350-147-4.ch001

ness models are only beginning to re-engineer themselves to the current realities of (dis-) intermediation. Much of this is due to the legacy cost-plus pricing of telcos, licensing of broadcasters and the subscription based revenue streams of the media industry. Content owners, on the other hand, are understandably concerned with digital rights management (DRM) and how business models and pricing strategies might affect piracy. Advertising revenue streams are lucrative but work differently in the online marketplace than they would in traditional practice, moreover, there is no demarcated difference between vendors who own the content and those that have access to the customers.

Technological advancement and globalization has caused the rise of a new type of media which is networked and interactive. The new media are basically cultural objects which utilize digital computer technology for distribution as well as exhibition (Manovich, 2001). The emergence of new technology, specifically the broadband and wireless Internet, associated services and devices, is another contributor to the disruptions to the underlying business models of the IDM industry by reducing the distribution cost digitization of content, and creating new possibilities (Anderson, 2008). Such a phenomenon is distinct from the term disruptive innovation used by Christensen (1997) to describe simpler and cheaper to use versions of existing products that target low-end or entirely new customers. Disruptions to the IDM marketplace are radical transformations of existing lines of business with a future-oriented and risk-taking strategy that cannibalizes current revenue streams with online substitutes. Business include music album sold in CDs to individual tracks sold online and revenue streams are perhaps declining. This is similar to the notion of radical innovation introduced by Chandy and Tellis (1998).

Meisel (2007) pointed out two effects that technology had impeded upon the IDM marketplace. First, the growth in broadband penetration has made the Internet a viable alternative of distribution platform. Secondly, the convergence of technology that allows the transfer of all types of data, video, audio, images and text among different physical platforms leads to media convergence. These impacts had opened (or leveled) the playing fields in IDM for new players who are able to capitalize on the technological advancement.

The distribution cost of digital content depends on bandwidth, storage, and processing. The costs of these technologies have been reduced dramatically in the last 40 years, which makes the distribution costs of digital content close to zero (Anderson, 1002). Hence the prevalence of free Internet services with unlimited storage for e-mail, video, images, maps, music and even software. The reduction in cost and peer-to-peer technology has additionally introduced the power of network effects to this platform.

With increasing competition, technological growth, and increasingly universal appeal of the Internet, the industry structure is changing and business convergence is taking shape. For example, television has progressed to a time-shifted format (in other words, to be watched at the convenience of individual viewers), music and movies are sold or leased online, and games are massively multiplayer with the possibility of customized roles and background music. Such vulnerable markets are characterized by the following conditions: (1) easy to enter; (2) attractive to attack; and (3) difficult to defend (Clemons, 2002). When a marketplace become vulnerable, new strategies are constructed and new players emerge, disrupting the existing ecosystem as well as the revenue apportionment among the players. As new players enter, the existing players which have been dominated by incumbents in the music, movie and games industries such as Universal and Sony-BMG; DreamWorks and Warner Brothers; Sony, Nintendo, and Microsoft, respectively, are forced to change their strategy to be able to maintain their profitability. This, however, is not easy as evidenced by the failure of several celebrated attempts.