Emerging Business Models in Content Industries

Paola Dubini
Associate Professor
Bocconi University

Elena Raviola,
Researcher
Bocconi University[1]

Paola Dubini *is an associate professor, Strategic Management Department, Università Commerciale Luigi Bocconi, Milano. Senior Faculty, Strategic and Entrepreneurial Management Department, Sda Bocconi, Milano. Coordinator of Research Center on Country Attractiveness and Competitiveness, Sda Bocconi, Milano. Academic Coordinator for Media Management, Master in Management for the Arts, Culture and Communication, Università Commerciale Luigi Bocconi, Milano.*

Elena Raviola *is an assistant, ASK (Art, Science and Knowledge) Center, Milano.*
Researcher, Department of Corporate Strategy, Università Commerciale Luigi Bocconi, Milano.
CEMS – MIM Candidate 2004/2005 – Università Commerciale Luigi Bocconi, Groupe HEC Paris.

Abstract
Media industry chain (press, TV, music, radio, cinema, software) is an interesting empirical base to study drivers and patterns of diversification, as it has been affected, with a different intensity, by significant and structural technological changes. After a conceptualisation of diversification as a construct, the paper examines the consolidation process of content industries and the emergence of best sellers in virtually all segments of content industries. The issue of convergence is presented, in order to describe the redefined competitive space in which content players are operating.
On the basis of annual reports and secondary data analysis and a selected number of interviews, positioning of content players in this new competitive space is then presented and three possible trajectories are illustrated in order to assess the trends for the emerging business models with the progressive convergence content industries are experiencing.

Keywords
Diversification, content industries, business models, media management

Introduction

Untill the '80s, content industries could be viewed as bounded competitive spaces to be easily analysed using traditional porterian models; all industries shared, with a varying degree, comparable product driven business models, in which the key sources of competitive advantage (and therefore profitability) were ricardian in nature (Mc Grath, 1994): size of catalog on the one hand and creation of captive markets on the other. Companies made revenues on front list titles and profits on backlist titles. Captive markets were created by gaining control over a selected number of distribution channels: ownership of TV channels increased enormously the bargaining power of media moguls, publishers invaded bookstores and newsstands shelf space with series of titles, as a way to reduce the possibility of smaller players to gain visibility. Given the nature of content (which is highly versatile) and the nature of these industries (in which supply generates demand, Dubini 2001), original content was always available to fill up space and to provide a reservoir of new products. Economies of scale and scope were obtained mainly vis-à-vis suppliers and distributors, as a growing catalog meant a higher bargaining power.

Copyright was the incentive and the reward for innovation and new product development. Within each bounded competitive space, players were involved in a sort of “patent race” (Dasgupta Stiglitz 1980; Lee Wilde 1980; Loury 1979) to grab the best authors/ titles, whose commercial success was somewhat serendipitous; as all content based products are very expensive to produce in their first copy, but very cheap to duplicate (Shapiro Varian 1999), copyright infringements have always posed a challenge to full ricardian rents exploitation. Moreover, once a new format or product proved successful, a series of comparable products[2] were quickly introduced in the market, thus making imitation a common pattern of product innovation diffusion within these industries. Imitation was focused on publishing related activities, such as scouting and editing (Nelson Winter 1982)

Two consequences of such an industry structure on content producers strategies are worth mentioning for the purpose of this paper:

- each competitive space was rather clanic in nature; as competition occurred mainly within each competitive space, companies engaged in tough intra industry competition for author and channel control, but were relatively oblivious of international and other content industries dynamics. Vertical integration, cross media diversification and internationalisation were options open to the bigger players willing to buy in market share, to grasp higher profits or to pursue economies of scope through copyright management and sharing of marketing costs. However, individual businesses and individual brands were managed separately, pretty much as if they were parts of a conglomerate. Companies developed rather sophisticated routines incorporating specific knowledge to operate within the bounded competitive space (Winter 1987). Knowledge spillovers throughout the industry occurred when managers were hired from a company to a competitor.
- As these industries were highly product driven, and as sources of competitive advantage were highly related to the size of catalog, not surprisingly core competences (Prahalad and Hamel 1990, Grant 1991) were focused on the editorial side of the company. Competences determine differences in companies’ performances in terms of inovativeness, competitiveness and growth (Nelson 1995); therefore, a strong editor would be able to attract the best authors who in turn would increase reputation, power and attract higher numbers of potential authors, increasing the selection potential for the editor and therefore the potential quality of the outcome.

The competitive space in which content producers operate today is quite different from the one described above. Boundaries have reduced, competitors have increased in number and variety, drivers for profitability have changed, thus making it necessary for content industries to incorporate new competences and develop new routines to face the new competitive space. The purpose of this paper is to examine diversification patterns and emerging business models in content industries (publishing, music, TV, cinema, videogames) as the response of companies challenged by an increasingly rugged competitive space (Levinthal 1997) to incorporate new sets of competences and to develop new sets of routines.

For the purpose of this paper, two phenomena have been taken into consideration as drivers of new business models:

- the emergence of best sellers as products maximising ricardian rents for content producers;
- the introduction and diffusion of digital technologies.

Both phenomena have pushed content producers to develop new routines and to incorporate new competences, following non homogeneous trajectories. As the competitive space becomes less bounded, each player develops original and path dependent adaptation models.Through short case descriptions, the paper presents three different trajectories leading to different emerging business models

This research is based on the value net methodology (Parolini, 1999; Normann, Ramirez 1994): the model is suitable for the media industry, in which diversification is shaped by market solicitations, given the constraints in scope and resource gathering by national governments (Doyle, (a), 2000; 12). Annual reports and secondary data for the biggest players in the Western world in Publishing, TV, Music, Software related to content and Videogames and a selected number of interviews to key managers in the industry are the empirical basis of this paper.

In the following paragraphs, after a conceptualisation of diversification as a construct, the paper examines the consolidation process of content industries and the emergence of best sellers in virtually all segments of content industries. The issue of convergence is then presented, in order to describe the redefined competitive space in which content players are operating. Positioning of content players in this new competitive space is then presented and three possible trajectories are illustrated.

Diversification Strategies, Competencies and Routines

Diversification has long been a topic of discussion among strategy scholars and practitioners, both from an economic perspective - as a way to obtain economies of scale and scope (Chandler 1990) – as well as from a financial standpoint, as it reduces the overall company risk (Mansi Reeb 2002). From a portfolio strategy point of view, a central issue is what determines the direction of firm diversification (Teece 1982). Exploitation of scale and scope economies has been largely examined with respect to product differentiation (Rumelt 1974, Biggadikke 1979, Pavitt et al 1989, Montgomery 1994). The resource based view theory suggests that competencies may be a driver for diversification. Markides and Williamson (1994) suggest that the long run value of related diversification lies not so much on the exploitation of economies of scope, but in allowing corporations to more cost efficiently expand their stock of strategic assets. Strategic assets are assets on which long term competitive advantage critically depends and are imperfectly imitable and imperfectly substitutable (Barney 1986, Diericks and Cool 1989). As competencies are unique, distinctive and create a competitive advantage, companies tend to concentrate and focus their learning on what they know best, thus strengthening their competence base. In this logic, diversification into related business areas has been suggested as the most appropriate way to grant simultaneously growth, profitability and coherence of the corporate strategy (Teece et al 1994). The resource based view suggests that firms choose to enter industries that are close to their existing line of business driven by their idiosyncratic path dependent set of resources. Corporate level strategy may therefore be viewed as patterns of value creation through configuration and coordination of multimarket activities (Collis Montgomery 1997), enabling to link business level strategies (where competencies are created) and corporate level strategies (where competencies are coordinated and exploited. Relatedness is not measured in terms of broad market similarities, but in terms of similarities between the underlying strategic assets of the various businesses that the company is operating in (Markides Williamson 1994).

It has to be noted though, that competences are relatively rigid. As companies focus on and strengthen what they know best, they risk to replicate outdated routines in facing their competitive environment, thus leading to the development of core rigidities (Leonard Barton 1992); the ability of the company to overcome inertia and modify its competence base over time is an essential meta competence to survive over the long term[3]. The existence of core rigidities explains why, when a structural change occurs, incumbents are often slow to react, and new business models are developed by newcomers often coming from very different industries. Apple was not a player in the music industry, nor the first company in understanding the enourmous potential of digital delivery of music, nor was the first to introduce MP3 readers, nor is Ipod the only equipment in commerce enabling end users to legally download music. Yet Apple was able to envisage a new business model for the digital music business, and de facto became an ally of music producers, who had in vain tried to contrast digital diffusion of music. As a consequence, Apple enjoyed the results of this creative effect.

In the following paragraphs, diversification patterns for content producers are examined, in light of two phenomena: the emergence of best sellers (that was a pattern generated from within content industries and requiring an adaptation of exiting competences and routines) and the absorption of digital technologies (that was an exogenous change requiring the development of new competencies and routines).

Content Industry Consolidation and the Emergence of Best Sellers

All content industries in the past 25 years have consolidated and all traditional content producers have experienced a quite dramatic shift in the composition of revenues and in the level of profitability. As an example, table 1 highlights growth rate over the 90s for the biggest content players in Italy; comparison of results for the years considered at the company level, at business level over time and across industry segments shows the following trends:

- Corporate size tends to increase, following acquisitions and consolidation, new products diffusion (free press, digital television channels, Web sites etc.), opening of new distribution channels, internationalisation strategies.

Table 1:
Compounded Average Revenues Growth Rate for the Biggest Italian Content Producers

	Average increase in revenues 1993-2001
Ansa	38%
Caltagirone Editore S.p.A.	10%
Editoriale L'Espresso	78%
Il Sole 24 Ore	379%
Mediaset	53%
Mondadori	88%
Poligrafici Editoriale S.p.A.	126%
Rai	36%
Rizzoli Corriere della Sera	35%
Seat Pagine Gialle	109%

- revenue growth rate has been determined mainly by an increase in advertising incidence, particularly for commercial TV companies during the '90s. *Rai* and *Mediaset* are though currently close to the saturation of advertising space. Newspaper and magazines circulation growth rate has reduced during the '90s, while TV audiences have plummeted, partially in favour to Pay TV (see table 2);

Table 2:
Evolution in Distribution of Revenue Mix

	1994	2000	trend
TV			
Prime time audience .000	24.496	24.899	+ 1,65%
Rai advertising revenues – billion lire	1470	2535	+ 72,45%
Mediaset advertising revenues – billion lire	2867,8	4734	+ 65,07%
Publishing			
Newspapers cumulative daily sales	6.208.188	6.073.158	- 2,18%
Magazines cumulative distribution per issue	50.731.000	47.780.000	- 5,82%
Newspapers advertising revenues – billion lire	1860,2	3540	+ 90,30%
Magazines advertising revenues – billion lire	1.458	2.211	+ 51,66%

- New products – developed at the end of the '90s to follow the internet bubble – were mostrly advertising based and have therefore suffered from the economic downturn of the last few years. Traditional players therefore had to either close down new initiatives, or develop alliances to stay in the new businesses.

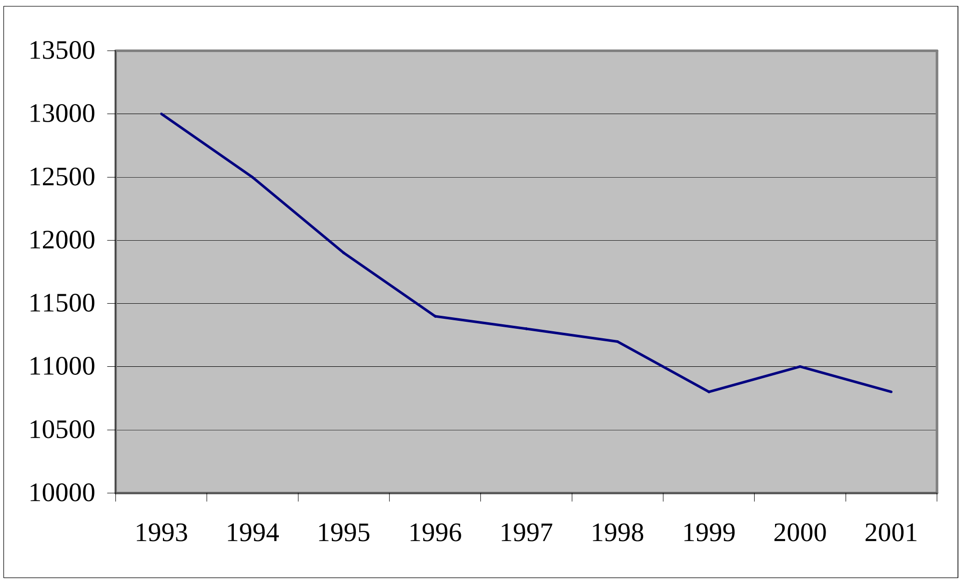
- Revenues growth rate has not resulted into growth in profitability. Table 3 shows that starting from 1997, at the time of the introduction of the current legislation on media concentration, profitability for the companies in our sample has systematically decreased.

Table 3:
Evolution of Profitability: 1997-2001

Return on Investment (ROI,%)	2001	2000	1999	1998	1997
Ansa	6,44	4,01	-2,64	2,74	5,35
Caltagirone Editore	1,38	5,64			
Il Sole 24 Ore	3,18	9,56	17,43	13,06	10,81
L'Espresso Repubblica	5,92	5,07	11,36	8,27	7,8
Mediaset	13,84	16,89	14,86	16,42	
Mondadori	8,66	7,69	6,51	7,23	4,88
Poligrafici Editoriale	2,5	3,74	1,96	0,99	2,36
Rai	5,39	6,89	7,87	8,75	8,97
Rizzoli Corriere della Sera	5,47	7,25	9,29	9,12	4,58
Seat Pagine Gialle	0,75	3,54	13,33		

- Growth in profitability depends on the shift in revenue mix from content to advertising, scale effect and employees layoff or outsourcing of activities. As an example, figure 1 shows the number of RAI employees in the time interval considered.

Figure 1 :
RAI Headcount Dynamics



- With regard to cost side, all the companies have faced significant cost increases:

    o newspapers, magazines and books producers saw great increase in paper costs till the half of the decade, which limited page increases to accomodate more advertising. Tecchnological innovation pushed then a substitution in printing equipment, which forced companies to exploit economies of scale. Content digitalisation determined a complete reorganization of editorial and pre production processes within newspapers.

- Television broadcasters had to invest more and more money to buy film and sport rights, but also to start internal content productions. Industry dynamics at broadcasting level and the emergence of new transmission technologies forced them to start investing in new programming.
- Radio networks used much of their resources to promote their brand and to attract the proper audience, in order to attract extra advertising resources that TV companies could not use and that satellite TV and internet companies were trying to attract.

- Financial needs have increased, as technological changes determine R&D efforts in new channels exploration, production and delivery processes reengineering and content creation or acquisition and competition for advertising increases. New media companies are more flexible and adapt easily to new competitive conditions, but they have to rely on traditional operators for content and to deliver their products through traditional channels. Traditional operators, instead, have great disposal of contents but must innovate their strategies to maintain their market position.

Nelson and Winter (1982) suggest that industry concentration is positively correlated to aggressive company behavior, high growth of productivity, difficulty of imitation, and high volatility of the outcomes of innovation. An imitation strategy is more successful when there are few possibilities for appropriability by the innovative company. In this case, if productivity growth rate is limited and imitiation is easy, imitation is highly profitable. With regard to the content industries, evidence shows that imitation is easy and profitable (as me too products are less risky and less expensive to launch to publishers than truly innovative ideas), productivity growth is not necessarily high and that uncertainty of commercial success of new products is high.. All these elements intervene to strengthen the tendency by bigger player to bet on a limited number of titles in their catalog in order to maximize sales, to appropriate the highest possible share of returns and to capitalize on these same titles to version content (Shapiro Varian 1999) in terms of channels and formats. The explosion of distribution channels favors this strategy; as best sellers (or blockbusters, depending on which content industry we are taking into consideration) are developed mainly by big players, the diffusion of best sellers is fueled and in turns contribute to accelerate industry consolidation process. Due to the positive cash flow associated with best sellers, this type of products is favored by distribution channels; from the competitors point of view, best sellers create opportunities for lucrative me too products. Best sellers are also interesting, for they favor cross media diversification and industry internationalisation. Given the necessary investment to launch a best seller in a given market, it is not surprising that the product will be offered to competitors in different countries for localisation; depending on the medium used, entry in different geographical markets may be sequential (as it is typically the case of books), sequential but with a very limited time span betwen entry strategies in different markets (as it is often the case in videogames), or simultaneous, as it is the case with DVDs. When blockbusters are movies, international strategies are accompanied by massive merchandising.

Digital Technologies and Convergence

During the ‘90s, digital technologies pervasively impacted a variety of industries, making it possible to separate the physical flow from the information flow associated with virtually any product (Evans & Wurster, 1997), opening up new distribution and promotion channels, and offering to companies the possibility to redefine their competitive landscape via unbundling and rebundling activities once rigidly associated to specific industries (Parolini, 1999). For companies belonging to content industries, the advent of digital technologies meant a structural change, as the separation from content to its medium made it possible to imagine a digital media industry in which content could be easily accessed through a variety of media, being the value adding ingredient to emerging business models (Downes & Chunka, 1998). The spectacular acquisition of Time Warner by AOL in 2000 epitomized a way of looking at the competitive landscape by content providers in which availability of a huge catalog of rights together with ownership of a software architecture as well as of a strong digital brand meant the possibility to successfully compete in the growing converging digital industry[4].

If one looks back at all the excitement surrounding the introduction of digital technologies, it becomes apparent, though, that they have not brought a radical paradigm shift, affecting irreversibly the competitive landscape in which companies in various industries (namely content industries) operate. One explanation is that ICT based technologies provide no real new communications capabilities, (Picard, R.G. 2000). Changes occurred in the so called digital revolution have not affected communication production in such fundamental ways as did the printing press, telegraph and telephone, photography and motion pictures, and broadcasting, which enabled to move text, sound, and images. On the content delivery side, the contribution of computers and telecommunications industries together with the diffusion of digital technologies have determined the following effects for media industries (Albarran, 2002):

- increased speed and flexibility of communication;
- new economies of scope and integration that change the economics of content distribution;
- integration of existing and new means of communications allowing readers/viewers/listeners more control and choice;
- providing different methods for interactive communication (namely peer to peer communication).

Despite these changes, fundamental relationships between actors within the media industry are not radically changing: each of them still plays its role and building its business on the same pre-requisites. It is therefore not surprising that once the internet bubble has been over, the general enthusiasm has left room to a general pessimism, according to a model of hyper-reaction common to important historical cases such as the tulip-mania (Mariotti & Sgobbi, 2004). The Internet bubble burst in 2002 showed that the easy and smooth way towards convergence that had been envisaged only few years before had been largely overestimated; at the same time, though, it confirmed that convergence was far from being a fad and that it was going to involve not just TLC, content, hardware and software industries (Picard, 2000), but also a broader competitive space defined as leisure, entertainment, information and communication at home and outdoor.

It is out of question for content providers nowadays that industry dynamics will no longer be the same in the future and that cross media as well as consumer electronics industries' boundaries are becoming increasingly loose; in many instances (the music industry being the clearest example), content providers have not benefited by the emerging competitive space, but it is now generally acknowledged among scholars as well as practitioners that the evolution of the software and the TLC industries determines the speed and the extent to which new windows of opportunities are open for innovative content delivery.

As ICT related industries (namely TLC, software and computing hardware) were leading the evolution of the new competitive space, (Picard, 2002), two types of players dominated the content side of this bigger competitive space:

- key content players started entering in contiguous competitive spaces as cross media consolidation was taking place, thus blurring the boundaries between different sorts of media and communication products and markets; once local and focused companies have left room to integrated global conglomerates (Doyle, 2002), such as Time Warner/Aol, Bertlesmann, Sony, Pearson, Disney/ABC. Although the new economy bubble burst reduced the overconfidence on the synergy-driven strategy and had its burning effects on the architects of these conglomerates, like Vivendi's CEO Jean-Marie Messier and Bertelsmann's CEO Thomas Middelhoff, evidences are that international and diversified media major players benefit from natural economies of scale and scope (Hoskins at al, 2004; Corn-Revere & Carveth, 2004).
- New comers entering the content industry from the ICT competitive landscape showed that it was possible to quickly erode Ricardian rents built over time by traditional players. One of the early examples was the introduction of Microsoft Encarta, whose superior combination of multimedia know how and an innovative distribution strategy via consumer electronics stores as well as bundling with computers working on Windows operating system made it possible to the new comer to revitalize the hypermature consumer reference market at the expenses of moguls such as Encyclopaedia Britannica. At the height of the Internet boom, in 2000, America Online used its soaring stock to acquire Time Warner, an old-media company four times its revenue. Time Warner, a major producer of news and entertainment, owned a huge library of media content and also ran the second-largest US cable network. America Online was the largest Internet Service Provider (ISP) in the US with some 26 million subscribers at the time of the merger. The potential gains for Time Warner/AOL from bringing together strengths both in content creation and in online distribution seemed very promising. After the bubble, however, some investors and analysts, among others, have targeted Steve Case, the company's chairman and architect of the $165 billion merger, for removal. While AOL Time Warner once talked of magical synergies between the "new media" and "old media" and between "content" and "delivery", after the bubble many in the business press were speculating on when the company would split up and openly claimed (Faulhaber , 2002) the merger was a distraction for AOL.

With the exception of some business segments (academic journals, references and so on) and the video game industry, though, content producers have been relatively shy in exploring new delivery models for their content, as the separation of the content from the medium made it difficult to content producers to track down effective access to content and therefore to be adequately rewarded.

As evidenced in the previous paragraph, the advent of digital technologies started a process of convergence of once separated industries. In their own competitive space, content companies have reacted to rather than guided the initial steps of the convergence process (Dubini & Raviola, 2005) and have incorporated, rather than guided, the following aspects:

- emergence of systemic products (Parolini 1999) On the product side, for many media products, complementarity between products is idiosyncratic. In the case of videogames, software and hardware are perceived as one product itself: game software cannot be used without the hardware and the console is totally useless without games to be played. More important, the quality of a videogame depends not only on the beauty of special effects and on the creativity of the script, but also on the speed of the microprocessor, the ease of use of the console and the screen resolution. Therefore game developers must take into consideration the nature of hardware installed base when programming different features on their new titles. Similarly, DVDs and DVD player are essential components of the same experience: DVDs without a DVD player cannot be seen and DVD player without DVDs to be played is useless.

- Emergence of systemic markets. On the consumers' side, products are systemic when the more common the product is among his people, the more benefits a consumer gets from it (Parolini, 1999). These benefits can derive from complementary products and services offered for the used technology (Katz & Shapiro, 1986; Faraoni, 1997) and can be considered as positive externalities, which are positively correlated to the customers' base (Farrel & Saloner, 1986; Katz &Shapiro, 1986). Therefore, the potential of services available via cell phones increases exponentially as the installed base increases.
- Emergence of systemic architects, i.e. companies able to align a variety of players within the newly formed competitive space. Consider the following eamples:

  - In 1991 Nintendo had almost 90% of world market share in the console segment of the growing videogame market; at a time of technological discontinuity, Sony managed to offer a superior product from a technical viewpoint. As the console competitive game is based upon installed base, technical superiority was a necessary but not a sufficient condition to overcome huge switching costs for end users already playing with Nintendo console and having already bought proprietory Nintendo games. Leveraging on its brand positioning as a home consumer electronics manufacturer and on its extensive distribution network, Sony positioned itself as a more family oriented brand than its competitor. More important though, by making it easier and more favourable from an economic viewpoint for game developers to develop titles for the new equipment, Sony was able to present to the market a brand new systemic product consisting of a technically superior hardware and a vast catalog of brand new games and reach world market leadership within three years. Playstation is still the highest margin product in Sony's portfolio.Sony Playstation's success over Nintendo can be interpreted as superior industry chain architecture benefiting all actors involved (Dubini & Rana, 1999). Incidentally, Nintendo still maintained a world leadership with a long selling product, namely the game boy.
  - In the mature music industry, a computer manufacturer selling music online has become the greatest hit of the 2004 Christmas shopping season worldwide. Apple competes in the computer hardware industry, together with Microsoft, Hewlett Packard, Dell. In 2001 it launched iPod, an MP3 reader that could store 10.000 pieces of music, looking somewhere between a radio and a walkman; in 2003 it opened iTunes Music Store, a software enabling legal downloading of music from a huge catalog obtained via a copyright agreement with the music majors. iPod sales have been growing since inception, but only after the introduction of iTunes Music Store Apple became a key player in the digital music industry, even though Napster and MP3 readers had already been in the market for a while. As a result, Apple is now competing not only in the computer hardware industry but also in the consumer electronics industry and in the music industry, if the overall value-creating system is considered.

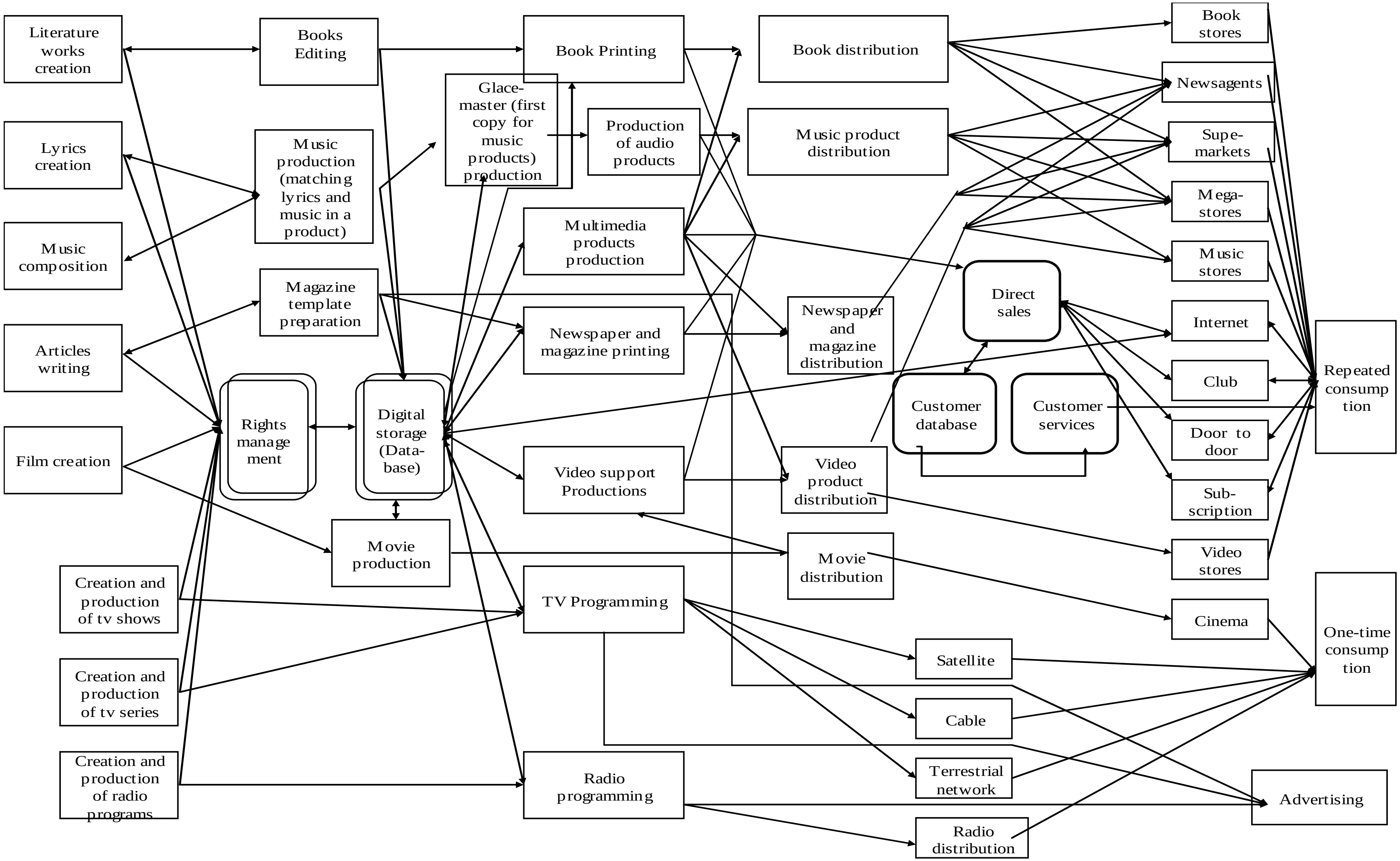
Media have distinctive characteristics that differentiate companies operating in these industries from those active in other markets and that are essential to understand the process of convergence and the directions companies have followed so far. One of their main specificity is that they operate in a "dual product market" (Picard, 1989) in the sense that they generate two commodities: content, sold to consumers, and audiences, sold to advertisers.

Following the value net model to define the industry (Parolini, 1999), it is possible to recognize a common value creating system across media companies: this allows to consider the media industry as a whole. Every content production process implies five macro-categories[5] of value creating activities:

- Authoring, that is content production;
- Editing, that implies the content selection and the packaging and repackaging of the content in new formats;
- Production, that refers to the physical supports or technical production which allows the content to be delivered in a useable form;
- Distribution, that guarantees the content to be accessed by consumers.
- Marketing and promotion.

Each of these categories implies sets of activities that take different forms depending on specific media, but for the purposes of this paper each of them will be taken as a whole and each of them can define a different economic player.

Figure 2:
Media Industries Value Net



Digital technologies impact activities in all the categories highlighted:

- Content is produced in digital formats, leading to efficiency in the production and editing processes; for some products (namely film production), use of digital technologies drastically reduces production costs; for others, (namely films and videogames) special effect and aesthetic characteristics associated with the product can be significantly enhanced;
- Content, once digitally produced, can be easily versioned, stored and retrieved;
- Supports are produced with more advanced and efficient technologies, which use digital control systems;
- Availability in digital format allows distribution and diffusion via digital channels, such as Internet or digital terrestrial and satellite broadcasting for TV.
- Versioning can be used for marketing and promotion purposes, for instance by allowing customers to download a trailer or an early version of games and be involved at the early phases of new product development, thus enhancing the chances of new products commercial success.

Although every phase is affected by technology innovation, convergence caused the deepest changes in two nodes of the value net:

- On the one hand, digitization and digital data transmission technologies have changed editorial activities through digital storage and digital rebundling of media content;
- On the other hand, technological convergence has affected content delivery, given the multiplication of available devices. Further, it has changed the way content producers could interact with their customers.

At the same time, to put it mildly, content producers have reacted to digital technologies with mixed feelings; while opportunities seemed more promises than reality in many instances, incorporation of digital technologies in different elements of the value net implied a surge in upfront costs, an organizational challenge and a risk of losing control over the most precious asset: catalog.

While traditionally catalog composition has affected company's reputation, brand awareness and genre based segmentation, in a systemic competitive space catalog structure affects the type of medium on which content can be transferred and therefore defines a priori the number and variety of value creation systems which the company might create. For instance, versioning possibilities for games are heavily influenced by the necessary size of the screen. In their competition in a broader converging competitive space, content producers bring the following routines:

- Their traditional competence base related to copyright exploitation within a competitive space defined by a specific medium (Dubini 2001) hinders a proactive behavior in searching for new business opportunities in the digital world.
- As more formats and media are available to deliver the same content, chances increase to generate marginal profits from versioning strategies (Shapiro & Varian 1999).
- All content industries are supply driven competitive spaces; the number of blockbuster titles is negligible compared to the size of the catalog of each major player; as only blockbusters can be profitably versioned to maximise operating profits, all content industries show a polarization between very few titles making very big turnover and a huge backlist with negligible results;
- As number of new titles increases exponentially, competition in the specific landscapes often comes out from new distribution and delivery business models. Starting from 2002, the two biggest Italian newspapers have been offering new hardcover editions of a selected catalog of books at a price appromimately 40% cheaper than in bookstores. The titles have been offered once a week and were available together with the newspaper for one week only in newstands

as opposed to traditional bookstores. The first editions to be launched were bestsellers from the twentieth century. Within one year, nearly 90 titles have been sold cumulatively in 44,2 million copies, in a mature market in which nearly 500.000 titles in commerce are cumulatively sold in 100 million copies every year. The staggering success of this strategy has lead virtually all newspapers to come out in the following two years with a diversified catalogue of titles, ranging from encyclopedias, essays, comics, art books, poetry ad so on.

- Separation of content from its medium makes it hard to content providers to be paid for their content in every marginal segment they operate; as risk of piracy dramatically increases as consumers shop or free ride for digital content, content producers see relatively few possibilities to adapt to the ruggedness of the new competitive space.

To the extent that content providers have been able to create and organize a digital archive of their catalog and to link it to the company's core processes and to strengthen their blockbusters, they can face convergence in the broad competitive space via bundling and price discrimination strategies.

During the Internet bubble, many M&A were put in place under the myth of content as the driver in the convergence process because content producers would bring specific information, personalization and represent the reason why customers buy products. Despite the expectations, content has not been determinant to make the convergence actual and not only virtual. Hypersegmentation of the content products and their nature as information goods held back the industry convergence. In some cases (the evolution of the digital media industry) content producers have been slow in contributing to the alignment of the competitive space, rightly assessing the relative importance of their catalog to the attractiveness of any digital offering, but overestimating their power as a concentrated industry and hoped to grab a higher portion of the industry value than the market was willing to pay. As a result, they have been overwhelmed by free riding customers, particularly in the age bracket with highest music consumption, and have de facto enabled the development of illegal parallel distribution markets for recorded music. Interestingly enough, once music producers have allowed legal downloading of music over the internet, they have been a significant player in contributing to the alignment of the broader competitive space.

Diversification Trajectories

Competitive trajectories in the broader competitive space are hard to be predicted, as individual actors are playing a two-tier competitive game: fit maximisation within their own competitive space and within the broader space. Media companies are currently under severe pressures to gather resources; current business portfolio makes it difficult for companies to keep growing profitability levels. As in any business, companies seeking for sustainable growth in the long run have to turn to diversification to explore new business opportunities.

If we look at individual companies' strategies, activities associated with rights management have become more important within each industry chain considered, as content producers try to find new channels for their existing content or to repackage portions of content into new products, particularly within a given medium rather than cross media. As far as the impact of technological convergence on content producers is concerned, results indicate that technology associated with storage, production, management and diffusion of content in digital format has had or is having major process and organizational consequences on the management of media companies, but is not a key driver of diversification. Convergence is in the eyes of end users, of retailers, of device producers, of software companies, which contributes in reshaping indvidual industry chains into a broader media industry, but not so much in the eyes of content producers.Technology seems to be an enabler of diversification, rather than a real driver. From the competence viewpoint, skills associated with content design and production, traditionally the core of technical know how in content producing firms) seem to be very format and medium specific, making the ruggedness of landscape (as suggested by Levinthal 1997) too steep to allow easy adaptation in product diversification. Early examples of diversification strategies into multimedia by companies with huge content patrimony (such as Encyclopaedia Britannica) support the view that editorial and publishing know how and competence is not a major driver of related diversification in media industries. As cross media competition increases, as different content players fight for advertising money and as content producers find it hard to grasp a significant portion of the growing market for digital value added services, at the advantage of emerging digital publishers and intermediaries that are able to better and faster respond to equipment, TLC and distributors needs, it is mandatory for content producers to focus on the evolution of the convergence competitive space, to assess likely insitutional architects and future positioning. If content producers don't want to be spectators of a promising convergence show, they must react and join the successful architectures in their long jumps. This requires a new role for content producers:

- As copyright managers it becomes crucial to rethink about their distribution strategy and frequently update it in order to guarantee constant intellectual property protection;
- As digital asset managers, they need to define new market segmentation criteria and, on that basis, design new value-creating systems to bring more value to customers. This would result into new models for content management and delivery.

Having said that, evidence is that cross-media ownerships that yield the most significant economic efficiencies tend to be those which enable the firm to share either common specialized forms of content or a common distribution infrastructure.

When a media firm's output is characterized by a particular theme or subject matter, then expanding operations into several different sectors can create important synergies.

A focus on one particular type of content may enable the firm to build a very strong brand that is more likely to be successful in crossing over from one platform to another. Therefore specialization makes it easier for a company to diversify by exploiting new vehicles for delivery of media content. Success of diversification strategy based on the content management node depends on the extent to which specific inputs and specialized content can be re-packaged and exploited more fully over company diagonal expansion. This is related to how homogeneous each media content is and how easily this content can be manipulated and re-formatted into different products.

New technologies make economically feasible and convenient to experience a cross-media expansion for those companies which produce specialized content. Key for exploiting these benefits is the reduction of all sorts of images, sounds, text to a common format and the cost-efficient transmission of these contents. Some scholars have referred to these benefits as economies of multiformity (Albarran, Dimmick, 1996).

Combinations of different formats in a single product will not automatically give rise to economies of scale and scope or to any other economic advantages, as prospected above. A strong common focus on content side must be shared: at the end, what must be shared to make economically convenient technological diversification on content side is the intellectual property. This means that television and newspaper are not a natural diversification from each other (Doyle, 2002).

Trajectories of diversification from content players has taken place both product-wise and geography-wise, but it has not been the only adaptation strategy: other trajectories led to focus on the integration of software and content production or on the integration of the whole value chain.

In the late 90s, competitive environment in the media industries presented four different types of competitors challenging each others' moves. The first group included other media conglomerates like

Disney, Time Warner, News Corporation and Viacom. The second challenge would come from global companies in related sectors, such as Sony, IBM, Microsoft, each with the financial muscle and competiencies to enter Bertelsmann's core businesses. Third, distribution companies such as telephone providers and cable operators possessed the infrastructure needed to distribute old and new forms of content to households. Last, there were the emerging online companies such as Yahoo!, Amazon, AOL – each flush with cash from their IPOs and highly valued shares, as currency for acquisitions.

Some years later, we could identify three different trends affecting the media companies' adaptation path to the evolution of their rugged competitive space:

- Product diversification:
    - Matched to vertical integration,
    - Content-focused
- Internationalization;
- Focus on creative activities, by mingling content and software.

Below cases are presented for each trajectory identified.

Product Diversification

a. Vertical integration

Media companies can decide to diversify their activity portfolio to different media and to control on each media the entire value chain. This is the case of many conglomerates. In this configuration of activities, (as depicted in figure 2) centers of gravity can be identified in two key links:

- rights management and archive on the left side of the net;
- customer database and services to customer management on the right side.

Bertelsmann case is paradigmatic of this strategy, aimed at gathering as many new competences as possible representative because of its profitability even during the hard times of Internet bubble burst when many media group went through deep restructuring processes.

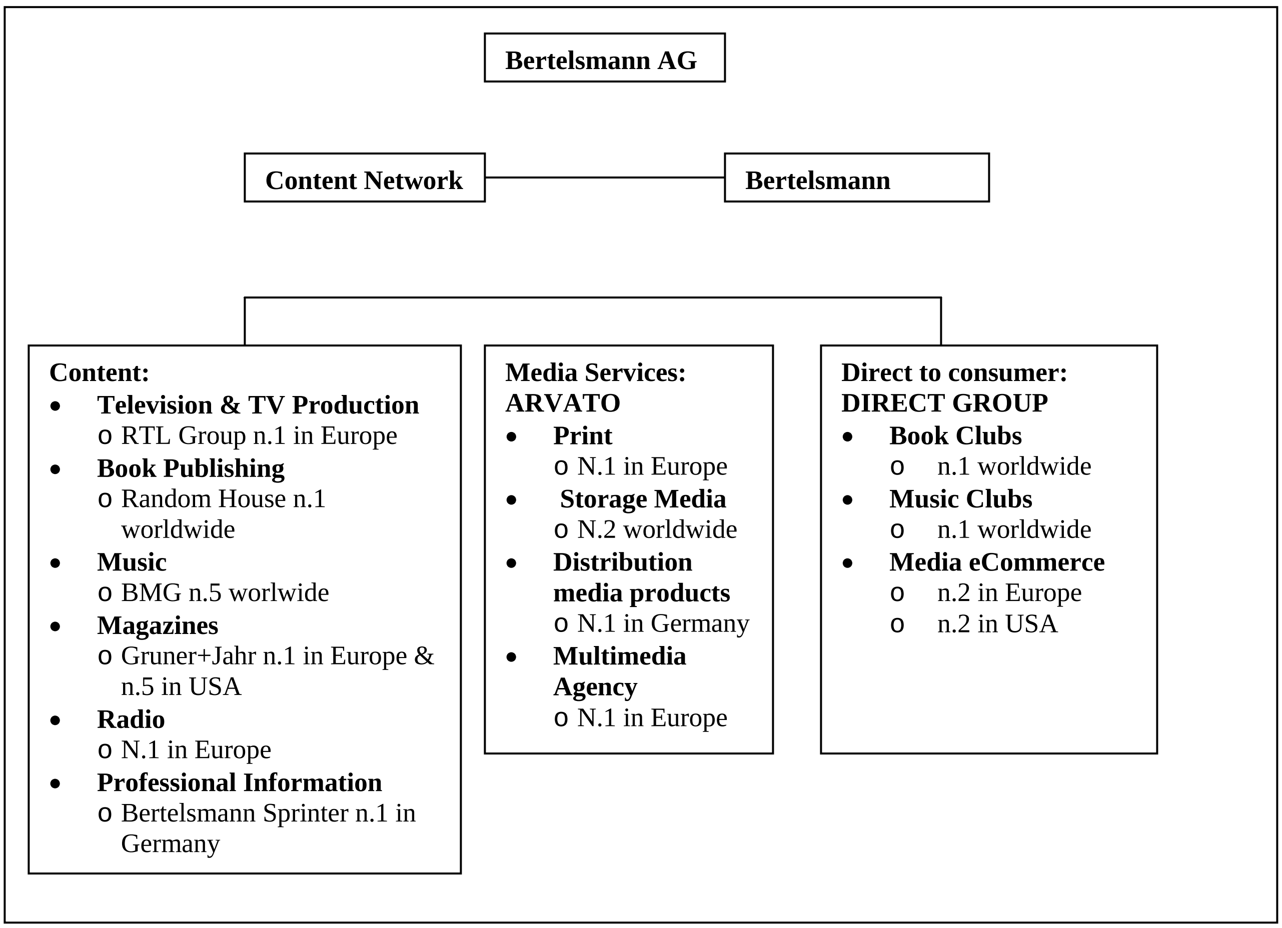
Bertelsmann

Founded in 1835 as a small printing business with its own book-printing plant devoted to religious literature, the company grew rapidly outside its original business. After publishing operations and industrial plants being destroyed during War World II, the company recovered and began its diversification strategy. Mohn, director of the company, came up with the idea that would remain a centrepiece of Bertlesmann for the next 50 years – the book club.Expansion in music was easy in the club system. The decade of the sixties was characterized by portfolio diversification into new media and new geographic markets. We will focus here on diversification in different media.

In 1964, Bertelsmann moved into the emerging television industry and it acquired a Berlin-based film production company, UFA, which had deep roots in the local market. Later on, in 1984, after the relaxation of entry restrictions into the German television market, Bertelsmann purchased 40% stake in RTL Plus. Between 1969 and 1976, Bertelsmann purchased majority stakes in Gruner+Jahr, one of Germany's leading magazine and printing houses that owned several successful national magazines. During the eighties Bertelsmann expanded its music businesses through the acquisition of the fourth largest music label, the US record label RCA: in 1987 a single business unit was created that combined all worldwide music businesses, BMG (Bertelsmann Music Group). With the wave of new media, the nineties were characterized by expansion in multimedia businesses. In 1995 Bertelsmann acquired a 5% stake in AOL and forged a joint venture with this company to launch AOL services in Europe. In the second half of'90s internet had blurred geographical and industry boundaries and the media market was changing at a technology-driven speed never seen before in Bertelsmann's history. Middelhoff, Bertelsmann's CEO from 1998 to 2002, pursued a strategy aimed at integrating the company's traditional media operations with new distribution channels, so that consumers could access their needs through these various channels. He argued that the multi-option consumer requires a multi-channel strategy.

At the beginning of the new century, in spite of an abrupt slowdown of all digital businesses and the firing of Mr Middlehoff,. Bertelsmann position itself in the global media world with an impressive scope and relevance, which is highlighted in figure 3.

Figure 3:
Bertelsmann's Corporate Structure and Competitive Position in Key Markets



Source: Bertelsmann AG, 2004

b. Content-focused cross media diversification

Other conglomerates decided to diversify their operations in different media, but defined their role by limiting their intervention in the downward side of the value net. The center of gravity of their new business model relies on the content production side, more than on the distribution side.

In these cases the issue becomes to design an effective partnership strategy to maximize the utilization of the content produced and to distribute the content in different form to customers. Downward activities are indirectly controlled by leveraging the enormous brand awareness related to characters development worldwide and across media. Licensig and rights management is a key element of this strategy. Walt Disney company is an insightful example of conglomerates focused on content production and able to leverage its content to develop many different entertainment products.

The Walt Disney Company

Founded by Disney brothers, Walt and Roy, in 1923, and based in Hollywood, Walt Disney Company has always been focused on the content side of the media business. The answer to the loss of copyright on their first character Oswald in favour of distributors was the creation of a new character. The new star was Mickey Mouse. Further, since the beginning, Walt Disney used the idea of licensing Mickey Mouse for merchandising to overcome the company's cash constraints. In 1950 Disney reached TV with its first emission and three years later to bolster the film business, Disney created Buena Vista Distribution, ending a 16-years-old distribution agreement with RKO. This allowed Disney to save one-third of a film's gross revenues and to further improve the bottom line.

In 1954, with an agreement with ABC Disney reinforced its presence on TV with an ABC-produced television program called Disneyland. In the same period WED Enterprises started an entertainment theme park, opened in 1995. Its success was a product of both technically advanced attractions and Walt's commitment to excellence in all facets of park operations. Park operations became so successful that Walt Disney decided to open an in-house travel company to work with travel agencies, airlines and tours.

During the '70s, film creativity seemed stifled and from 1980 to 1983 the company's financial performance deteriorated. Disney was incurring heavy costs at the time in order to finish Epcot which opened in 1982. They also invested into the development of a new cable venture, The Disney Channel, launched in 1983. Film division performance remained erratic. After resignation of Roy Disney from the company board, Eisner took place as new CEO and helped the company's turnaround. His effort was to build a strong Disney brand while preserving the corporate values of quality, creativity, entrepreneurialism, and teamwork. He strengthened the corporate culture as a creative company, whose main products are movie characters. Therefore his priority was to rebuild movie and tv's businesses by recommitting the company to quality programming.

As after1984 business units expanded, overlaps among them began to emerge. Promotional campaigns with corporate sponsors in one business needed to be coordinated with similar initiatives by other Disney businesses. Eisner declared that their main achievement "has been bringing back to life an inherent Disney synergy that enables each part of our business to draw from, build upon, and bolster the others". In the consumer products division, the Disney stores, launched in 1987, pioneered the "retail-as-entertainment" concept.

Results of the new focus on creativity, thanks to Eisner's turnaround, were evident. Many films and cartoons were produced in that period successfully and at the beginning of 1994 projects at Disney seemed to be progressing satisfactorily. Their newest animated feature, The Lion King, would total more than $2 billion, with net income of $700 million, including merchandising. In spite of financial difficulties associated with the unsuccessful acquisition of ABC, the company managed to create a strong umbrella brand centered on creativity, technical excellence and innovation.

Internationalization

Another trend common to media companies business models is internationalization, which often is accompanied by cross media diversification, as in the cases highlighted above. A good example of and international media conglomerate is News Corporation.

News Corporation

Founded in Australia in 1952 as Adelaide News by Keith Murdoch, the idea and the vision of a multimedia company came to Rupert Murdoch as he was convinced that the spread of news and television would destroy all boundaries. Therefore, Murdoch started an aggressive campaign of acquisitions of different media companies in different countries.

After having acquired Britain's "Fleet Street" and News of the World, Murdoch moved onto the Sun, Times and the Sunday Times of London.

Murdoch believed he could not build a serious English-language global media business without a strong presence in the US. In 1973 his first opportunity came in San Antonio, Texas. Backed by the cash flows of his British papers, he purchased three financially weak newspapers, the Express, the News and their combined Sunday paper. As in England, he relaunched with more sensational content the papers. The aggressive acquisition strategy focused on struggling newspapers who would be acquired and turned around. After having built his media operations into a global powerhouse by the early 1980s, Murdoch now looked to expand into entertainment. Entertainment was the second-largest export sector in the US and it was often said that America was to entertainment what Saudi Arabia was to oil. Murdoch saw entertainment as one of the few truly international global industries. Therefore, in 1985 News Corporation acquired 50% of Twentieth Century Fox for 250 million.

In 1985 Kluge expressed his interest in selling his chain of independent television stations, Metromedia. The stations were located in seven major metropolitan markets in US, including New York, Los Angeles, Chicago, Boston, Washington DC, Dallas and Houston. Murdoch saw the purchase of these stations as a unique platform to launch a fourth broadcast television network to compete with ABC, CBS, and NBC. Unlike the perishable commodity characteristic of news items, Murdoch recognised that a television show could become more profitable with age because capital expenses decreased and syndication revenue increased.

The Fox Television Network, launched in 1986, quickly developed a distinct style, by focusing on younger audience and on racy and provocative shows. With the acquisition of Metromedia, News Corporation became the first company to integrate newspaper assets with television operations.

Always being fascinated by satellite communications, Murdoch believed the satellite would solve the global broadcast distribution problem. In 1983, Murdoch purchased a stake in Inter-American Satellite Television Inc., a company that leased five transponders from a private communications satellite. Murdoch's company, Skyband, found it difficult to persuade consumers to accept large dishes in their backyards, particularly when there were not enough programs to attract viewers.

He turned his attention to the UK again. In 1986 Britisch Satellite Broadcasting, a consortium of five companies, won the license from the British government to provide commercial programming on the available direct broadcasting satellite channel. A few years later, Murdoch purchased a controlling interest in Sky Television, a pan-European Channel, broadcasting common programs to several countries across continental Europe. By 1987, Murdoch spent £40 million on Sky Television which was transmitting 18 hours everyday and reached nearly 12 million homes in 20 countries. Yet, Sky Television struggled, since there were not enough pan-European brands to generate healthy demand for advertising. Moreover, most viewers in Italy did not care to watch the same programs as their counterparts in France. Murdoch therefore decided to withdraw Sky TV from continental Europe and move channel onto Luxembourg-based Astra satellite, so that it could be beamedinto the UK. Airing the channel outside British jurisdiction also allowed Murdoch to sidestep the cross-ownership restrictons in Britain that prevented joint ownership of newspapers and television stations. In 1989 Murdoch launched a four channel satellite service called Sky. Despite intense promotional campaing through newspapers, Sky though – like BSB – found it difficult to convince viewers to purchase satellite dishes.

In 1990, after prolonged and challenging negotiations, Sky and BSB agreed to merge into a single company, British Sky Broadcasting (BSkyB), whose channels would be under the Sky umbrella name. Untill 1992 BSkyB incurred losses, until the acquisition, for $ 465 million, the exclusive rights to broadcast Premier League Soccer games, which until then had been domain of BBC. Over the next few years, the company acquired and developed new content, established aggressive marketing efforts and ran its own subscription service via rented satellite transponders. In the pay-TV market, Sky became the UK's third-largest media business, bigger than many film studios, with a market share of approximately 85%. In 1998 Sky was the first pay-TV operation in the world to go digital. Digital television provided a higher quality picture and increased channel capacity. Over the next few years, Sky experimented with, developed and delivered a variety of interactive television services that could exploit the technological capabilities of digital technology. Interactive TV required an Internet connection be developed that could relay signals from consumer's relevision back to Sky production center. For this Sky collaborated with the leading telephone company, British telecom. Nowadays, Sky is the first Pan-European satellite television.

In 1993, Murdoch turned his sights on Asia, noting enormous opportunities in many emerging and developing markets. As they opened up their domestic markets, many Asian countries were launching provate television operations. The most prominent of them, Star Television, broadcast content through satellite operations to approximately three billion people in Asia and the Middle East. In 1993, Murdoch paid $525 million to acquire a 64% ownership stake in Star TV from its owners, the Li family in China.

Although it had to go through struggling times, Star recovered and expanded successfully to India and Taiwan. Murdoch decided to divide Star's business by regions in India, China, Taiwan and the rest of Asia. In India they built a dominant media conglomerate, including content business, platform business (multisystem cable operators and direct-to-home (DTH) subscription business), and radio. Language barriers in China forced to slowly turn everything over to local languages.

Focus on Creative Activities, by Mingling Content and Software

Some companies access content production from the software design side. By integrating different platforms / operting systems and/or developing sophisticated retrival/diffusion digital systems, some players gradually incorporated their own content or developed tight allliances based on content. This is the case of many network providers which put the center of gravity of their business model on the control of the support activities in the media value net: these activities get increasingly important and are often able to generate significant value added.

Examples of these software centered business models are network utility providers, who provide software programs connecting users with destination websites or with each other, allowing them to perform specialized tasks that are beyond the basic capabilities of Web browsers and e-mail programs, accessing "rich media" or chatting in real time. Examples of utilities include Adobe's Acrobat Reader, which allows users can access audio download and read documents; RealNetworks' Real Player, through which users can access audio and video content "streamed" over the Internet;

and America Online's ICQ service, which allows instant messaging between groups of Internet users. In this paper we focus on Media players, such as RealNetworks' products, which are used to access files that incorporate pre-recorded audio, photos, animation and/or video elements. Such files may be streamed or downloaded to a user's PC for later consumption.

RealNetworks, Inc.

Founded as Progressive Networks by Glaser, former Microsoft employee, in 1995, the vision of the company was to strengthen Internet communications, Web-based Information Management and Interactive Television. On April 10, 1995, Glaser introduced RealAudio 1.0 to the world; within the first two years the company had over 15 million RealPlayer user. At first RealAudio users were "techies" with access to sophisticated networks, but the company persisted in its vision of creating product that could be used by unsophisticated users on the technologies of the day. They were convinced the profile of the frequent uses would change and when it did the ability to play sound over dial-up networks would be an important breakthrough. After having released the second version of RealAudio in October 1995, the company developed an Internet video-conferencing technology, being Glaser convinced that video would be a killer application for emerging broadband Internet networks. So, in 1997 RealVideo was introduced: it used state-of-the-art technology that squeezed fat, data-rich digital video signals through the Internet's cramped capillaries by carefully removing nonessential data and allowing viewing to start as soon as the data began to unload.
Apart from developing software the company made other important decisions to its success. First, they decided to have major content players, including both ABC and National Public Radio on at the time of lauch as anchor content providers. Second, they decided to give the client-side of the software – the audio player – away for free in order to have their software player on as many desktops as possible.

The RealNetworks business moel was founded on being at the center of an electronic community of content providers, consumers and technology and service providers. They realised from the beginning that an important source of revenues would come from web advertising; the more traffic that the company would drew to its web site and the greater the diversity of that traffic, the more successful RealNetworks would be in generating and sustaining advertising revenues. More important, was the numer of people that would download and try the free software – RealPlayer and basic RealAudio and RealVideo server product – and provide RealNetworks with profile information, their e-mail address and permission to receive product updates and promotion information.

To avoid the risk to becoming "just another software company", in August 1997, RealNetworks in partnership with MCI launched the Real Broadcast Network (RBN). RBN provided a full range of broadcast services, including design, production and delivery of multimedia programs, over the Internet. By August 1997, RealNetworks had begun to host a variety of multimedia content sites – for example, Timecast.com, Film.com, Music.net and LiveConcerts.com. Three of these gave RealNetworks an excellent opportunity to demonstrate the capabilities of its enhanced RealVideo and RealAudio technologies.

In 1997, the company went public. On September the company officially changed its name from Progressive Networks to RealNetworks in order to strengthen the relationship between the company name, brand, image and products, which are listed in table 6.

Conclusions

In this paper we look at the competitive space as a rugged landscape in which individual players adapt episodically (Levinthal, 1997), as they try to maximise in an evolutionary process both the local fit with their specific landscape (namely the industry in a Porterian (1980) sense) with a broader competitive space in which relationships among actors change in nature across a variety of specific landscapes. To give an example, a company like Sony must simultaneously preserve its leadership position within the console industry worldwide, while at the same time being able to successfully position itself versus offerings such as Nokia N-gage as well as domotics. Because resources and competencies both limit and drive a company's growth (Penrose 1959), the overall competitive space evolution will be affected by the players' specific path-dependent competence base and by the nature of competitive ruggedness in different specific competitive spaces (Levinthal 1997). To go back to the console example, Sony results will be affected among other things by Nokia challenges in the wireless industry, by the investments in domotics by major brown goods manufacturers as well as by new players, and of course by what Microsoft and Nintendo will do. Achieving fit in the specific competitive space requires developing idiosyncratic core competencies for that level (Prahalad and Hamel 1990).

Two elements still stand out as key assets in affecting media companies profitability and competitive advantage: size and quality of content library and advertising. Content libraries enable to preempt competitors from entering the industry, qualify the company's specificity from the cultural viewpoint and generate ricardian rents to the extent that new distribution channels and/or modes of access are explored, as Shapiro and Varian (1999) suggest. Advertising collection and use related activities are the main revenue and value drivers from an economic viewpoint and massively shape diversification strategies in terms of new product development and distribution channels. New product development does not just refer to individual products (that are mostly local in scope, and hardo to diversify across media), but also to the development of formats, that are designed for specific market targets (in terms of readership/viewers and advertising). The ability to design succesful format has become a source of competitive advantage both in the TV and in the magazines businesses and is a major driver for internationalisation.

These findings have major implications on policy making in industries that are critical from a political, as well as economic point of view. Both advertising and - though to a lesser extent - libraries of content are strongly associated with size, thus favoring the biggest players Any law regulating these industries must necessarily take into consideration incumbents relative position as a starting point to assess dominant positions. On the other hand, these industries are affected by huge scale and scope economies; limiting size puts at stake the sustainability of the company in the media business and forces companies to reduce production costs. This may result in a reduced quality or reliability of the content produced, which is very risky, particularly in case of news production. From a corporate level strategy view point, the presence of growth limitations inevitably pushes companies to diversify though internationalisation and to set up alliances in non related businesses in order to trade visibility on media for financial resources, thus putting companies with flexible governance structures (namely private owned companies) at a significant advantage over government owned companies.

Notes

[1] Please send correspondence to Paola Dubini – ISEA – Università Bocconi – Viale Isonzo 23 – 20136 Milano phone +39/02/58362516 – fax +39/02/58362530 – paola.dubini@unibocconi.it

[2] Eamples of this behaviour abound in the music, movie, fiction, publishing industries. Did you notice how many Harry Potter clones are available on bookstores' shelves?

[3] Teece and Pisano (1994) name it "dynamic capability" and link it to path dependent proceses, to opportunity eploitation, to complementary actitvity and to transaction costs.

[4] Among the different meanings attributed to the term "convergence", here it refers to "the coming together of consumer devices such as the telephone, television and personal computer", as the European Commission in its Green Paper on Technological convergence defined in 1997.

[5] This is a simplified view of the media value creating systems and is intended merely to highlight similarities across media.

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