The New Way to Think Television on the Web

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Abstract. Television is attracting an enormous amount of attention from both researchers and managers, due to profound changes that are taking place thanks to the diffusion of digital technology. The Internet and the Web, affecting the overall landscape, the consumer habits, the strategies of the players, are playing a key role in the TV revolution. This paper, based on 26 case studies, a survey involving over 200 players and a complete census of all the channels provided via Web in Italy, aims at defining the current state of the Web TV (we call it Desktop-TV) in Italy and identifying the main business models and the strategies adopted by the players, thus allowing us to give a few predictions on the possible future changes in the industry. Although the analyses have been carried out in Italy, the results will have a general applicability, since the Web is not country specific by definition and the majority of players included in this research have international relevance.

Keywords: Digital TV, Desktop-TV, Web, Strategy, Business model.

1 Introduction

The television industry, for decades quite static, is currently undergoing important changes [1]: such business is in fact being shaped by a number of driving forces, such as the digitalization of the TV signal, the diffusion of new alternative access technologies, the development of broadband and streaming video technologies, the introduction of Web TV and new generation access terminals, and the progress of interactive and personal television solutions [2-4]. Past changes, as well as those to come, are so radical that some authors prefer to talk about TV (r)evolution rather than evolution, asserting that the very meaning of the term "television" needs to be revised [5].

The TV business is no longer restricted to few actors, but is becoming territory to be conquered by new entrants from industries like Internet and telecommunications. The market offerings are reaching new access terminals (such as PC and handheld devices), meeting and integrating with the Internet and with other online multimedia services [6,7], and changing by creating new television formats, such as the personal and the interactive television [8].

The technological evolution has shifted the boundaries of the TV industry. Television platforms are in competition, not only among themselves, but also with "New Media" offering contents and services not specifically related to the television sector [9,10]: i) Internet and ii) all the new ways of offline use of digital contents (e.g. podcasting,

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downloading of entertainment contents on the PC or mobile phone). There is strong competition between traditional media and new media for the *share of time* of users and the *share of advertising* of investors.

Six digital platforms can be identified on digital networks: Sat TV, DTT, IpTV, Web TV, Mobile TV on DVB-H network and Mobile TV on cellular network. However, given the differences and similarities between the six platforms, a further clustering that would achieve a subdivision into only three TV macro categories, could be a possible scenario [11]:

1. *Sofa-TV*, including all digital television typically viewed through the "traditional" television screen. The "new" Sofa-TVs are based on three digital platforms: Sat TV, DTT and IpTV. The use of the expression, "Sofa-TV" aims to clearly describe the viewing opportunities and modalities of these televisions (standard Tv set watched from the Sofa).
2. *Desktop-TV*, including all the video channels that are viewable through the Web (and Internet in general). In this case, the distinguishing element is the proactive viewing ("elbows on the desk") of the contents.
3. *Hand-TV*, including all the TV and video offerings available on the Mobile platform, based both on DVB-H networks and cellular networks. The use of the expression "Hand-TV" aims to focus on the concept of TV viewable in the palm of the hand, which frees this type of television from the underlying technologies, both at the network level (DVB-H, cellular networks, and – in the future – WiFi and its evolutionary products), as well as at the terminal level (not only cell phones, but possibly other small devices, like portable music readers, Mobile game consoles, etc.).

Despite its market value is not clear yet, the Desktop-TV has the potential to change consumer habits and, generally speaking, the way the users watch TV. This process of change has already begun. For this reason, this paper will focus on the area of Desktop TVs. The paper is divided into four sections. Section 2 will present the empirical study on which our considerations are based. Second 3 will describe the offerings of the Desktop-TV sector. Section 4 will deal with players of the Desktop-TV industry and their strategies. Finally, section 5 will offer the main trends in the Desktop-TV fields. The analysis will have a general applicability, as the considerations made are not particularly country-specific, although performed within the Italian context, one of the most advanced in the development of digital television platforms.

2 The Methodology

The information needed for the analysis and evaluation of the Desktop-TV sector in Italy was mainly collected through a case study methodology and a survey involving 200 operators. An exhaustive census of the channels provided via the Web was also taken in order to complete the information base.

The empirical study has been conducted on a sample of 26 companies operating at different stages of the new digital television value chain and possessing different characteristics (e.g. size, revenue, business model).

The panel comprises:

- 12 cases from Desktop-TV operators (i.e. C6TV - www.c6TV.it, Elemedia - www.repubblica.it, Gruppo Mediaset - www.mediasetrivideo.it, Google - www.youtube.it, Gruppo Telecom Italia - www.yalp.com, Infostrada - www.libero.it, Microsoft - www.MSN.com, Rai - www.rai.tv, RCS - www.corriere.it and www.gazzetta.it, SKY Italia - www.sky.it, Streamit - www.streamit.tv, Tiscali - www.tiscali.it);
- 6 cases from content providers (i.e. Digicast, Einstein Multimedia, Endemol, Turner Broadcasting System Italia, Walt Disney, Yam112003);
- 3 cases from service providers (i.e. Glomera, Ksoft, Sharemedia);
- 5 cases from media/advertising centres (i.e. Carat/Isobar, Digitalia ’08, Media-Com Italia, Niumidia Adv, Sipra);

To help interviewers and ensure comparability, an investigative framework was created to cover the most important issues to be investigated in order to achieve the research results. In particular, four main areas of investigation were identified and analyzed during the interviews:

- Overall company strategy (e.g. television platforms portfolio, launch of new platforms);
- Value chain analysis (e.g. make or buy decision, partnership relations);
- Organizational structure (e.g. number, roles and structure of the people involved in the Desktop-TV organizational functions);
- Television offerings (e.g. channel offerings on the specific platform, differences of own vs. competitor strategy).

In order to extend the empirical base we carried out a survey that involved over 200 operators. The questionnaire used for the survey was focused on the same key points investigated through the interviews.

The information obtained via the case studies and the survey was integrated through an exhaustive census of the Desktop-TV offerings aimed at mapping all the channels transmitted in Italy today. More than 1.000 channels were individuated and analyzed both in 2007 and 2008, and for each, 23 important variables were investigated.

The interviews and the survey were carried out between April 2007 and October 2008. The census was first taken in October 2007 and then in October 2008, in order to highlight the changes. All the research on the New TV sector began in January 2007 and is still in progress.

3 The Desktop-TV Offerings in Italy

In this section, we will analyze in detail the television channel offerings in Italy relative to the Desktop-TV. A census was performed on over 1 000 channels distributed by over 500 different operators. Compared to 2007, in which there were over 800 channels and 435 operators, for channels and operators we see a growth of 25% and 17% respectively.

Filtering the offer on the basis of “quality” and eliminating all channels that do not go over a minimum level of “dignity,” the number of channels drops to 633. The "dignity" of a channel has been assessed according to a multi-criteria approach based on different parameters depending on the specific type of channel (content range and update frequency for the on demand channels, variety of the programs for the linear programmed channels). From this point on, all our evaluations will be based on this rectified universe.

First and foremost, it is interesting to evaluate the turnover both of channels as well as operators which have come about in the 2008 year. There were 57 channels present in 2007 that are not longer active in 2008 and a whipping 214 new channels born this year alone. The overall effect is an increase of over 150 channels for a percent growth of 33. The med-high channels of "dignity" grow therefore at a higher rate compared to the one registered by all channels (equal to, as already down, 25%). There are 40 operators who are no longer active in 2008 and 81 new entrants to the market of Web TV with a net growth of little less than 15%.

Analysing the different typologies of channels, we see an increase in On Demand channels that, growing at a higher rate than linear programmed channels, surpass 70% of the overall offer.

4 The Business Models and the Strategies

This section wants to shed some light on two of the most important issues in the Desktop-TV area:

- the business models adopted by the operators;
- the main strategies (that depend of course on the business models).

4.1 The Business Models

In order to have an accurate understanding of the strategic scenario of Desktop-TVs in Italy, it is useful to provide an overview of the business models, which emerged from Research and which we have been classified in four main categories.

B2c advertising-based model. This is the most diffused model among Desktop-TVs since the large part of the operators (i.e. more than 80%) adopted this model. The alternatives to insert or associate advertising to Video/TV contents are different. The most traditional ways are advertising outside video and advertising included in video. In the first case, the most diffused format is banners, whereas in the second, we see both spot in pre-roll (both for On demand channels and some linear, even today with the click to play format that leads the user directly to the site of the "advertiser") as well as included in the stream (for linear programmed channels). In the choice between advertising included in the stream and advertising outside of video, one must first evaluate wisely the trade-off between effectiveness and invasiveness (a spot in pre-roll attracts more attention compared to a banner alongside content, but is undoubtedly more invasive for the user who could potential quit watching). Amongst the most innovative models, we point out overlay, a good compromise in regards to trade-off between effectiveness and invasiveness, even if up until today, it is still little diffused, due to the technological complexity (not all the platforms are able to distribute it) and at times even for the limited creativity. Alongside these different options whose purpose is to associate commercials to video contents, "ad-funded" contents are pervading the Web and represent a new concept in advertising: based on the production of video with "value" (and not mere spots) for the user (as in entertainment, instruction, etc.) that promote the product/service or company only indirectly and that are diffused on the Web, either using the virality of the contents or through thematic channels.

B2c premium model. These are those models which envisage either the payment of a subscription allowing access to contents/programming for a specific period of time, or a fee for viewing a single content (pay per view). The results obtained by the few players who have decided to play in this game are not clear yet. It seems to us that the model finds its most natural area of application for contents that tend to more of a niche and above all exclusive (that is not available on other platforms). The diffusion of this model is still very limited with just a minority (i.e. less than 5%) of the operators that have adopted it (e.g. Telecom with YALP, RCS Group with Gazzetta.it, ShowTime which is the Tv of the AC Milan, Mediaset with Mediaset Rivideo).

CRM-based model. For operators following this business model, the distribution of Video/TV channels fits into a rather precise strategy of Marketing and CRM, geared to beef up the communication and interaction with their own clients/users. The awareness of the noteworthy capabilities offered by such a rich media as the television is spreading even among companies and public entities, as is demonstrated by the numerous cases identified this year by Desktop-TVs included in this category. Measuring the returns of this type of initiative is surely complicated, but certain drivers (like the viewed contents, the number of users, the average time per user on each site) demonstrate the effectiveness of many projects. Since this model have been adopted by the Public Administration and the companies who decided to have a Desktop TV, its diffusion is quite limited (only 12% of the operators belongs to the category of "P.A. and companies").

B2b model. In an increasingly greater number, are the companies - and often pure players (but still less than 10% of the players) - who abandon the B2c business model in order to become service, solution and content providers, and at times even for other players, like Web publishers, traditional publishers, companies, and public entities, etc.

It should be made clear, however, that in many cases, the model adopted by these single initiatives is the result of a combination of the different business models described above. It is not rare to find "hybrid" models in which, for example, advertising based models flank premium models, or B2c models flank those B2b.

4.2 The Strategies

We can schematically read the different "strategic" clusters that characterize the Italian Desktop-TV according to three different axis as shown in figure 1:

- category of players (Traditional publishers, i.e. publishers already present on traditional channels that can be split into press and Tv publishers; Web publishers, i.e. publishers already present on the web that have developed specific competencies and abilities on the online channel; Pure Players, i.e. companies focused on the

Desktop Tv only; Public entities and companies, i.e. players that are not included in the publishing sector);
- types of channels (Transposed linear, i.e. channel moved from the traditional Tv with no or minor changes; Native linear, i.e. linear channel conceived for the Web; On demand published, i.e. on demand channels with contents provided by publishers; On demand UGC, i.e. on demand channels with contents provided by the users);
- business models (B2c advertising-based model, B2c premium model, CRM-based model, B2b model, as described in the above paragraph).

The driving factor in the cluster identification is of course the category of players, since each kind of player has its own background, competencies and objectives with situations that can be really very different form each others. We can identify five main clusters:

- The cluster of Web Publishers, that offer mainly On demand editorial channels, and less frequently, the other types of channels. The strategy is mainly oriented toward increasing the overall portfolio of the offer, intended as the sum of the contents, services and features (for this we have called the cluster, *Portfolio Strategies*). The Web Publishers are proceeding with an increasingly greater integration of video within their portals, thanks as well to the "embedded" feature able to easily position videos within different sections of the site. It is therefore increasingly more complicated, and maybe even little significant, to isolate the video offer from the overall offer. In this cluster, business models based on advertising, even if some Web Publishers with premium channels also play a part, clearly prevail.
- The cluster of Traditional TV Publishers, that mainly offer transposed linear programmed channels and On demand editorial channels as a complement to the offer on other platforms (we refer to this cluster as *Multichannel strategies*). The presence of native linear programmed channels along with the increase in On demand editorial channels is an indication of a growing attention towards the specificity of Desktop-TV and a greater awareness of the capabilities of the Web for this category of Publishers. Different business models adopted: certain players (like for example Rai and Sky), have leaned on advertising (both in pre-roll as well as banner), whereas others (like for example Mediaset with Rivideo initiatives) have chosen to supply even pay contents.
- The cluster of traditional Publishers (non television), for whom the Video and TV offer is an enabling factor both the presence on the Web channel as well as the extension of the portfolio of offer (*Multichannel and portfolio strategy*). Among the most interesting cases in this cluster are the initiatives of the big names in newspapers (like RCS and "la Repubblica") and certain important national radio stations (like Radio Dee Jay) The adopted business models are mainly advertising based and are only in a few isolated cases, premium.
- The Pure Player cluster, conceived to operate in this specific sphere, offers On demand channels, both editorial as well as UGC, and native linear channels created ad hoc for the Web (we have called this the *Pure Strategies* cluster). The initiatives present in this cluster are very heterogeneous. From Online video

companies (like YouTube) and editorial initiatives supported by big investors (like Current), to start-ups that, although small in some cases, are developing extremely interesting entrepreneurial projects for adopted technological solutions (StreamIt, Sharemedia, etc.), programming and ways of producing content (C6.TV, N3TV). The majority of these operators have started their activity with advertising-based business models, quickly discovering however, the noteworthy difficulties in making it financially profitable, based on advertising alone. Exactly for these reasons, many companies are gearing their strategies towards B2b models as well.

- The public entities and companies cluster, that having as its main objective the activation and/or consolidation of the client relationship and the affirmation of the brand, has been therefore named *CRM Strategies*. This is the cluster which in 2008 marked the greatest growth (in 2007 it was in fact rather insignificant). Particularly enterprising were the companies (automotive) and soccer teams (both A and B series) who in 2008 launched channels with business models and supply means that were different even amongst themselves (from On demand channels in pay-per-view to free linear programmed channels).

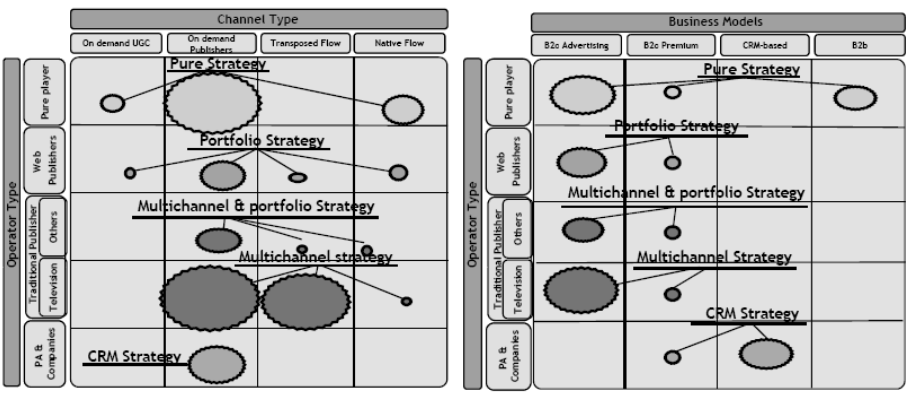

Fig. 1. The main strategic clusters

The diffusion of the different clusters and the trend observed in 2008 with respect to 2007 can be summarized in figure 2. We see these principal findings:

- The weight of the Traditional Tv publishers drops by five percentage points, from 44 to 39%, mainly due to the exit from the scene of certain Tv stations present in 2007 and due to the increase in other categories of operators like Web publishers and companies (the latter practically absent last year).
- The percentage weight of Public Administrations and companies has jumped from 7 to 12%, mostly thanks to the companies that make increasingly greater use of Desktop-TV as an instrument of communication and interaction with their own users/client.

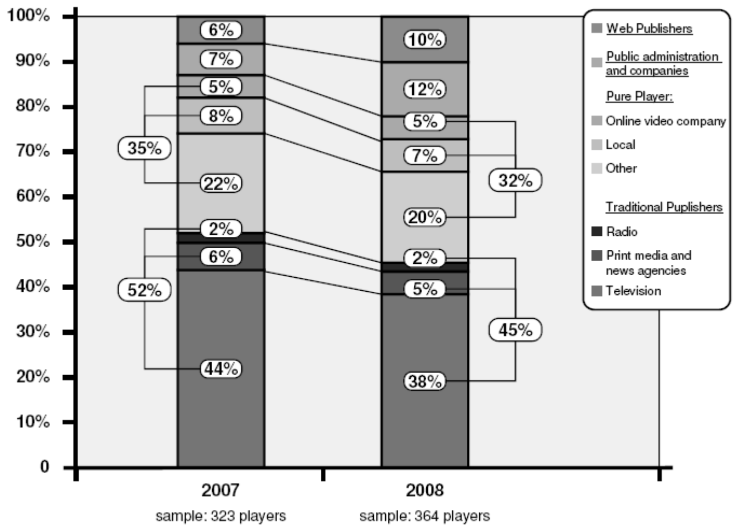

Fig. 2. The distribution of operators by typology

- An increase from 6 to 10% in the percentage weight of Web publishers who consider the Video and TV offer increasingly important and a complement to their online offer.
- The other categories of operators maintain a more or less unaltered percentage weight, with a growth, from the numerical point of view, in line with the number of overall operators.

5 Conclusions: Current Trends and Future Scenarios

There are two principal trends on which we would like to focus our attention.

The first concerns the concept of Desktop-TV itself and the possibility to consider it as a "standalone" platform: the current phenomena are clearly demonstrating that Web TV is not to be considered a specific market, able to be isolated from the overall online world, but rather as part of the offer - particularly rich and attractive for the user - of the overall, composite world of the Web. This translates into less space for "pure" operators, those start-ups conceived specifically to operate in this market (which, in fact, as already mentioned, are having not few difficulties making it financially worthwhile, and exactly for this reason, are often gearing more towards B2b offers) and more space, on the other hand, for those publishers, - both traditional as well as Web - who will be able to interpret the Video/TV offer in an overall strategy that in its totality is more multichannel and with a more expanded portfolio of offerings. There is more space even for those companies and public entities that want to put their bets on Video to build up the communication and interaction with their own users.

The second trend concerns the noteworthy mass of experimentational activity currently taking place in this area: the Web is proving to be a particularly favourable setting in which to conduct experiments in the world of Video and TV, in order to tweak and test innovations at the level of ways of structuring and defining Video contents (format/scheduling), but also of production and programming of contents and supply of contents and management of user interface. More in detail we have identified three dimensions of possible innovation:

- *Ways of structuring and articulating Video contents (format/programming).* The Web allows an infinite number of possibilities to bring together, structure, articulate and compare contents. The concept of scheduling is radically changed by all these possibilities and is replaced by the most generic concept of format.
- *Ways of producing and programming contents.* On the Web, the production of contents can be entrusted, besides to the "usual" professional publishers, to other categories of actors (from the users themselves, who according to the Web 2.0 rationale, can directly contribute to programming to semi-professional authors, e.g. theatre schools, cinema schools, etc.). Included as well in this category of innovations is the timeliness made possible by Internet in broadcasting contents, intended both as speed in gathering and distributing information.
- *Ways of using contents and managing user interface.* The Web (and Internet in general) allows the user to take advantage of contents that the broadcaster makes available to him in innovative ways. There is the possibility of using linear programming even in an On-demand fashion (the user "moves" in the programming to select contents that he wants to see) or the possibility of interacting, leaving feedback/scores and comments, starting discussions, participating firsthand in the transmissions, supplying content, etc.

We like, therefore to see the entrepreneurial revolution and innovative vivacity that are in this moment characterizing the Video offer on the Web, as an actual "laboratory" in which new TV concepts are being tested which will be able in time not only to enrich the offer at the Desk-top TV level, but also the offer of other television platforms, Sofa-TV and Hand-TV.

We in fact think that from this privileged "laboratory" many important implications can be derived, even for a rethinking and a major innovation of traditional television formats that up until today have been dominating Sofa-TVs and also Hand-TVs markets.

These phenomena will also be pushed by an increasingly greater transposition of Web onto the big screen of the Sofa-TVs as well as the little screen of the Hand-TVs, a transposition "technically" made possible by the respective diffusion of universal set top boxes for Sofa-TV, and of cell phones, which allow an effective Mobile Internet for Hand-TVs. For instance Current TV and Qoob TV, both born on the Web, have just been transposed to the Sofa-TV (Sat TV and DTT).

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