Research & Knowledge

Nicolas Portnoy, graduated from Solvay's Master in Business Engineering, wrote an interesting thesis about the disruption in the audiovisual value chain.

Disruption in the audiovisual value chain: how can television continue to create and capture value?

BY NICOLAS PORTNOY

Television channels have always been the unique source of content for passive viewers who watched linearly broadcasted programs. Today, content can be accessed via a multitude of platforms and consumed on demand on various screens.

Hence, while content supply is rocketing and the cost of programming is increasing structurally, generalist television channels are looking for new growth drivers in order to ensure the sustainability of their strategies. In other words, given the disruption in the audiovisual value chain, how can television continue to create, and most importantly, capture value?

Methodology: theory and insightful conversations with leaders from major players

We founded our research on the existing research literature in this field in order to, firstly, describe analytically the changes in the audiovisual industry, and, secondly, to discuss the opportunities that arise for television channels. In order to bring some tangible elements from major cases, we had the chance to meet the leaders of important Belgian, French and European industry players (RTL Belgium, RTBF, Proximus, Be TV, VOO, Newen, KNTV, RTL Group) from each segment of the audiovisual value chain, without forgetting the disruptors from the internet (Google).

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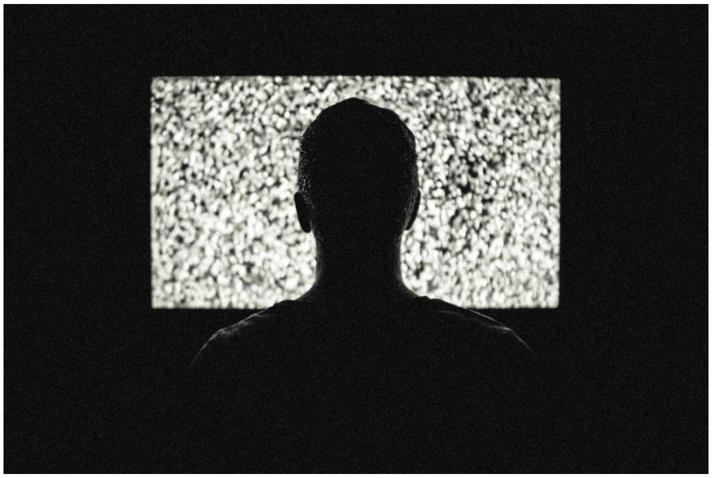
A disruption impacting the television business model



The audiovisual value chain is being disrupted by a new economy in which new entrants, the online platforms, are threatening the TV channels' business models. In fact, the advent of the internet protocol has lowered entry barriers and resulted in porous boundaries between technology and media companies. From content producers to consumers, the sequential audiovisual value chain has been disrupted by internet giants who, today, not only dream to be, but are awarded by Hollywood. Hence, television channels nowadays evolve inside a new ecosystem of information and communication technologies characterized by its modularity.

With the content supply diversification enabled by technology, television channels see their audiences fragmenting inevitably. Moreover, the advertising market has reached maturity in many regions of the world and advertisers are increasingly allocating a bigger part of their budgets to digital. Also, programming costs are increasing because of the arrival of new players and new platforms, forcing television channels to pay more to get the same exclusivity level. In other words, television channels' business model is eroding, but slowly, since it still generates a lot of cash-flow.

Four development opportunities: upstream and downstream vertical integration, pure content aggregation, and the direct-to-consumer Over-The-Top opportunity

Hence, in order to create new growth drivers in the context of the digital economy's new ecosystem, television channels need to find the segments in which they can best use their key resources to benefit from their competitive advantages. Therefore, we discussed four development scenarios by applying the resource-based view to television channels: the vertical integration of production, of distribution, the pure content aggregator model, and the direct-to-consumer OTT opportunity.

Firstly, the upstream vertical integration of the production segment by a television channel is an opportune strategy in a multi-platform landscape, where owning the rights of intellectual property is paramount. Furthermore, the channels need to produce their own content in order to differentiate themselves from online aggregators. They have to produce content with local characteristics and a focus on live events. That way, television will be able to retain its key differentiator of aggregating a mass audience, instantaneously, around an event.

However, the production segment's vertical integration does not correspond to its internalization. In fact, television channels must acquire equity in production companies in order to build a library of intellectual property, and, hence, monetizable assets.

Secondly, the downstream integration of the distribution segment by a television channel does not seem to be feasible. In fact, firstly, integrating the distribution would be too expensive for a channel and, secondly, requires different skills and capabilities. Moreover, a strategic conflict would arise since a television channel would be tempted to turn off the distribution of its competitors.

Then, based on its rights ownership and the power of its brand, a television channel has to become a completely digital player in order to remain relevant and continue to create value for the consumer. Firstly, channels need to make all their linear programs available on over-the-top platforms managed by the channels themselves. Developing these platforms would enable these channels to diversify their revenue sources, consolidate their brands among younger audiences, collect data on their users and keep a certain independence in their relationships with distributors. Secondly, television channels have the appropriate resources to dominate the online world of short-form videos, on platforms such as YouTube, and to accompany advertisers in their digital migration. In fact, building multi-channel networks (MCNs) and aggregating channels thematically would enable them to capture value by offering brands the mass audience seeks.

TV channels need to produce content and use their key resources to conquer the digital space

To continue to create and to capture value, television channels need to produce content and address all the distribution platforms and video formats, in order to diversify their revenue and grow the number of consumer touch-points. In other words, the scope of television channels has to be widened: channel editors must become content editors.