



SCHOOL OF ECONOMICS
AND MANAGEMENT
Lund University

FEKP01
January 2008
Department of Business Administration
Lund University

The Digital Content Era

How the new structure of the digital business landscape enables new business strategies and value drivers for an intermediate actor



Advisors

Fredrik Häglund, PhD-Candidate
Christer Kedström, Associate Professor

Authors

Henriette Bourghardt
Maria Ekelund

Preface

The hours and weeks spent on this research have been many and stimulating, as well as it has increased our knowledge within the growing area. The opportunity to study this dynamic and mercurial industry has been very fulfilling and interesting for us, and we hope that this research will be of use for others in their research.

We would like to take this opportunity to thank our respondents for the time they spent contributing to the research with their valuable insights, and knowledge of the industry. We would also like to thank our advisors Fredrik Häglund and Christer Kedström for tutoring us in a professional and enlightening way. They have been of great value for our research and have supplied many intriguing and interesting aspects, great feedback and constructive criticism.

Henriette Bourghardt

Maria Ekelund

Abstract

Title	The Digital Content Era
Seminar date	January 15 th , 2008
Course	Master Thesis in Business Administration, major in Strategic Management, 15 ECTS
Authors	Henriette Bourghardt and Maria Ekelund
Advisors	PhD-Candidate Fredrik Häglund and Associate Professor Christer Kedström
Key words	Digital content, intermediate actor, business landscape, value creation, competitive advantage and strategic fit
Purpose	The purpose of this study is, from an intermediate perspective to identify the business landscape of digital content, value creating drivers and decide how to achieve competitive advantage through strategic fit.
Method	The research is based upon a qualitative approach. We have used empirical and theoretical data in an approach, which has been both inductive and deductive. The empirical data derives from five semi-structured interviews with managers in the content related industry and other secondary data gathered. The main theoretical perspectives are the concepts of business landscape, value creation and strategic fit, which we then have applied to create analytical tools in the research.
Conclusions	In order to become even more competitive, a partnering with other niche players is essential in achieving a competitive advantage and it enables opportunities for reintermediation. From an intermediate perspective, there are great possibilities for those who become content coordinators to enter the market. By becoming a bundler of services and products, the content coordinators will become the actors that will capture the most profit in the value web. The value creating drivers that have been identified in the business landscape of intermediates concern owning the content or owning the customer relationship. We find the possibilities of an intermediate actor, such as a content coordinator to achieve competitive advantage through strategic fit is subject to the context and the ability of creating more innovative and co-creative distribution systems. Our research shows that to have the potential of achieving competitive advantage in the value web, it is of utmost importance that the intermediate actor creates new value that has not been created yet. Reaching a critical mass is also essential to attain strategic fit and achieve competitive advantages in this business.

A teenager walks home from school picks up the mobile phone and listens to music, that she has downloaded and watches some sports clips from matches earlier that week. When she comes home, she chats and plays games online with her friends using her computer. They share music and video with each other, and she often chooses to download Japanese anime movies that somebody has recommended on discussion sites. Most free time is spent online; surfing, chatting or just using Internet as an information-seeking tool. This teenager is part of a generation that cannot remember life before Internet, mobile phones and other technological innovations and gadgets. She and her peers create their own movies, video clips and music, and they can share or even sell them online. They find new sorts of content, meaning movies, music and games, digitally. Everything is followed online, gone is the time when using the traditional media. Her generation and others are not letting radio channels and TV-channels tell them when they should watch certain shows, movies or music. They choose themselves when to see, listen and play and all this changes the way many industries will look in the future. Time has changed and this is the world of unlimited connectivity and access to content of all sorts, although an important question is which are the firms that make this possible and how do they generate profit in this unpredictable industry. Looking at the competition of the existing actors, is there an opening for new players to enter the market and effectively distribute content to the consumers?

*Welcome to the new **digital content** era!*

Table of Content

1 INTRODUCTION.....	4
1.1 THE RESTRUCTURING OF THE DIGITAL WORLD.....	5
1.2 THE NEW LOGIC OF DIGITAL ECONOMIES.....	7
1.3 PROBLEM DISCUSSION.....	8
1.4 IDENTIFIED RESEARCH PROBLEMS.....	12
1.5 PURPOSE.....	13
1.6 DEFINITIONS.....	13
1.7 OUTLINE OF RESEARCH.....	15
2 METHOD.....	16
2.1 RESEARCH APPROACH.....	16
2.1.1 <i>Qualitative Approach</i>	16
2.1.2 <i>Methodological approach</i>	17
2.3 THEORETICAL APPROACH.....	18
2.4 THE EMPIRICAL SIGNIFICANCE.....	19
2.4.1 <i>Primary Data</i>	20
2.4.1.1 Selection of Respondents.....	21
2.4.3 <i>Secondary Data</i>	22
2.5 QUALITATIVE DATA ANALYSIS.....	23
3 THEORETICAL FRAMEWORK.....	24
3.1 FORCES IN THE BUSINESS LANDSCAPE.....	24
3.1.1 <i>The Growth of the Business Landscape</i>	24
3.1.2 <i>Pitt's Total E-clipse: Five New Forces within the Digital Age</i>	25
3.1.3 <i>The Standards Race</i>	27
3.1.4 <i>Co-productive Relationships</i>	28
3.1.5 <i>Value Networks</i>	28
3.1.6 <i>Reintermediation</i>	29
3.1.7 <i>Summary of the Forces in the Business Landscape</i>	30
3.2 VALUE CREATION.....	30
3.2.1 <i>Value Drivers</i>	30
3.2.2 <i>Digital Value Systems</i>	31
3.2.3 <i>Co-creation and Experience Innovation</i>	32
3.2.4 <i>Richness and Reach</i>	33
3.2.5 <i>Summary of Value Creation</i>	34
3.3 STRATEGIC FIT.....	34
3.3.1 <i>Fit and Leverage through Value Constellations</i>	34
3.3.2 <i>Competitive Advantage and Key Success Factors</i>	36
3.3.3 <i>Prime Mover</i>	36
3.3.4 <i>Strategies through The Delta Model</i>	36
3.3.5 <i>Development of Breakthrough Ideas - Blue Ocean Strategy</i>	37
3.3.6 <i>Summary of Strategic Fit</i>	38
3.4 SUMMARY OF THE THEORETICAL FRAMEWORK.....	38
4 ANALYSIS OF THE DIGITAL CONTENT INDUSTRY.....	40
4.1 ANALYSIS OF THE BUSINESS LANDSCAPE OF DIGITAL CONTENT.....	41
4.1.1 <i>Conditions of the Business Landscape and Industry Structure</i>	41
4.1.2 <i>Operating in a Content Web</i>	45
4.1.3 <i>Digital Content Owners</i>	48
4.1.4 <i>Critical Issues and Limitations within Digital Content Distribution</i>	48

4.1.5 <i>Opportunities within Digital Content and How the Market will Change</i>	49
4.2 ANALYSIS OF VALUE CREATING DRIVERS WITHIN DIGITAL CONTENT	51
4.2.1 <i>Empowering Consumers</i>	51
4.2.2 <i>Sources of Value Creation</i>	53
4.2.3 <i>Richness and Reach</i>	54
4.2.4 <i>Co-creation of Personalized Experience</i>	55
4.2.5 <i>Experience Innovation</i>	56
4.3 ANALYSIS OF STRATEGIC FIT	58
4.3.1 <i>Customer Base as System Lock-in?</i>	58
4.3.2 <i>Competitive Advantages within Digital Content</i>	59
4.3.3 <i>Strategic Fit and Leverage</i>	60
5 CONCLUSIONS	63
SUGGESTIONS FOR FURTHER RESEARCH	65
REFERENCES	66
PUBLISHED SOURCES	66
ELECTRONIC SOURCES	69
OTHER PRINTED DOCUMENTS	69
ORAL SOURCES	70
APPENDIX 1	71

Table of Figures

FIGURE 1A	10
FIGURE 1B	11
FIGURE 2	26
FIGURE 3	39
FIGURE 4	40
FIGURE 5	42

1 Introduction

This chapter introduces the reader to digital content and the restructuring of the digital world. The background of digital contents evolution to today is thereafter discussed. The problems surrounding the business landscape of digital content and the transformation of the market are then enlightened. A focus on existing actors and possibilities for new players to enter the market, to satisfy consumers' high demands is subsequently presented. The chapter then presents the problem formulation and the purpose of the research. Definitions of the key words in the study are explained, and finally an outline of the research is put forward.

1.1 The Restructuring of the Digital World

The Internet is constantly emerging, the services offered are constantly increasing, and the possibilities appear to be almost unlimited. Online usage has risen dramatically, by 265 percent since 2000 (Internet World Statistics, 2007), and there are several billion pages of information across the Internet. The networks holding it together are growing daily in order to cope with the increased pressure. E-commerce, email, search, shopping, news, weather, maps, entertainment, instant messenger, games, photos, music, video are all activities that have increased incredibly during the past years. (Blomkvist, 2007-12-07) The growth of content intensive activities has high implications on the networks, as well as on the companies that distribute them legally for commercial use. Together with the continued growth of illegal Peer-to-Peer¹ networks the demands on business' and content providers has increased. The attempts by existing and new businesses to get a share of the growing market have implications on the competitiveness, as we know it, of many industries. (Noto, Goldman Sachs Independent Insight, 2007)

Over the years, Internet has evolved as a rapidly growing medium of content distribution. 29 percent of total time spent on the Internet is used for entertainment, that is to say watching movies, playing games and listening to music (Noto, Goldman Sachs Independent Insight, 2007). At the Consumer Communication and Networking Conference in 2005, Moyer stated that in 2004, usage of content became the leading U.S. online activity, and the amount of

¹ Peer-to-Peer networks imply sharing content files containing audio, video, data or anything in digital format. Peers act as equals, merging the roles of clients and server, and there is no central server managing the network. When we use the term Peer-to-Peer network, it implies illegal downloading and sharing of content files.

traffic is expected to increase much more. The academic scholars Leuridijk and Limonard (2005), claim that “(o)ver the past decades, new technologies (most importantly digital networks, mobile telephony and the Internet) have added increasingly sophisticated possibilities for personalization, interactivity and engaging media content.” There are many radically changing techniques that have important implications in the business and consumer world.

“Executives – and not just those in high-tech or information companies – will be forced to rethink the strategic fundamentals of their businesses. Over the next decade, the new economics of information will precipitate changes in the structure of entire industries and in the ways companies compete.” This statement by Evans and Wurster, (1997) has been proved true.

Equity analyst Wang at Bear Stearns states that over the past years, a significant evolution in the media industry has been witnessing digital technology and the new risks and uncertainties it poses, which has brought forth valuation multiples within the industry (Bear Stearns, June 15th, 2006). Many new firms see opportunities in this new field and industry. They have entered the market as players who redesign and influence the content evolution. Companies are continuously innovating to improve the offer and services for new markets, and niche-segments are appearing. This happens although it is hard to find the right business model when consumer demands are ever evolving and the field is changing every day. In addition to that, enterprises that used to be associates of the established businesses now transform into competitors in the field. (Blomkvist, 2007-12-07).

Peer-to-peer networks have developed the illegal digital content distributions phenomenon. The introduction of these networks shocked many industries, and complete strangers were suddenly sharing content, such as music, with each other. Consumers did not have to go to the record store and buy the latest album by their favourite artist; and they could download it for “free” at home. However, not all content is distributed for free, and many firms are seeking for ways to capture new customers within the commercial digital content industry, and to make them pay for their content consumption or earn money from it, for example through advertisements.

It is hard to get a clear overview of the market: Who are the digital players and where do they acquire value in the web? Who are the main actors and players within the legal content

distribution? Is there money to make within the industry, or have consumers' willingness to pay for content disappeared? Where the competition will be in the future is still uncertain, although we have seen firms introduce services such as Apples iTunes, which have successfully managed to sell music digitally. Many TV channels now distribute their programs online through hosting channels such as Niklas Zennströms, Joost, to acquire customers where they are interested in what they have to sell. (Expert within digital content production, 2007-12-11)

The industry has also seen new players enter the market that previously did not provide content, though they have a customer base that does. Telecom operators around the world are introducing content, by providing Mobile TV, Mobile Music, and on demand videos from mobile phones by using their platform and customer contact to provide new services to consumers.

Industry experts believe that the next digital success story lies somewhere in-between the intersection of entertainment, video and mobile telecom, but what it will be – nobody knows. (Froste 1, 2007)

1.2 The New Logic of Digital Economies

Academic scholars Bektas et al. (2005) state that distributing content effectively to the public has become a major problem today. The industry is growing, but there is need for a thorough analysis of which factors are most essential to growth, where will it grow and how, is investigated within the industry.

Content journalist Dye (2007) defines our times as the *Content Era*. Today's generation demands control over content, both direct and indirect, as well as mobility. Mobile phones is the generations' constant companions; therefore, producers are adding more content-delivery features to get email, video, and pictures on the small screens, and a behaviour Dew has given the name "content-centric communication". (Dye, 2007)

Advertisers and traditional media companies looking to reach the dynamic demographic group of consumers will have to find ways to fit themselves into content that is beyond their creative control. Companies must be able to provide content to the content. (Wang, Bear Stearns, June

15th, 2006). In a few years, the telecom industry has gone from mainly producing and supplying telephones where you can talk and text message to selling everything from music to cameras and *made to mobile* video entertainment. (Froste 2, 2007)

According to Bomsel (2006), content distribution systems are subject to network effects; the more consumers, the more useful is a good or a service. Academic Scholars Goedvolk et al. (2004) state that the new digital content formats with high perceptual quality combined with networked distribution technologies, such as the Internet and increasing digital storage capacity, allow for new content exploitation strategies. Value within networks is an important issue to explore for the industry, where one single actor cannot fulfil all consumer demands.

Wang's research for Bear Stearns shows that "the emerging model is to offer consumers the ability to pay for commercial free content, which could increase overall industry revenue" (June 15th, 2006) Furthermore McCormack et al. (2007) states in the Bear Stearns Broadband Buzz report on the industry, that they believe new technology will largely be a positive growth catalyst for the advance of content-oriented companies.

At the OECD conference on "The future of the Digital Economy" in 2006, it was stated that the high speed of change in the sector is led by the availability of broadband, enabling digital content provision with a remarkable decline of access prices. The rapid growing of data transmission capacity to supply high quality digital content is becoming crucial across content industries, such as media and publishing, music, film and video, games, research and news distribution. The conference came to the conclusion that value chains for content development, production, delivery and use, are changing rapidly along with the creation of new business models to exploit these opportunities. (OECD, 2006)

1.3 Problem Discussion

Dye (2007) states that we have arrived in the world of Generation C; C stands for "content", although it could also stand for "creativity", "consumption" or "connected". The new consumers of Generation C are not categorized by age but rather by behaviour, and are focused on content-centric communication; how they share, store and manage content. In Dye's opinion, an interesting characteristic of this generation is the way its members build networks, relationships, and their identity around and through content. The most remarkable

aspect of the change Generation C wreaks on companies and industries is the role they take as both creator and consumer, making companies move quickly to find a new role in the cycle. This gives Generation C unprecedented power in deciding when, where, and how to get their content. (Dye, 2007). Finding out which role firms play to meet consumers' demands of how they use content is an essential issue for firms wanting to enter this industry.

“Keeping up with Generation C isn't easy. They're empowered by their creative control and are setting the pace and tone of the way content is developed and deployed. To them, content doesn't just have entertainment or information value – it's social, it's personal, and it's their lifestyle. (...) Time is at premium for Generation C, and they like to have instant, on-demand access to their content wherever they go.” (Dye, 2007) How can firms capture these customers within such a volatile industry, and where can value be created and attained? What do the actors and players within the market do today to keep up with them, or can other entrants create more value in doing it in another way?

Prahalad and Ramaswamy state in their article “The New Frontier of Experience Innovation” that value will increasingly have to be co-created with consumers, and that innovation must be focused on the co-creation experiences (2003:13). They believe the ability to imagine and combine technological capabilities to facilitate experiences will be a key success factor in experience innovation, regardless of industry. (2003:17) A focus on a more personalized and customized experience is needed since customers demand it today.

Within the digital content industry, three main actors where different empirical data can be gathered have been identified. Terminal, Content and Access are the three main actors that work together with digital content. *Content* refers to the actual productions of music, video, film as well as the people that create it, produce it and package it to the consumer via a terminal. Content providers can be film production companies such as Paramount, Disney and Dreamworks, or TV-channels that package the productions of programs, such as NBC, abc, or TV4 in Sweden. *Terminal* represents a system that enables computers, servers, and mobile phones to receive or deliver content to different devices. Large technological supplier firms such as Ericsson often act in the field of terminals. *Access* implies, for example, the mobile phone operator that has an end-consumer contact, and access to the consumer. Access can be everything from mobile phone devices to Internet access through broadband and wireless. Examples of actors within access could be mobile phone operators such as Orange, Vodafone and TeliaSonera. Looking just a few years back, the industry was quite vertically integrated and

the three actors worked as partners, adding value after another to deliver content to the consumer, see figure 1a. Access was the sole player with the direct contact with the end-consumer of digital content.

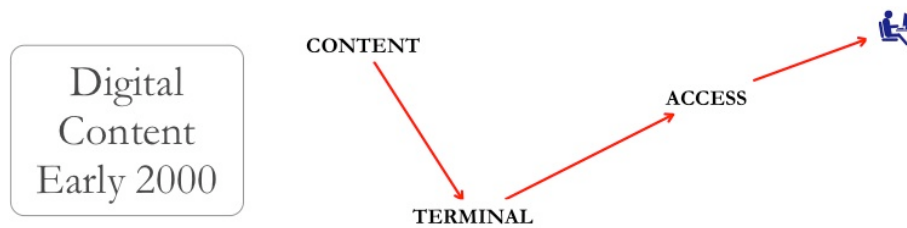


FIGURE 1A: DIGITAL CONTENT EARLY 2000 - VERTICAL INTEGRATION

Today, the dimensions have changed radically, and many of the previous traditional chains of value creation have transformed, into webs. Actors are trying to get closer to the end-consumer, although access still has a priority to them within the market today. Looking at new participants within the web that is being formed, they have the possibility to compress what several players are doing today and shorten the lead times from actual production of content to access for consumers. There is a large amount of strategic uncertainty within the industry. A transformation is expected to happen within the industry due to changes in high demand of Generation C, technological innovation and the forces of digital convergence. Therefore expectations of reintermediation to restructure the industry have emerged. Reintermediation implies a reintroduction of an intermediary between consumers and producers. It is the process of which actors and players have been subject to disintermediation, and when existing players are able to find new and innovative ways of doing transactions more efficient (Chircu and Kauffmann, 2000).

There is a new business space evolving that has to be seized to meet the trends from technology and Generation C, which will imply new companies and new services available within the market. There are many firms that wish to enter this lucrative, and growing market by becoming a bundler of services to consumers. The industry has changed over the years, from vertical integration to total integration. The new structure is more of a value web of both players and actors, interacting with each other and become more of a bundler of services. The value web has integrated parts of the vertical integration as their previous partners did, so they can have a closer relationship with the end-consumer, or specialize themselves to be able to fulfil a certain demand within the industry. See figure 1b for an illustration of how the situation has changed.

Digital
Content
TODAY

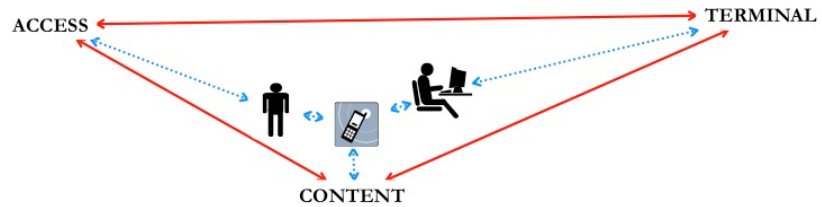


FIGURE 1B: DIGITAL CONTENT TODAY – A VALUE WEB WITH TOTAL INTEGRATION

Business models change radically in a volatile industry where entry barriers are shrinking and the costs of entering decline. This also implies that many new firms are interested in entering the industry when costs and barriers diminish, which makes the industry even more volatile. As previously discussed content delivery networks seem to be a participant within the market that can shorten lead times, cut costs and deliver and enter as an intermediate actor in the market. There are three factors that predict the entrance of successful reintermediation; strategic uncertainty, the transformation of value creation and the forces of digital convergence (Chircu and Kauffmann, 2000). Factors that the digital content value web is characterized by.

“A company that delivers true customer value when it enables consumers to do something with their lives that is better, easier, or more valuable than any other company can offer.” (Carlstedt in Preface to Normann and Ramírez, 1998:xiii) “The Internet changes not only the content and the amount of information available, but most importantly, it provides a new metaphor for decentralization, a new way of thinking about many other things in our lives.” (ibid. 1998:xvii)

Value creation is an important issue to regard when looking at what creations are wanted, in order for the industry to produce the right offerings, so fit can be attained. When looking at how the three digital content actors are exploring the consumer needs and demands it is important to understand where value can be created and attained or if new intermediaries could create a new business space within the market more successfully.

Value creation is another important issue when contemplating entrance into a new industry and assessing what drivers of value creation in the value web is essential. Value creation driven content is an issue that is important to understand so as to attain fit within the value web and business landscape.

Strategic fit is an important issue within value creation, since it is essential to find the right

levers and strategy that enhance the value added to something to make it sustainable and profitable for the future. Even though, players within the industry find it hard to discern if the industry, will have the structure with potential for profit, and to match this with the customers' need, it is a significant issue to be researched. Strategic fit must be matched for customers to obtain value, which in turn accomplishes leverage. Leverage arises if the offering triggers customer activities and is therefore an important issue to look at when assessing an industry that is constantly growing in several different parameters. (Normann and Ramírez, 1998:59ff)

Digital content is a volatile industry with short time horizons and the structure and business constellations has changed merely from the IT-era in 2000. The three actors have a hard time understanding how the value is created and what consumers want, and apply this to their value creation process. Understanding what strategies to take into consideration in this new business space, where value is linked through webs of partners and one single player cannot create value. Another important issue is consumers direct interface with access today, and the possibility for new players to become intermediaries of integrating the content faster, more efficient and cheaper to end-consumers, and adding new value dimensions to the industry. Delivery systems of content, Content Delivery Networks, have the possibility to become subject of reintermediation of the new value dimensions to consumer value. To become a successful intermediate actor, having a competitive advantage as a value creating content coordinator is needed, and therefore achieving strategic fit has to be attained within the value web and business landscape.

1.4 Identified Research Problems

How does the business landscape for an intermediate actor of digital content look and evolve today?

What are the drivers of value creation within the digital content era?

How can an intermediate actor achieve competitive advantages through strategic fit?

The identified research problems help us fulfil the research purpose. An identification of the business landscape is needed for an intermediate actor to understand the premises of competition and competitiveness. Identifying the value creating drivers is essential for an

intermediate actor to be able to recognize drivers of value for consumers. It is important for the intermediate actor to be able to use the information of the business landscape and the value creating drivers, to attain strategic fit and achieve a competitive advantage.

The Scandinavian market has been in focus, although the entire market is essentially global since information technology has no boundaries. The research can therefore be applied to several markets around the globe.

1.5 Purpose

The purpose of this study is to, from the perspective of an intermediate actor, identify and analyze the business landscape of digital content, value creating drivers and decide how to achieve competitive advantages through strategic fit.

1.6 Definitions

With digital content in this research we imply music, videos, films, TV that can be distributed by being streamed or downloaded across the Internet or other network. There are different ways to pay for digital content: paying on-demand, per-view, subscription or advertising paid are the most usual ways. In this study we will not look at games, ring tones, pictures, or other content intense content.

Access – Implies for example the mobile phone operator that has an end-consumer relationship and access to the consumer. Access can be everything from mobile phone devices to Internet access through broadband and wireless.

Actors – In this research actors will be referred to the three dimensions of Terminal, Content and Access.

Content – In this research content is identified as the material that is produced and packaged to get to consumers. Content is the film you see on your computer, the music you listen to, and the firms behind its production.

Content Producers – Companies, individuals that are involved in the actual production of music, videos, films and all other digital intense content.

Content Providers – A player who provides digital content over the air, the different data type may range from audio, video to images. The provider makes the content available on mobile devices or Internet.

Content Delivery Networks – Built around a system of networked computers in order to provide content owners and digital distribution the ability to replicate popular content close to end-users especially large media content.

Digital Media/Content – Music, pictures, movies, text and video clips available in a digital format either streamed or downloaded.

Mobile – An abbreviation for mobile cellular communications, referring to everything involved in a mobile telephone network.

Networks – A set up of computer systems that is used to connect individual devices and for communication in the network.

Players – Referred to all the companies acting as intermediaries in the integrated value web.

Portal providers – Commonly a mobile communications provider of several services and products.

Terminal - With Terminal represents a system that enables computers, servers, and mobile phones to receive or deliver content to different devices.

User Experience – Encompasses all aspects of the end-users interaction and the overall experience with a product, service or system.

1.7 Outline of Research

Chapter one

Introduction and background of the subject followed by a problem discussion that ends in a statement of purpose.

Chapter two

Presents the method and describes the approach to the research, how empirical data have been gathered data and the design of the theoretical frame of reference.

Chapter three

Presents the theoretical framework and a survey of the theories used as a base for the analysis.

Chapter four

Is an analysis of the empirical data gathered together with the theoretical framework. All empirical data that have been gathered is presented in this chapter.

Chapter five

Consists of the conclusions from the analysis and a presentation of further recommendations of research.

2 Method

This chapter presents the research approach and the course of action chosen for the collection of primary and secondary data. There is also a paragraph about the theoretical approach and empirical significance. Last a qualitative data analysis is addressed in the end of the chapter.

2.1 Research Approach

2.1.1 Qualitative Approach

To identify and create a deeper understanding from the perspective of an intermediate actor within the digital content the appropriate research method is conducted in the qualitative way. Bryman and Bell (2003) state that a qualitative design is generally a research strategy that emphasizes words and interpretation of data rather than quantification of collected numbers. In qualitative research, theory and concepts emerge from the collected data. The research becomes a process where theories and concepts are considered as results. The qualitative approach aims to give the reader a contextual understanding of the problem and no generalization is made, as in the case with quantitative research. For that reason the qualitative research method was chosen, since the interviews will be open and individual to its character. The study is characterized by an explorative approach, which implies that the researchers begin with a clear mindset and further, as the process develops, analyze the empirical findings in an objective way. (Bryman and Bell, 2003) The qualitative approach, is followed by a hermeneutic perspective when analyzing the gathered empirical data. The most central issue in this standpoint is to analyze and understand the content of a text from the perspective of its author (ibid.). The hermeneutic approach is a way to conduct a research through a study of a phenomenon whose absolute truths cannot be anticipated; after all, they lie in the future. In accordance to the purpose, this becomes relevant since the identified research problems and purpose aim to identify drivers in order to be competitive, from the perspective of an intermediate actor.

According to Jacobsen (2002), the qualitative approach can be linked to the hermeneutic approach. The hermeneutic approach has a starting-point in examining and interpreting how people behave in certain circumstances. We have held interviews with people in the telecom

and media business that in some way or another are involved with digital content. From the interviews, an analysis and interpretation of how the various respondents reflect over digital content has been conducted. Therefore the hermeneutic approach is considered the one to be preferred for the research. Different respondents within the digital content industry have been interviewed, which could be considered as a form of multiple study according to Bryman and Bell (2003). A multiple study is a form of qualitative research strategy where the development of theories is facilitated since the researchers gets a broader starting point for the analysis. The disadvantage with multiple studies is that the focus on the specific context may disappear, or that the focus is directed too much upon comparisons between different respondents instead of engendering a deeper understanding. (ibid.)

2.1.2 Methodological approach

A combination of the deductive and inductive approach has been chosen in the study. This particular research design and method is best described as the abductive research method. The strategy is called iterative and is characterized by “a weaving back and forth between data and theory” Bryman and Bell (2003:12). This approach, in contrast to the inductive, presumes that the researcher has certain knowledge of the subject from the beginning (Bryman and Bell, 2003). The advantage of using this approach is that it enables the researchers to adjust their models when new findings become apparent (ibid.). Therefore, this approach has been chosen as the most appropriate for our research. Another strength it has is that the researchers can reveal new knowledge and creates a better apprehension for the subject during the process (Holme and Solvang, 1997). The purpose in the research is to apply existing theories with empirical data, both primary and secondary, as in the deductive approach. Throughout the entire research process, comparisons of the collected findings with established theories will be made. The aim to find new applications for the existing theories reflects that the research also shows traits of the inductive approach. Hence, a combination of the inductive and deductive method is the most appropriate, as we do not solely start from the empirical findings or the theoretical framework.

The approach to theory in the qualitative study is a combination of inductive and deductive. In order to fully understand the business landscape of digital content, an understanding of the actors and players from different perspectives was essential. It was also essential to create an understanding of how value was identified and how to attain fit when creating consumer value within this field. The authors’ knowledge within this industry was limited; hence a primary

research was carried out in the beginning to further expand the understanding in the field of digital content. This generated a general insight to the field, which helped to develop a framework that became the foundation of this study. After having designed the general theoretical framework, the following research method was formed, i.e. interviews, data gathering and further theoretical research. The research strategy was throughout the entire research based upon the three themes: business landscape, value creation and strategic fit.

The purposes underlying the development of the combined inductive and deductive approach was primarily to find extensive and varied data and condense them into a summary format. Secondly, find clear links between the objectives of the study and the data collection findings. Finally, our purpose was to develop a model comprising the empirical findings and our theoretical framework.

The authors want to state that the research and findings will never be possible to use as a norm throughout the whole digital content distribution industry. Nevertheless, other companies might face the same problems and issues, and hence also be able to utilize the conclusions of this study.

2.3 Theoretical Approach

The quintessence of the research was the theories and concepts, centring on the three major themes, business landscape, value creation and strategic fit. Around these three themes a theoretical framework was designed that included theories and concepts that the authors found relevant and of significance for the research. The chosen theories have shaped the theoretical frame of reference for the study.

In the business landscape it was essential to use theories to understand the development and the factors that influence the industry as a whole. Hence Arthur (1994) and his reasoning about increasing returns and path dependency in knowledge-based economies is of relevance. Together with the five new forces of Pitt (2001), which describes the underlying characteristics of competition in the new era of digital age. Furthermore Schilling (1999) also provides valuable tools for the impact of pre-market competition and small events in the new economy. In addition to this the theories of Normann (2001) was needed, to thoroughly understand the reframing of the business landscape today and its characterization by fast technological

development. The concept of reintermediation (Chircu and Kauffmann, 2000) was also of importance to describe what may happen in the digital content industry when an actor creates new possibilities to compete.

In order to understand value creation, literature regarding value concepts was required. We have taken into consideration theories of digital value systems, value configurations and value constellation. To examine how value is created and attained we began with Amit and Zott (2001) that have developed a model of the potential sources of value creation in e-business. Further we found the theories of how value networks works, essential to complement this paragraph about value and the authors Stabell and Fjeldstad (1998) describes the linked value creating network and its competitive advantage. Continuously Normann and Ramirez (1998) explain that partners can create value through co-productive relationships. Further in this paragraph we discuss strategy and the new economics of information – richness and reach and competitive advantage by Evans and Wurster (2007) and how value can be created within this new economy. Experience innovation by Prahalad and Ramaswamy (2003) is also of great importance in regard to the new way of co-creating experience with customers.

The last theme in the theoretical framework is focused upon theories concerning the strategic fit. The Delta model by Hax and Wilde (2001) is taken into consideration because of the total customer solution perspective and how to attain a strategic positioning. Also the theory about creating a blue ocean strategy, and in that way creating a new business space is of relevance in order to attain a strategic fit on the market. Normann and Ramirez (1998) have provided valuable tools for our study when introducing fit and leverage that emphasize that the value of the offering to the customer will be dependent on fit.

2.4 The Empirical Significance

For the selection of empirical data, we have utilized both primary and secondary data, and the sources of information have been very different and diversified in order to minimise the risk of bias and get a deeper insight into digital content. It is an advantage to use both primary and secondary data since they both supports and strengthens the various information gathered (Jacobsen, 2002). The literature we have read and applied clearly indicates a relevance to the formulated purpose.

A balance between different sources is of great importance, and according to Jacobsen (2002), researchers should use more sources than one in order to get a good and relevant picture of the situation. Beyond that, a judgement of the independence between the different sources is of great importance. The authors believe that the chosen data to a great extent are independent of each other, since they all have access to different and reliable information sources. Furthermore, these sources have been chosen because we think they complement each other and hence form a solid foundation for the study.

2.4.1 Primary Data

Interviews have been held with different actors in the industry to complement the empirical findings. This way of conducting research will give the study a qualitative character, due to the respondents' detailed answers (Bryman and Bell, 2003). The interviews were semi-structured interviews: qualitative interviewing with open questions. The interviewing structure was framed according to an interview guide covering the three earlier mentioned themes from the theoretical framework (see Appendix 1). The interview guide began with an introduction, followed by questions within the areas of the business landscape, value creation and last strategy and future perspectives.

The purpose of the interviews was to get an understanding of the industry, business landscape, value creation drivers, and the importance of digital content in the future. Hence the intentions were to get a realistic view as possible from actors and players within the industry and we strongly believe this research method was the most adequate one, considering the problem formulation.

Five interviews were conducted, and the same interviewing guide was used during all the occasions. This enabled us to compare the given answers and look for differences and indifferences. The ambition was to meet all our respondents face-to-face, but in the cases where this was not possible, phone interviews were held. The advantages of conducting face-to-face interviews include flexibility as well as the creation of a more relaxed atmosphere when those interviewed are in familiar surroundings. This often leads to more open answers, and also to interesting new viewpoints. Bryman and Bell (2003) points out that the semi-structured interviewing method is very flexible. All interviews were recorded and transcribed to enable a more qualitative understanding and interpretation of what was discussed during the meeting.

During the interviews, we discussed different fields, which in turn gave us a great information source to analyze. The purpose with this interviewing form was to get the opinions from certain individuals on mentioned subjects (Jacobsen 2002). The questions were not disclosed on beforehand, on the basis that we were afraid of loosing spontaneous answers.

2.4.1.1 Selection of Respondents

Bryman and Bell (2003) state that generalization outside one studied company can be difficult to carry out. By using a reasonably small amount of interviews, the collected data will be easier to manage and details impossible to anticipate (Trost, 2005). The respondents chosen for the interviews have been recommended by other people in the business or mentioned on a regular basis in the secondary data we have been studying. The respondents are operating in different companies and have been selected to represent and give a general panorama of the content industry.

For the research, a selection of four companies operating within the digital content industry has been done to answer the purpose. All companies interviewed companies are actors in the digital content industry to a smaller or greater extent. The respondents have been selected based on industry, relevance and position. The selected respondents are employed within the firms Ericsson, Sony Ericsson, TeliaSonera and a production company. These companies were chosen since they are all operating in different fields of the digital content area and it is both of interest and relevance to interview them, according to the purpose. Subject to the three earlier identified fields within the digital content industry, they all represent a certain field within digital content, as actors within terminal, content or access. They are all of importance for a broader perspective of the industry and highly representative for the subject of the study. This was of importance in order to obtain relevant answers. Another criterion for the selection of respondents was to get a broad and deep spread. The fact that they are all responsible for the content-related departments within each company makes them representative for the conducted study. Below follows a short introduction of all the respondents, their position today and why they have been interviewed for the research.

Claes Ödman – Holds the position Vice President Multimedia Solutions at Ericsson and has given his perspective on content related issues from the view as a system and terminal provider.

Hubert Kjellberg - Is Global Head of Content Multimedia at Ericsson. Kjellberg was chosen to give his view on the entertainment and media space, new platforms and delivery channels within the industry. Kjellberg is representing the terminal perspective.

Martin Blomkvist - Is working at Sony Ericsson as Director and Head of Global Content Acquisition and Partner Management. Blomkvist is responsible for global strategy, planning and execution of content activities at Sony Ericsson. Blomkvist was selected on the basis of his knowledge of the industry as a whole and his expertise within mobile music. Blomkvist represents the portal provider perspective and can be seen as an actor within both terminal and access.

Patrik Höljö - Is Director for Content Partner Management at TeliaSonera and has been selected because it was essential to get the view of a telecom operator and their role as a service/ content provider, hence Höljö represents the access perspective.

Expert within digital content production - Works at a production company in Sweden as Director Cross Media. He provided us with information about the position the production company has as a digital content provider. This source presents the view of an actor within content.

2.4.3 Secondary Data

A collection of relevant data has been carried out to further broaden the study with more extensive and relevant material. Subject to the aim for variability a wide range of different sources such as academic articles, reports, business analyst reports, abstracts etc has been used within the field of Internet, media and content perspective. The collected secondary data consists of theories from acknowledged authors presented in business journals and reports. Official documents have also been obtained from organizational sources such as internal and external consultancy reports. This information has provided valuable background information about the companies and the industry as a whole. Due to the fact that official documents can be intentionally distorted, the authors have continuously strived for sources as objective and representative as possible. During the study a consistently critical attitude to the sources and all the information and data gathered have been maintained.

The aim have always been to use as recent material as possible even though older material from acknowledged authors can be very useful and relevant in the study because of their

reputed research and acknowledgement of theories. A proper evaluation of the sources is, according to Rienecker and Jørgensen (2002), to see to the sources' reliability, objectiveness and topicality.

2.5 Qualitative Data Analysis

The collected texts and documents have been interpreted and analyzed in a qualitative way. There is a wide range of literature, which documents the underlying assumptions and procedures associated with analyzing qualitative data, and a choice has been made to primarily look at the empirical data gathered. Furthermore the empirical findings have been subject to an analysis with the support of the theoretical framework. For the data analysis, a model was designed that, based upon the theoretical framework formed the analysis of the digital content industry. The illustration of the analysis was structured around three major themes covering the business landscape, value and strategic fit. These three themes in comparison with the empirical data were analyzed in chapter number four and used as the foundation for the conclusions. First an analysis of the business landscape of digital content and the industry structure was done. In this section the aim was to analyze all the intermediaries, critical issues and limitations as well as opportunities within the field. Further a through analysis of value creation was conducted. This section was a compilation of theories and empirical data within the field, and the intention was to analyze the drivers of value creation, digital value systems, co-creation of personalized experiences and experience innovation. To summarize the empirical analysis the last section was an analysis of strategic fit and how to attain it in the business landscape with the help of theories such as blue ocean strategy, the delta model, fit & leverage and how to attain competitive advantage.

3 Theoretical Framework

This chapter contains the theoretical framework and its underlying theories, models and concepts. Our choice of theory is divided into three major themes covering the important aspects of business landscape, value creation and strategic fit. The framework presented is later used as a base for the analysis of the empirical findings.

Creating a theoretical framework implies a tool to use when analyzing the empirical data gathered on digital content. Three main dimensions within our theoretical framework have been identified: Business Landscape, Value Creation, and Strategic Fit. Through these three dimensions several concepts within each dimension will be introduced, and complement each other in identifying and analyzing and come to conclusions of our purpose. These theories have been chosen since we believe that they will be of relevance and applicable when analyzing the landscape of the digital content industry, value creation drivers and how to achieve strategic fit within the digital content industry.

3.1 Forces in the Business Landscape

This section explains the development of the concept business landscape, the industry structure and the forces of competition. These are important issues for our study purpose when aiming to identify and analyze the business landscape from an intermediate perspective. A summary of the theories presented within the business landscape is presented at the end of the chapter; in part 3.4 in figure three.

3.1.1 The Growth of the Business Landscape

Arthur (1994) explains in his article “Increasing Returns and Path Dependency in the Economy” how stabilizing forces are different in the modern high-technology economy than they were in the traditional economy. Arthur (1994) concludes that the business landscape of today is path dependent. The outcome is dependent of many possible paths, where small historical events may reinforce each other to create a certain path and achieve the dominance of a possible inferior technology. The future is indeterminate and cannot be predicted in

advance. The result might not always become the most efficient; inefficiency is both possible and likely to occur. Path dependency is re-enforced by positive feedback mechanisms that reinforce differences in contrast to negative feedback that regulate the differences. Increasing returns, which is characterized by large initial investments that bear fruit when sales begin, influence the knowledge-based economy and production becomes less expensive. It is of great importance to build a user base. When a certain brand has a substantial market share, it attracts consumers to buy more of the same product or use the service. Later on, early standards are very hard to overcome even though more recent solutions may be superior to the initial one. It is not always the best technology that succeeds. Path dependency is a concept that can help identify the outcome of the business landscape of digital content.

3.1.2 Pitt's Total E-clipse: Five New Forces within the Digital Age

The evolution of information technology is constantly emerging and changing the business landscape. Hence it's interesting to take a closer look at the forces in the business landscape. We have chosen to look at the structural attractiveness in this industry through the five forces model of Pitt (2001). We have deliberately chosen not to take Michael Porter's well-known 'five forces' into consideration, since we regard Pitt and his model more applicable. Porter's Five Forces are more appropriate in a reasonably predictable, structured and established environment and industries. Furthermore Porter's Five Forces is difficult to use since the digital content industry does not have any main players, nor a definition of direct competitors is applicable in the industry, and therefore we have choose to apply the model of Pitt (2001). Pitt has designed his model according to the turbulent changes that occur in technology and the effects these in the end have on society, he has put together other established theories from other authors to create a general framework when looking at turbulent digital industries where competition changes every week. (Pitt, 2001:2). Pitts (2001) model is applicable to some extent when identifying and analyzing the business landscape of digital content.

Pitt discusses convergence, disruptive technologies and killer applications. In today's environment innovations are part of our life and happen more frequently than ever before. (Pitt, 2001:3). It is not only a matter of 'new and improved' diversity; Pitt refers to the phenomena of 'killer applications' that is best explained by something that changes the way society itself works and functions.

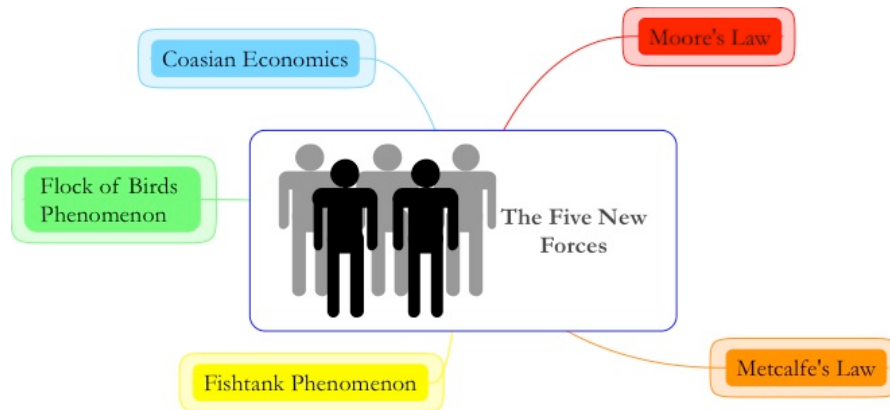


FIGURE 2: THE FIVE NEW FORCES WITHIN THE DIGITAL AGE (MODIFIED FROM PITT, 2001)

It is of great importance to analyze the underlying forces of competition in the new era known as the digital age. Pitt (2001) has developed the total E-clipse: five new forces for strategy in the digital age (see figure 2). He argues that strategy can no longer be long-term in the digital age. The following five forces are linked together to understand and manage disruptive technologies, such as the market of digital content. The first force, *Moore's law*, concerns the rapid increase in computer power, and how it has given access to new media to almost everyone, increasingly making it cheaper and faster. Moore's law also deals with convergence and focus on the strategic level; where will the industry or market be when computers are integrated everywhere?

Metcalfe's law is the second force that brings into consideration the user base and the interconnection between users. A product can be useless without complementary goods. The value of a network is dependent on the size of its network and numbers of users (Pitt, 2001). Utility and adoption increase as the network manages to attract more users.

The next force is *coasian economics*, which deals with market behaviour and the development of information technology that decrease transaction costs. Communication technologies allow companies to lower transaction costs because of the bundling of activities and the ability to operate on a larger scale even across continents (Pitt, 2001:7). The effect of the new communication technologies aims at reducing the costs within the company, as well as reducing the costs of the market itself.

The flock of birds' phenomenon is the fourth force, which is informed by the fact that the new communication technologies do not belong to anyone or any institution. As with Internet, all players have equal opportunities to access and distribute information. No one is in charge, and the network becomes the processor (Pitt, 2001:8).

The final force Pitt (2001) identifies is *the fish tank phenomenon*, which emphasises that anyone is able to put information on the Internet. This in turn creates opportunities for innovations that are not related to the size of its innovator. Any individual can now, with its creative input, spread and beat large institutions with its messages. Therefore, small companies can become a threat because of the easy access to the market. Companies have to be aware of competitors since they can turn up in new shapes, in small or large entities and anywhere.

3.1.3 The Standards Race

Melissa Schilling (1999) also discusses the impact of pre-market competition and small events in her article “Winning the Standards Race”. She emphasises the path dependency in the new economy, and the fact that not only quality and technical advantages determine what will be the leading and dominant technology (standard). Hence cooperation and creation of standards are of relevance for companies. Other important aspects to take into consideration are timing how and by whom the technology is sponsored and developed. The effect of the self-reinforcing feedback mechanism is best described as the more a technology is adopted the more the technological features and market attractiveness improve. This effect is also mentioned as increasing returns to adoption, which is divided into three parts: learning curve effects, network externality effects and signalling effects. Network externality effect occurs when the customer base is growing, which in turn attracts more companies to produce complementary goods. As the availability of complementary goods becomes greater, the size of its installed base expands. This central concept is known as the virtuous cycle. It can be illustrated by the snowball effect metaphor – that is to say, it is a process that builds upon itself and becomes larger all the time. A broad user base fuels the producers of complementary goods. With a great availability of complementary goods, the size of its installed base is growing. Schilling (1999) further emphasizes that aggressive marketing and promotion, as well as bundling, penetration pricing and diffusion of proprietary technology a gradual expansion of the prospects of increasing returns. Schilling brings up important issues to look at when identifying and analyzing the business landscape of digital content.

3.1.4 Co-productive Relationships

Normann and Ramírez (1998) claim that the relationship between any two actors tends to be far more complex than can be conceptually captured by the unidirectional “make/buy” model underlying the value chain. Instead of “adding” value one after another, the partners in the production of an offering create value together through varied types of “co-productive” relationships. (ibid., 1998:29) These co-produced relationships are more complex, more multi-directional and simultaneous than those in the industrial business world as described by the value chain. Actors are no longer just buying an item, adding value to it, and selling it to the next link in the chain. Instead of adding value one after another, the partners in the production of an offering create value together through inventing new relationships and integrating themselves with one another. (ibid., 1998:43) The concept of co-produced relationships is used as a parameter to identify and analyze the business landscape of digital content.

Richard Normann (2001:28ff.) describes the reframing of the business landscape today is characterized by fast technological development as a result of long-time technological progress, as well as decreased transaction costs due to information technologies contribution. Normann (2001) explains that the industries have become more complex and that knowledge intensive and it is therefore difficult for one single firm to represent a major part of the value creating process in an industry. Therefore players have become more specialized and focused. The new strategic paradigm emphasizes the importance of managing the value creating process and the skills of affecting the various players in the system of value creation, something Normann (2001) describes as the value creating system. Normann’s concept will be used to describe the evolving business landscape of digital content in the next chapter.

3.1.5 Value Networks

According to Stabell and Fjeldstad (1998), there are three generic value configurations: the value chain, the value shop and the value network. The value configuration analysis is an approach to the analysis of firm level competitive advantage based on a theory of three value creation technologies and logics. However, the value shop, and especially the value network, is of greater use in the theoretical framework. The value shop models firms where value is created by mobilizing resources and activities to resolve a particular customer problem. The value network shows how firms can create value by facilitating a network relationship between their customers, using mediating technology. (Stabell and Fjeldstad, 1998)

Stabell and Fjeldstad (1998) describe the value network derived from service, service capacity and service opportunity. The value of communication service depends on whom it enables the customer to communicate with. They further describe value networks as linking, and thus creating value, in value networks connected to the organization, as well as facilitating exchanges between customers. Therefore the value of the service is dependant on who else adopts it. (ibid.)

Is there a dis-integration of the content industry? “The bedrock principle is this: Those who control the interdependent links in a value chain capture the most profit” (Christensen et al. 2001) “Disruption facilitates new waves of growth in an industry because it enables more people to buy and consume” (ibid.). Christensen et al. is used as a support in-between the digital content business landscape and the value creating drivers.

3.1.6 Reintermediation

Chircu and Kauffmann (2000) introduce the concept of reintermediation in their paper “Reintermediation Strategies in Business-to-Business Electronic Commerce”. The force of technological reintermediation comes from when an existing player has the possibility to compete in the market again through leveraging technological innovations with co-specialized assets. Chircu and Kauffmann (2000) imply that reintermediation refers to the process of once a disintermediated player is able to re-enter the value added process, which supports buyer-seller transactions. Reintermediation occurs when the existing and traditional players in the marketplace are able to adopt new and innovative ways of conducting transactions through information technology.

Reintermediation is also defined as the process of which electronic intermediaries provide new value-added services to help connect buyers and sellers in the electronic market. Understanding competitive advantage that is accumulated from IT necessitates viewing firms as a mix of interacting relationships between firm resources, organizational rules and technology. (Chircu and Kauffmann, 2000) This interaction occasionally creates path dependency, which leads to unique resources that are hard for competitors to imitate. Reintermediation is an important concept to identify the business landscape from an intermediate actors perspective and the possibilities to create new opportunities with the help of Internets technology.

3.1.7 Summary of the Forces in the Business Landscape

To conclude the first section of the business landscape a few keywords of importance can be characterized. Path dependency and standards race are important because of their nature of describing forces of competition and how the structure of an industry can change. Pitt (2001) introduces the “five new forces of competition”, which is of relevance to our study when looking at the structural attractiveness in the business landscape. Value networks also play a major role when examining the competitive advantage and how it can be increased by network relationship between customers. The last theory in this section, the concept of reintermediation is presented and is of significance to our research and our purpose since it highlights how to create new opportunities in the new technological space of Internet. All these concepts are selected because of their connotation to our study purpose, and they will form the framework when looking at identifying and analysing the new logic of digital economies and the characteristics of digital content.

3.2 Value Creation

Value creation is an important theoretical approach to this study since it enlightens the important issue of our purpose: identifying the drivers of value creation in the digital content era. A summary of all the theories presented in the value creation section is to be found in the end of this chapter; in part 3.4 in figure three.

3.2.1 Value Drivers

Amit and Zott (2001) describe in their article “Value creation in e-business” how new value can be created over the Internet and how transactions are enabled within it. To fully understand the value creation potential in virtual markets, an integration of theoretical perspective is needed. Amit and Zott (2001) have developed a model of the potential sources of value creation in e-business, consisting of the interdependent dimensions: efficiency, complementarities, lock-in, and novelty. In addition to this, the locus of value creation can be found and seized in the business model (ibid., 2001:503). Amit and Zott’s article is from the middle of the IT-era and their categorization is quite early in the ever-evolving, volatile industry. Some of the sources of value creation may be over valued today, and an understanding of that this subject is perishable is needed when looking at their theory.

“Value creation in e-business goes beyond the value that can be realized through the configuration of the value chain (Porter, 1985), the formation of strategic networks among firms (Dyer and Singh, 1998), or the exploitation of firm specific core competencies (Barney, 1991)” (Amit and Zott, 2001:494)

Amit and Zott (2001) have examined the sources of value that are of particular importance in e-business. The primary value driver within e-business is efficiency. This driver is consistent with transactions costs economics. When the transaction costs are decreasing, the transaction efficiency will consequently increase and become more valuable. Transaction efficiency in virtual markets can also be leveraged by the cheap interconnectivity and facilitate a more rapid and informed decision-making (ibid., 2001:504) The second source of value is complementarities between products and services technologies, as well as between activities. E-businesses may leverage the potential for value creation among their customers if they manage to offer a set of complementary products and services. Another driver is lock-in, where companies have incentives to maintain and develop linkages among each other. The value creating attributes permit customers and strategic partners to stay instead of switching to competitors (ibid., 2001:506) Lock-in could be made possible by enabling customers to personalize and customize products, services and information according to individual needs and wants. The last value driver is *novelty*, where value creation is obtained by innovations in the way the company do business, the structuring and conducting of transactions (ibid., 2001:508) “The presence of each value driver can enhance the effectiveness of any other driver” (ibid., 2001:509) The sources of value presented by Amit and Zott are important for the research since they help identifying which drivers of value are most crucial within the digital content market.

3.2.2 Digital Value Systems

In the new logic of digital business Cronin (2000) claims that most companies are unprepared for the long-term demands of the digital economy. Cronin (2000) argues that companies will not succeed in e-business today if they do not adapt new models of value creation, specifically the digital value system. Instead of using the traditional value chain with static, internally focused “chains”, companies should change to the new integrated model that focuses on dynamic, external networked relationships and processes. The digital value system is more advantageous because of the ability, flexibility and opportunity that exist in the new logic of digital business. (ibid.)

Compared to the traditional economy, the Internet economy has a different set of assumptions about goals and critical activities. Some of these are regarded as more important than ever, for example empowering the customer, value-added interactive experiences and building of trusted online relationships, customer online experience as a key differentiator, as well as not only satisfying the customer but also gaining lifetime customer loyalty (Cronin, 2000:31f). Cronin (2000) concludes that companies have to face the reality with a move towards Internet-based value systems with an open, networked digital environment. The concept of digital value systems is a key concept when identifying the value creating drivers.

3.2.3 Co-creation and Experience Innovation

In the new economy, Prahalad and Ramaswamy (2000) points out that to be competitive companies must integrate the customer experience into their business models. The authors emphasize encouraging an active dialogue as well as engaging with the customer. Companies have to learn from customers and continuously bring the dialogue forward in order to never stop the customers' interest. Another important aspect is to find ways to manage and mobilize customer communities that can have a strong influence on the market.

The co-creation of personalized experiences is another important characteristic. That doesn't involve only setting up a dialogue with the customer. It expands further into the field of experiences: customers are not longer only buying a product. For customer engagement, companies must, according to Prahalad and Ramaswamy (2000), create opportunities so the customers can decide upon the level of involvement they desire. Customers want to shape experiences themselves, both individually and with experts or other customers. Personalization indicates letting the customer become a co-creator of the content of their experience.

Prahalad and Ramaswamy's article "The New Frontier of Experience Innovation" – (2003), brings up important issues regarding avoidance of thinking from the company's perspective. It is important to shift focus from products and services to experience environments, supported by a network of companies and consumer communities to co-create unique value for individual customers.

Prahalad and Ramaswamy (2003) describe that in this new world, value creation through profitable growth can only come from innovation and how a new point of view is required. A point of view that allows individual customers to actively co-construct their own consumption

experiences through personalized interaction, and thereby co-creating unique value for themselves. They further explain that the value of the *co-creation experience* is defined by the experience of a specific consumer, at a specific point in time and place, in the content of a specific event. The experience environment can be thought of as a robust, networked combination of company capabilities and consumer interaction. It should be flexible enough to accommodate a wide range of individual context-and-time specific needs and preferences. (ibid.) They conclude that co-creation of value through personalized experience is the emerging opportunity space where future innovation will be found.

3.2.4 Richness and Reach

Evans and Wurster's "Strategy and the New Economics of Information" in Harvard Business Review from 1997 brings up how the new economics of information are gradually more and more distinguished from the economics of things. They argue that the Internet makes a shift in the trade-off between richness and reach. The Internet provides greater richness of information and is reached by almost anyone, which in turn allows others to 'deconstruct' the business since the information side can be taken away. Strategies in the new era involve having focus and being ready for the next attempt, as radical changes might happen.

Regarding the trade-off between richness and reach, Evans and Wurster (1997) explain that reach simply signifies the number of people, at home or at work, which exchange information. Three aspects of the information itself define richness. The first is bandwidth, or the amount of information that can be moved from sender to receiver in a given time. The second aspect is the degree to which the information can be customized. For example, an advertisement on television is less customized than a personal sales pitch but reaches far more people. The third aspect is interactivity. Dialogue is possible within a small group, but to reach millions of people the message must be a monologue. (ibid.) Evans and Wurster (1997) explain that the rapid emergence of universal technical standards for communication, allowing everybody to communicate with everybody else at essentially zero cost, is a sea change, which makes both richness and reach possible. Evans and Wursters concept of richness and reach facilitate the identification of the value drivers of the digital content market.

3.2.5 Summary of Value Creation

In this section the theories have been chosen to give the reader a comprehension of value creation within the electronically commerce perspective. Amit and Zott (2001) bring up drivers of value creation that state as an example on how to capture value within this industry. New models of value creation, as the digital value system (Cronin, 2000) is also introduced and plays an important role since the integrated networked relationships and process are more relevant in this economy than the traditional value chain. Within the new economics of information richness and reach is another applicable perspective and concept (Evans and Wurster, 1997). Furthermore another central theory is the co-creation and experience innovation by Prahalad and Ramaswamy that focus on the creation of customer engagement. All the theories and concepts in this section intend to form a good foundation for the later empirical analysis.

3.3 Strategic Fit

Strategic fit is an important issue for the study, which has the ambition to see how strategic fit can be attained when achieving competitive advantages through identifying the value creating drivers within the business landscape from an intermediate perspective. A summary of the theories presented within the strategic fit is presented at the end of this chapter; in part 3.4 in figure three.

3.3.1 Fit and Leverage through Value Constellations

Carlstedt claimed in 1998 that a shift from an old logic to a new logic, a focus from things to ideas, from seeing organizations as machines to seeing them as communities is occurring. The shift from hierarchy to networks, from a Newtonian to quantum logic, from information technology to interaction technology, and from action to interaction was happening, and customers would be more active and business more interactive. (Carlstedt in Preface of Normann and Ramírez, 1998:xvii) This implies a value constellation that Normann and Ramírez explain and describe in their book “Designing Interactive Strategy”.

According to Normann and Ramírez (1998), users are prepared to pay for the resources/activities that are made available to them because they somehow enhance the

effectiveness of their own value creation. The density of options can measure *value*, such as in the knowledge, resources and activities made available to the user in time and space. (Normann and Ramírez, 1998:49) Within value constellation, value is co-produced by players who interface with each other. They allocate the tasks involved in value creation among themselves and to others, in time and space, explicitly or implicitly. (ibid., 1998:54) Normann and Ramírez further emphasize that the value of the offering to the customer will be dependant on how well the offering fits the customer's other resources. The extent of this *fit* determines *leverage value* of the offerings. (ibid., 1998:57)

Normann and Ramírez explain that having an offering code that enhances fit for potential value-creating activities between supplier and customer is necessary. But this potential *fit* must be actually matched for the customer to obtain value; this is what the concept of *leverage* stands for. Leverage arises if the offering triggers customer activities, which make the customer more effective, thus enabling them to create value in a better way. Effective leverage (customer-use of an offering) is determined not by what a firm achieves in its own business but by what it helps its customers to achieve. Leverage creates the “right” opportunities for the customer. It enhances customers’ value-creation options by looking at their business in new ways. Leverage also explores and exploits opportunities based on a better utilization of the joint resources of both parties. (Normann and Ramírez, 1998:59)

Leveraging can take the form of both relieving and/or enabling the customer. *Relieving* implies assigning activities which the customers used to perform, or could perform, for themselves to the supplier if their comparative advantage so warrants it. A relationship between supplier and customer where the offering plays an *enabling* role supports customers where in doing things they could otherwise have not done previously or to do these things better. (Normann and Ramírez, 1998:60) Normann and Ramírez conclude that in order to fit in with customers’ value-creation logics, offerings must be delivered in the “right” place, at the “right” time, in the “right” form by the “right” party for each particular customer. (Normann and Ramírez, 1998:65) Normann and Ramírez concepts of value constellations upbrining fit and leverage are of great significance for the research when understanding which value creating drivers in the business landscape will assist recognizing how to achieve competitive advantages through strategic fit.

3.3.2 Competitive Advantage and Key Success Factors

Strategic fit involves matching the firm's strategy and mission and its external environment. Grant (2005) states that for a strategy to be successful it must consist of characteristics of the firm's external environment, as well as of the firm's internal structure (its goals and values, resources and capabilities, and structure and system). Through Porter's Five Forces Framework a firm can attain strategic fit, through identifying key success factors, essential when determining if an industry has the structure to attain strategic fit when creating value within the Digital Content field. As previously discussed, we have chosen Pitt (2001) as a relevant other than Porter for our theoretical framework.

Porter's Five Forces framework describes how a firm can determine if an industry has a structure that has potential for profit. Identifying bases of competitive advantage within the industry structure can determine the ability to survive and prosper. These are the industry's key success factors. When identifying an industry's key success factors, a firm must endeavour to supply what the customers want to pay for, and also what it must have, and what it needs to survive the competition from rivals.

3.3.3 Prime Mover

Normann (2001) further introduces the concept of the *Prime Mover*, a player who organizes the value creating process. A prime mover manages and organizes dematerialized flows as its core competence and transforms information into knowledge. Examples of dematerialized flows are financial capital, risk and information, and due to the information technology, the flows are not in need of a tangible carrier. The prime mover also contributes with a vision of a network, and the capability of bringing different sorts of assets and skills together, for creation of an efficient value web. The prime mover concept facilitates in comprehending possible strategies of becoming a key player within the digital content industry as an intermediate actor.

3.3.4 Strategies through The Delta Model

Hax and Wilde (2001) explain the Delta model in their article "Discovering New Sources of Profitability in a Networked Economy". The focus is in high-technology intense business environments. The Delta model aims to describe effective implementation of successful corporate and business strategies through value creation. The Delta model is divided into four different contributions, of which the most relevant to our study is *The Triangle*, which presents a new mode of strategic options that involves an opening of the mindset. This business model

identifies three ways of strategic positioning, further explained by how the company works with attraction, satisfaction and retention of customers (Hax and Wilde, 2001). The three options consist of the best product positioning, the total customer solution and the system lock-in. The first approach, *best production positioning*, to attaining a deeper customer bonding is a position that triggers a product centric focus, either through low cost or a differentiated position product. The second approach, *total customer solution*, strives for a more extensive customer understanding and relationship. This is achieved either by a reduction of customer costs or by an increase in their profit. The third approach, *system lock-in*, is the widest of the three options, since it covers the company, customers, suppliers and the key complementors. Here the company wants to set a proprietary standard to achieve a complementor lock-in and a competitor lock-out of the system. The customer value proposition has a product, customer or system focus. A shift in strategic focus is made when using the delta model as a framework, as the perspective moves from an internal to external strategic focus. In order to build a profitable strategy, benchmarking of competitors becomes less important. (ibid.)

3.3.5 Development of Breakthrough Ideas - Blue Ocean Strategy

Kim and Mauborgne (2005) have developed a mindset to set the company apart from its competitors by differentiating the business. The idea is to make use of existing technology and develop breakthrough ideas and new ways to market products/services in order to gain competitive advantage, and exploit new markets. The approach needs to be more innovative and proactive with focus on particular goods and unique offerings. As Kim and Mauborgne (2005) point out, differentiation is the key to success; the idea is to do something different from everyone else in the industry, producing something that no one has yet seen and thereby creating a *blue ocean strategy*. An essential concept in this strategy is that innovation (in product, service, or delivery) must increase and create value for the market and consumers. At the same time, features or services that are less valued by the current or future market should be reduced or eliminated. Kim and Mauborgne (2005) critique Michael Porter's idea that successful businesses are either low-cost providers or differentiated-players, within mass- or focused markets on an established market. Instead, they suggest that to obtain value, a company has to cross the conventional market segmentation and offer more value *and* lower cost while doing something different. As well as the concept is about understanding how new markets are created. Today, it is of great importance to always be ahead of competitors, and hence differentiation strategies in the operating market could be crucial to survive.

3.3.6 Summary of Strategic Fit

This section of strategic fit presents theories in order to complement the other two dimensions of business landscape and value creation. And according to the purpose, on how to achieve competitive advantages through strategic fit, the objective have been to present theories that can support and develop the problem formulation. Hence, central theories within the dimension of strategic fit were as a result, fit and leverage (Normann and Ramírez, 1998) and the way to enhance and obtain value that is co-produced by players who interface with each other. Competitive advantage and key success factors was also, thoroughly presented on how to obtain strategic fit through a firm's strategy and mission. The theory of prime mover (Normann, 2001) is taken into consideration in this section to later become a complement to the theory of reintermediation, since it deal with players organizing the value creating process. The last part in this section is dedicated to strategies through the Delta model and the development of breakthrough ideas when adapting a Blue Ocean strategy. This gives new perspective, which will be important and reinforced when, analyzing an industry that has been under constant change during the past years.

3.4 Summary of the Theoretical Framework

In figure three, a summary of the main concepts presented in the theoretical framework is presented. In our analytical and empirical chapter the concepts are used to identify the business landscape, value creating drivers and how to decide how to achieve strategic fit through competitive advantages. The three parts, business landscape, value creation and strategic fit, acts as an equal large part in the analysis. Please note the differentiation made in the dimension of strategic fit, part of figure three. A division between the value creating concepts on the right side and models on the left hand side have been made.

Of course certain concepts are utilized more than others, some are useful as to describe certain trends and issues, whilst others are practical in analyzing other matters. Notably the five new forces within the digital age from Pitt (2001) are large theories themselves and are used more to identify the business landscape. The concepts of greatest potential to exploit the research purpose have been those within the area of value creation through experience innovation and co-creation of personalized experience, co-productive relationships, value drivers, reintermediation and fit and leverage as well the concepts from the delta model.

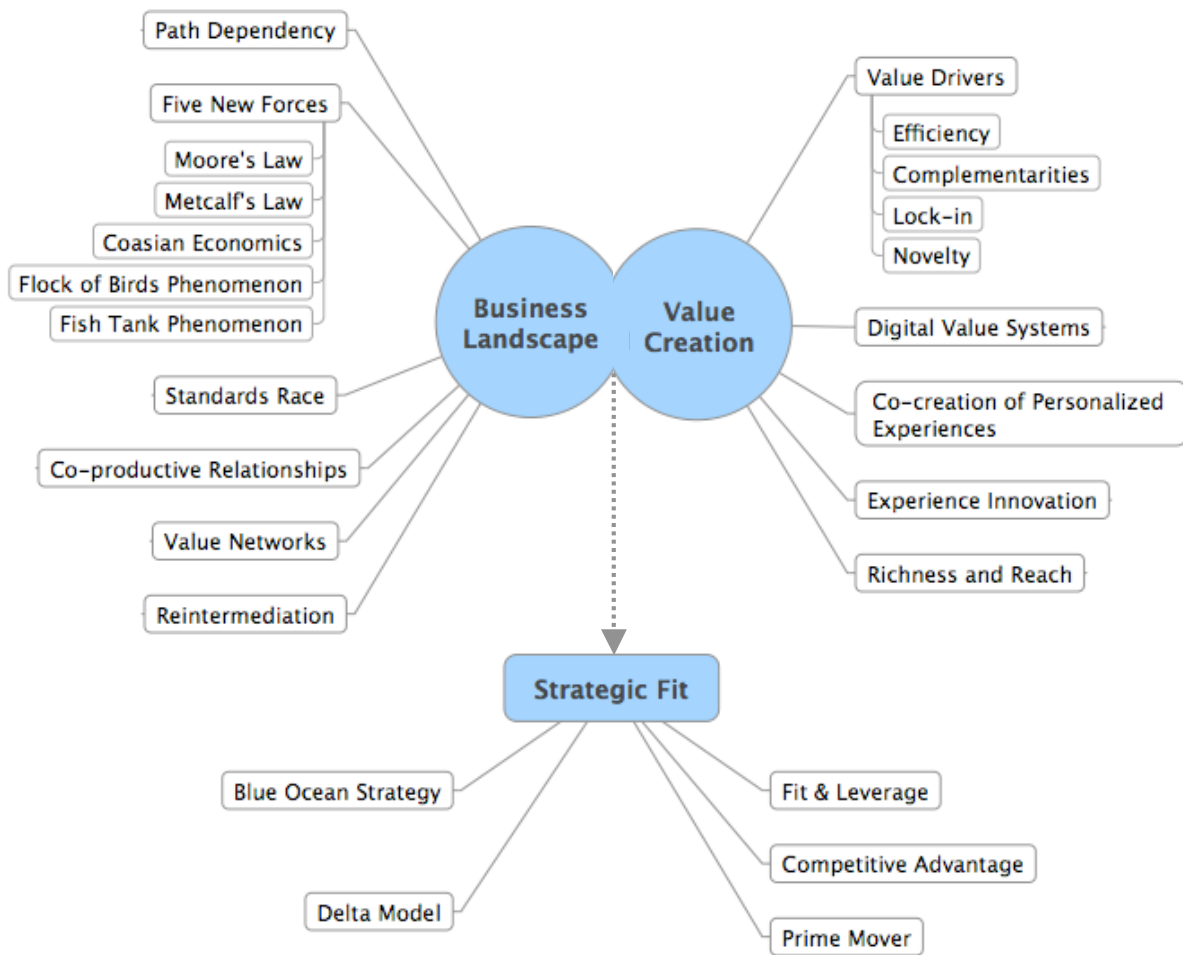


FIGURE 3: SUMMARY OF THE THEORETICAL FRAMEWORK

4 Analysis of the Digital Content Industry

In this chapter, the empirical data gathered through both qualitative studies of research, articles, and interviews with important and influential people within the industry, are presented together with an analysis of digital content from an intermediate perspective. The analysis is structured in three dimensions: the business landscape, value creation and strategic fit.

The empirical analysis is divided into three parts covering the business landscape of digital content, value creating drivers and lastly a discussion of how to attain strategic fit within the area from an intermediate perspective. An illustration of how the analysis is structured can be found in figure four. Empirical data that has been gathered is presented together with the relevant concepts from the theoretical framework.

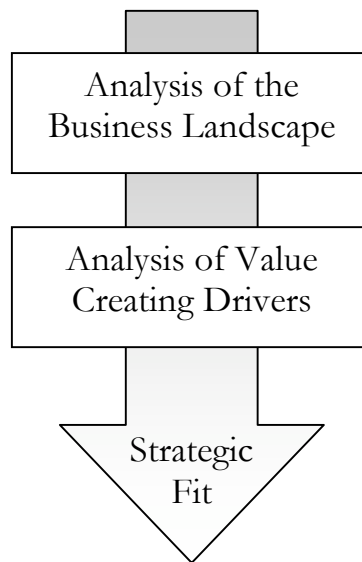


FIGURE 4: ILLUSTRATION OF THE ANALYTICAL FRAMEWORK

4.1 Analysis of the Business Landscape of Digital Content

The business landscape of digital content has changed drastically and new players have entered the market, at the same time as players have disappeared or radically changed business models to fit into the new era of digital content. This section describes the conditions of the digital content business landscape from an intermediate perspective, and the new forces of competition that are emerging constantly and modifying the industry structure.

4.1.1 Conditions of the Business Landscape and Industry Structure

The ITU Telecom World 2006 Forum discussed the Digital Content Market. They arrived at the conclusion that the growing digital content industry presents an attractive business opportunity for a number of different players, especially in the music, games and video markets. As Internet enabled-mobile handsets, with broadband capacity, become more widely available, access to content service also becomes crucial for the mobile services market. (ITU Telecom World, 2006). To name an interesting example, it is mainly downloads directly to mobile phones that are increasing strongly. In Japan, 90 percent of all downloaded music goes to mobile phones. (Augustsson, 2007-11-27)

The content industry is very widespread and encompasses many players owning and providing media related content, and the companies may range from producers of traditional content, media and entertainment to software and multimedia, and down to the telecommunications industry that develops the related technologies. We have identified how the digital content value web is operating, which is illustrated in figure five. This model illustrates how the three main actors: content, terminal and access, all have several value networks within them. Intermediaries have been identified in the three different dimensions and act in the value web to certain extent. The way content is produced is still to be found in each of the three dimensions, although in the new digital content value web, intermediaries are integrated in the entire web.

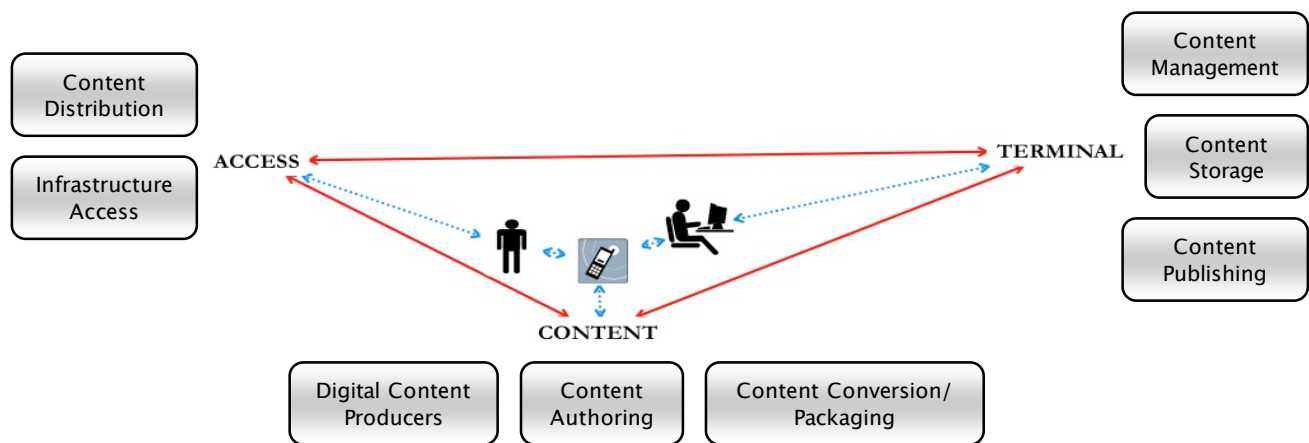


FIGURE 5: THE DIGITAL CONTENT VALUE WEB

Within digital content the identified the three main actors is characterized by terminal, content and access, which together work within the market. The term content refers to the actual production of music, video and film. Content producers create, authorize, convert and package it to access consumers via a terminal. The content dimension takes care of the entire process from idea to production. Terminal represents a system that enables computers, servers, and mobile phones to receive or deliver content to different devices with help from access. Terminal can be seen as the technical service provider. The last actor, access, implies the distributor, for example the mobile phone operator that has an end-consumer contact and access to the consumer. Access can be everything from mobile phone devices to Internet access through broadband and wireless. The consumer is to be found in the middle, accessible by all three actors. See figure five for an illustration of the integrated actors and all the intermediaries. All these actors together with the intermediaries acting within each dimension take on the form as a value web. Production is no longer necessary vertical and business can take place anywhere in the value web. Looking a couple of years back in time, we can see that the development have gone from a vertical integration production chain towards a value web comprehending more total integration of actors and players.

The digital content of today is incorporated in a new integrated model, which is also something Cronin (2000) highlights as an important factor in the business of today. The vertical chain is gone, and companies in the digital content industry should, in order to be successful work according to a new system, namely the digital value system, where focus is on dynamic, external networked relationships. (Cronin, 2000) We agree with Cronin but would as previously mentioned, denominate the model, a value web where a total integration of players and actors can be seen.

The current content business landscape is characterized by digitalisation and decreased transaction costs. It's an emerging, volatile and intense industry where new players are entering in new constellations and networks of partners. A value network as Stabell and Fjeldstad (1998) write about is what characterises the industry. Value is created through the network relationship between the partners, and customers using the technology available within digital content. The expert within digital content production (2007-12-11) imply that some producers are becoming publishers, which has become possible in a whole new way through the digitalization of the industry. According to Stabell and Fjeldstad (1998) this possibility is so valuable because it enables customers to communicate directly with the network of services. Intermediates have the role as connecting these different value networks together. An intermediate becomes something we identify as a content coordinator, implying that an existing actor reintermediates the market by providing a value added process and adopts a new and innovative way of doing business. The reason for the existence of a content coordinator is that it can partner up with other niche players to provide more extensive and valuable services that shorten lead times which makes digital copyright easier to manage. The relations within the dimensions of terminal, access and content will most probably change to the advantage of the content coordinator. Content can today be produced and managed by almost anyone, and shared easily among devices that decrease the cost of distribution.

Historically, the digital content distribution channels have been more vertically integrated with one another, and content has been produced for the terminal and distributed via the access channels to customers and consumers. Previous partners are today competing with each other and trying to access the consumer via new channels and partners of digital distribution, or working totally integrated with each other. As Normann and Ramírez (1998) point out, partners in the production of digital offerings create value through simultaneous co-productive relationships. The development of technology and availability of broadband, both mobile and fixed, has multiplied the channels of distribution. In terms of players on the digital content market, suppliers and products as well as the new intermediaries have increased. The industry is becoming more open and integrated, and it is driven both by technological innovations and by new consumer demands. Normann (2001) explains that the reframing of the business landscape is characterized by fast technological development and decreased transaction costs due to IT contribution. He further describes how tech industries are now more complex and knowledge intensive. It is therefore difficult for one single firm to represent a major part of the value creating process, as can be seen in the digital content industry. This leads to firms becoming more specialized and focused, although you do not have to operate by yourself -

partnering with another niche payer generates value. The new strategic paradigm points out the importance of managing the value creating process in the system of value creation. (Normann, 2001). Chircu and Kauffman (2000) believe that in business landscapes, such as the one of digital content, the technological force of reintermediation can occur. Reintermediation emerges when an existing player is able to re-enter a market through leveraging value-added processes and adopting a new and innovative way of doing business.

When discussing the business landscape, Höljö sees more change happening within the terminal and access fields than before. More and more actors are working in all three fields at the same to offer the end-consumer bundles of content, access and terminals. (Höljö, 2007-12-19). Content will most probably evolve, but not as much as the other two fields. He believes that the actor that will be the largest is access, since they have a strong end-consumer relationship. (ibid.). On the other hand, the expert within digital content production (2007-12-11) argues that mobile operators own the content consumers and have the power today, although their power will decline in the future. The content producers will always have a secure situation within the digital content evolution, as long as they own the copyrights. The possibility for an intermediate actor to enhance the way to manage business in order to get content to consumers is predicted. We believe that a content coordinator can take such a role since it may facilitate relations and cut unnecessary links of intermediaries in the value web.

As the business landscape is changing, so is the way to earn money in the content industry. According to Blomkvist (2007-12-07), it is hard for distributors to earn a lot of money when selling music online. The record companies want a large piece of the earnings, and when consumers are only prepared to pay 9-10 SEK per song, there is little left for the distributor to get a hold of. Höljö (2007-12-19) states that the record labels get the largest part of the revenues for single track download and today the distribution also has a very high cost. In combination with price pressure it is hard to get any profitability in this type of download. Blomkvist believes that if the record companies lower their prices, it would make illegal downloading less interesting and that this will only occur when songs cost around 4-5 SEK. (Augustsson, 2007-11-27)

Anderson (2007) claims that the ultimate cost reduction is the complete elimination of the atoms and only taking care of the pieces. Complete digital aggregators have their stock on hard drives and deliver through broadband. The marginal costs for producing, stocking and distributing are close to zero, and royalties are only paid when the products are sold. It is the

ultimate on-demand market. Since the products are digital, they can be cloned and delivered any number of times, from zero to a billion. (Anderson, 2007:122). Anderson further describes digital storage, such as iTunes, as the cheapest solution, and we have already seen its impact on the music industry. He predicts that we will soon see the same thing within movies, games, and TV-programs. (Anderson, 2007:267) A completely digital model is when every product only is a data post, which practically costs nothing. The distribution cost is bandwidth, which can be bought cheap and only arises when a product is ordered. Furthermore, a completely digital store can choose to sell its products as separate products (as 99 percent of iTunes downloads), or as a service (as unlimited access to music at Rhapsody²). (Anderson, 2007:116).

4.1.2 Operating in a Content Web

The importance of the various parts of Content Delivery Network is significant. They are dependant on one another and have to be in place for the market to grow, and have a large impact. “It is the users that are the network.” Spiradellis states in the book “The Long Tail” by Anderson (2007: 243.)

The rising demand for rich web content has created an increasingly important need to find efficient content delivery in order to enhance the user experience while minimizing network-related costs in Content Delivery Networks (CDN). CDNs provide content owners and digital distribution the ability to replicate popular content close to end-users, which have emerged as an effective way to accomplish both. (McCormack et al., Bear Stearns, June 2007). CDNs create multiple routing options by strategically placing remote (or edge) servers around the globe to reduce traffic congestion and increase distribution and availability. In doing so CDNs minimize the required investment in distribution infrastructure for content owners, bypass Internet congestion by reducing route distance and peering points, and reduce origin or local server loads and related costs, which all contributes to an improved user experience. (ibid.) The emerging market for intermediates can be seen through CDNs. CDNs have the possibility to become successful content coordinators with their extensive technological knowledge, in combination with their structure to partner with others as well as an understanding of tomorrow's demand.

² Rhapsody is a subscription-based online music service; see www.rhapsody.com

Furthermore, the CDN market is still relatively small and the Industry Research firm Gartner estimates that the revenue was roughly \$474 million in 2006 on the North American market. Despite a growing demand for digital content, the market is driven by application delivery, and due to increasing usage of edge services by enterprises, the market is expected to grow nearly \$1.4 billion by 2010. (McCormack et al., Bear Stearns, June 2007)

The strategy manager at Joost³, Fredrik de Wahl, perceives large possibilities for production companies that do not have their own distribution to get their material on the web. (Dunér, 2007). There are many players who try to gather the entire content under one roof, but they are not always very successful. In the future, we will see a consolidation within the different areas and strong platform providers, delivering system and material to suppliers (Blomkvist, 2007-12-07). Bomsel (2006) describes how content distribution systems are subject to network effects i.e. the more customers, the more useful is a product or a service. Even Blomkvist discusses the fact that it's of great importance to reach a critical mass to be able to build a customer base (Blomkvist, 2007-12-07). The network effects rely on a critical mass and roll out dynamics. Schilling (1999) also refers to this as the virtuous cycle, the larger customer base, the more attractive it gets to produce complementary goods, which in turn improves the product or the services. This can be seen as an important and essential issue for the evolving market of digital content.

Bomsel (2006) further emphasizes the importance of systemness. The definition of systemness is that once a system has invested in a technology it can be improved to raise the consumer's utility by upgrading the content version (ibid.) This is reinforced by Schilling (1999) who discusses the relevance of cooperation and creation of standards for success under these conditions. Companies want to achieve a common standard or more precisely a content format that is usable over different devices. In this way, a company can achieve lock-in effects that force customers to stay within a certain technological system. The development relies on path dependency: small and unpredictable events, which will determine the outcome (Arthur, 1994). Increasing returns intensively influence a knowledge-based economy such as the digital content industry. Building a customer base is therefore of the utmost importance in the beginning, to acquire an advantage in the early development phase.

Anderson (2007) describes how, because of distribution and sales through the Internet, we are

³ Joost is an online video distribution site; see www.joost.com

on our way into a world of abundance. The abundance exists in a world where costs are dramatically lowered so as to connect supply and demand and does not merely change in terms of numbers: the whole markets character changes (Anderson, 2007:40). Anderson (2007) declares that because of the new efficiency of distribution, production and marketing online, it has also changed the definition of what can be done commercially. These crafts can best be described as turning unprofitable customers into profitable ones. (ibid., 2007:31). This is in correlation with the value creation in e-business (Amit and Zott, 2001), where value can be created by a facilitation of transaction costs. Value is created through one of the dimensions, namely efficiency. A better efficiency in transactions will lead to lower costs and a higher surplus value, which is discussed further on in the section on value creation.

Pitt (2001) states that the digital age changes industries and provides new challenges for companies, as well as bringing into consideration new forces of strategy when competing on the market. Through Moore's law, the doubling of computer power, it is apparent that we have probably only seen the beginning of the digital content development. The doubling of computer power will obviously influence digital content, system providers, streaming possibilities and data traffic capacity.

When the customer base is growing, the value surplus of a network is increased, as stated by Pitt (2001) invoking Metcalfe's law. This further highlights the importance of achieving an installed base to attain a critical mass of customers. A larger user base enables and augments the value for additional and new customers to interact and exchange information with each other. This is what Schilling (1999) and Arthur (1994) also discusses as the underlying forces when presenting the network externality effect, which can be seen in the content, terminal and access development and the shift from being partners, to competitors.

The effect of the flock of birds phenomenon is that access is equal to all individuals, customers, and organizations in a network, in contrast to how things work in the traditional media. The digital content enables anyone, anywhere, to connect, take part or share the information. Hence it creates the opportunity for intermediates to get an influential role within the market. However, it is important to understand the volatility of the industry and the low entrance costs for new competitors.

4.1.3 Digital Content Owners

According to Blomkvist, one of the largest obstacles of mass digital content distribution is the issue regarding the content creators property rights (i.e. intellectual property rights). Getting digital content commercialized so that users pay and rightfully use content is a matter that is a troublesome accomplishment for many content creators and property owners. This will inevitably lead to them not releasing their content out on the web, since they cannot guarantee that it will be used rightfully: nor do they have the knowledge or capacity to launch their content digitally. (Blomkvist, 2007-12-07).

According to the analyst firm Ovum, the global digital music market will increase fourfold from 24 billion SEK in sales in 2007, to about 100 billion SEK in 2011. (Augustsson, SvD, 2007-11-27) The amount that is sold via computers is today 12,8 billion SEK and is forecasted to grow to 41,6 billion SEK in 2011. (ibid.) In the beginning of 2006, iTunes had sold over 1 billion songs, whilst Apple had sold 42 million iPods. That is not too impressive, according to Anderson. (Anderson, 2007:215) The consequence is that the majority of the music on people's iPods comes from music shared with peers, which is a challenge for the players in the industry.

In the future, the distributors of digital entertainment will become more thorough and build their own specific services to their own specific products. What we also will see is a set of larger providers as the original property rights owners. Intellectual property rights will become even more important when the possibilities to spread the music are that powerful (Blomkvist, 2007-12-07).

4.1.4 Critical Issues and Limitations within Digital Content Distribution

The physical record sales decreased by 20 percent in 2007 in the U.S. and the estimation for 2008 is a decrease by 40 percent. We speak about an unparalleled free fall in the music industry. Nonetheless, the digital record sales via the Internet are not yet exceeded by the losses in the physical record sales. (Blomkvist, 2007-12-07).

According to Bomsel (2006), each content format carries a risk, and the content owners, distributors, and consumers must somehow share this risk. Bomsel (2006) believes that there are distribution contracts that aim to maximise the content value while sharing the risk with

the third parties, and in that way, revenue sharing can provide incentives in rolling out a distribution system. Advance payments provide incentives for the marketing of an identified product. Output deals balance the risk of each single product while offering a bundled sourcing. (ibid.) Digital distribution lowers the risk on each product but increases investment costs in the “system”. (ibid.). Bomsel (2006) further empathizes that exclusive deals impact competition among local networks and create vertical integration. According to Moyer (2005), content distributors are not making (much, if any) money. Nor are network operators receiving revenue from digital content distribution over their networks. Finally content rights holders and distributors receive no income from peer-to-peer file sharing. There are many critical issues that have to be looked at and restructured, in order for commercial digital content to be distributed so that all parties gain something from it and so that users are happy to pay for it. Regarding critical issues Kjellberg describes, the only way to survive competition is to; either own the copyrights or the consumer. It is also important to handle the payments from consumers and the data surrounding them. (Kjellberg, 2007-12-20)

4.1.5 Opportunities within Digital Content and How the Market will Change

The U.S media business can sustain close to 5 percent compound annual revenue growth over the next five years according to Wang’s report for Bear Stearns about the entertainment industry. (June 15th, 2006) They claim that the emerging model is to offer consumers the ability to pay for commercial-free content. Wang (2006) have come to the conclusion that this would increase overall industry revenues. The new technologies will also be a positive growth catalyst for the sector, going forward especially for content-oriented companies (ibid.). New technology has been a positive driver for the sector, and different technologies impact the media sector in five-year cycles. (ibid.) Coasian economics (Pitt, 2001) about market behaviour and the development of information technology that decrease transaction costs are of relevance in this context. Communication technologies enable companies to lower transaction costs because of the bundling of activities and the ability to operate on a larger scale at a higher pace (ibid.). Content players can, due to the impact of the new communication technologies, aim at reducing the costs within the company, and this can be seen through an intermediates role in the market.

The fish tank phenomenon (Pitt, 2001) further emphasises the fact that anyone is able to create innovations on the Internet thanks to the low distribution costs. This creates

opportunities for innovations that are not related to the size of the innovator. Any individual can now, with his or her creative input, spread and beat large institutions with all sorts of content. With an easy access to the market, even individuals or small companies can become threats. Content aggregators within the market could therefore be of great significance and need, and due to the fact that content service can be offered and created by basically anyone, the possibilities for intermediaries are unlimited. Claes Ödman (2007-12-20) believes that many businesses will have opportunities to do business within digital content. Schilling (1999) explains that by bundling arrangements, chances of increasing returns grow as the consumer gets tied to the technology. Ödman supports this theory with his thoughts that the future of digital content lies in bundling services with hardware, such as Apple with .mac and BlackBerry with the hand-held computer. He also believes that more and more software and services will be sold within devices. (Ödman, 2007-12-20).

Wang (2006) has made an analysis of Adjusted Return on Assets with the company's long-term growth forecasts to illustrate which areas within the media industry will offer the most attractive mix of high returns and high growth. They came to the conclusion that content and content-packaging businesses, such as online, cable programming, and filmed entertainment, offer the optimal mix of growth and attractive returns. Changes in technology have increased the demand for content by increasing convenience for the end user. (Wang, Bear Stearns, June 15th, 2006).

Today, competition is now with firms' previous partners and there are many possibilities within the industry. There is a lot of money to be made, although the industry is exceptionally turbulent. (Kjellberg, 2007-12-20). Blomkvist (2007-12-07) believes that in the future, more than 50 percent of all the entertainment will be sold digitally. Kjellberg continues and points out that the market will grow, especially within the customer group in-between 16 and 39. Much of their media consumption already takes place over the Internet, and this is the group that has the most money and that advertisers want to get hold of. (Kjellberg, 2007-12-20). Kjellberg further emphasizes that all players now want to get to the consumer direct, and it is interesting from the firms' side to do so. (ibid.). Regarding the market, the expert within digital content production (2007-12-11) has another viewpoint and believes that content will be spread on several platforms and not only within the youth segment.

Höjlö (2007-12-19) claims that the trends of competition will be how to increase the usage of content services and at the same it is utilized to strengthen the core business. He wonders how

they will get customers to return and wants to look at what will happen after many services are not free any longer, how the relationship between “paid for” and “paid by” advertisers will look. (ibid.). Blomkvist (2007-12-07) further believes that as a company, you cannot stand still in a device situation and looking ahead we have to realize that the revenue flow presumably will change. To find alternative revenue flows and revenues from services will become a great part of this. Blomkvist (2007-12-07) predicts that advertising revenues will be the third largest revenue flow for Sony Ericsson in the future. (ibid.).

In the future, we will see a total integration and synchronization of entertainment systems and technology. (ibid.). Blomkvist further highlights that down the road we will see numerous large companies, which deliver services, but they will not necessarily be in charge of the platform, only suppliers of services. (ibid.).

4.2 Analysis of Value Creating Drivers within Digital Content

Below, a through analysis of value creating drivers within digital content from an intermediates perspective is presented. This area is needed so that an understanding of how to achieve competitive advantages through strategic fit within the digital content industry can be made.

4.2.1 Empowering Consumers

Cronin (2000) argues that companies must prepare themselves for the long-term demands of the digital economy and thus adapt new models of value creation. Companies should focus on dynamic, external networked relationships and processes, among other things to obtain customer trust. The entertainment industry is a good example of an industry going through radical change where consumers are demanding to get hold of music, videos, films, and information whenever they want, regardless of what time it is. New Corps chairmen; Rupert Murdoch was one of the first media-moguls that understood the extent of the division between amateurs and elite content users. Youths today do not listen to what a “god-like figure” from above tells them what is new and important; they want to rule the medias, not be ruled by them. (Anderson, 2007:53). A new model of value creation is needed and as we have seen, must come to the sector to be able to fulfil the consumers’ demands and gain their trust.

Another firm that have created new models of value creation to consumers is Sony Ericsson. Blomkvist (2007-12-07) believes that you cannot push a consumer to buy music or games; rather, it is important to develop a relationship for the service and the experience so sales goals can be reached later on. Building an experience with the consumer makes the consumer return, thereby building brand loyalty. Sony Ericsson does not want to be a player that just delivers hardware to an operator. Therefore Sony Ericsson has come with the Playnow arena, so they can continuously build relationships. (ibid.)

Other factors that influence the new models of value creation are also coming from an advertiser perspective. Advertisers will no longer accept segmentation models for large groups; rather, more niche segmentation will arise to create more value for advertisers and consumers (Expert within digital content production, 2007-12-11). The expert within digital content production (2007-12-11) also believes that advertisers will demand more accurate, personal and personalized advertising possibilities, and this will force the industry to find other ways to compete within the industry.

Cronin (2000) explains that a shift in assumptions regarding goals and critical activities is needed. Companies should empower the consumer and customer so that value-added interactive experiences are created and thereby establishing a trusted relationship. Looking at the shift of assumptions, many short videos are created to broadcast online, and soon a NBC online-series will be launched on TV. It is the first program to go from online to television, though many are sceptic as to how it will be received since the viewers online like getting short ten-minute episodes and seeing the episodes whenever they choose. (Cronéer, 2007-12-08) A change has arisen in the TV industry and in the music industry this has occurred several times as artists such as Lily Allen have first become famous online and only afterwards in the traditional medias. (Blomkvist, 2007-12-07)

According to Cronin's (2001) theory, the shift of assumptions within goals and critical activities will capture lifetime customer loyalty in a whole new way. Blomkvist supports that when talking about online relationships with consumers, they will be the be-all and end-all in the future of all firms. To build an experience you have to be global but also locally relevant, which in turn generates value. You have to make sure that your service is available online 24 hours a day, 365 days a year. (Blomkvist, 2007-12-07)

4.2.2 Sources of Value Creation

Amit and Zott (2001) bring up four sources of value within digital business. According to them, the primary source of value within digital business is efficiency, more precisely decreasing transaction costs, and facilitation of more rapid and informed decision-making. The most important reality in our Internet era is that everything can be made accessible. (Anderson, 2007:209) Additionally, the decreasing transaction costs and rapid information from the Internet can also be seen as the ultimate market place for ideas that are ruled by the large numbers stock. (ibid., 2007:91) Ever though there are, with regard to digital content concerns that make it hard to receive efficiency in the market, Anderson explains that it is hard for those that own the rights to content to even get material on DVD; getting it online is even harder. The rights are very tangled and complicated by exclusive regional distribution contracts, which go against the global character of the Internet. (ibid., 2007:241)

The second source of value is complementarities between products and services, something digital business manage to leverage. Within complementarities both the broadband penetration, the development of 3G will in four to five years, be much more powerful and then there will still be people who demand physical products, not merely digital content services. (Blomkvist, 2007-12-07) However Blomkvist (2007-12-07) believes that there will be a clear polarization of the physical sales, if not the digital sales have passed the physical by then.

Lock-in, the third source of value, is when companies have the incentives to maintain and develop linkages among each other. Value is created when enabling customers to personalize and customize products, services, and information according to individual needs and wants. Anderson (2007:57) states that we are moving from a mass-market back to a niche market, which now is defined by interest rather than geography. The niche market defined by interest also enables larger personalization and customization of digital services and information available, which in its turn generates value. (ibid.) Claes Ödman (2007-12-20) believes that money can be made on services, although you have to connect them with devices and achieve lock-in with the devices, through the services. Having just a service, he thinks, is problematic since establishments online have created a belief that most things there are made and accessed are for free. (ibid.) Lock-in effects have previously been discussed regarding their effects according to Schilling (1999) and how they can make the firms technology a common technological standard.

The final source of value is novelty, where value is created through innovations in the way companies do business. Höljö believes that the player that wins the consumer are the ones that can act niched towards the customer (long-tail). Höljö believes that the player that wins the consumer will be the niche player. There will not be any classical segmentation models; rather, a more through niche segmentation will occur and the important question will be: How do you find and attract the customer? (Höljö, 2007-12-19) Other issues are that the fastest growing sales happen within sales of products that are not available on traditional retail market. (Anderson, 2007:38)

Continuing of the subject of value creation, Normann and Ramírez (1998) discuss how users are prepared to pay for resources/activities that enhance the effectiveness of their own value creation. Höljö supports their statement and thinks that if you make digital content simple, accessible, and operational, there are always consumers that have a need and demand of it. (Höljö, 2007-12-19)

4.2.3 Richness and Reach

Evans and Wurster (1997) discuss how the Internet makes it possible not to trade-off on richness and reach; instead it provides greater richness of information and is reached by almost anyone. Regarding richness, the degree to which the information can be customized and thereby also personalized, implies the possibility to dialogue instead of monologue. The customer switching costs have dropped radically through digitalization, and accessibility and cost to reach smaller, niche markets are decreasing dramatically thanks to the combination of crafts that are within digital distribution, effective search techniques, and large enough broadband penetration, which implies that the retail within online markets will change the retail as we know it. (Anderson, 2007:71) J.P. Morgan's 2008 Internet investment guide states that one of an Internet company's most valuable assets is the access to accurate and rich user information. (Imran, 2008) Additionally, the key to increase conversation rates online is the capability of Internet company's ability to leverage accurate user information to deliver relevant content to users. The important issue of personalization that Evans and Wurster describe is another issue also brought up by Prahalad and Ramaswamy (2000) and will be discussed in the following section.

4.2.4 Co-creation of Personalized Experience

Prahalad and Ramaswamy (2000) discuss experience innovation and how companies must integrate the customer experience with their own business models. An active dialogue and engaging with the customer is essential for companies, in order to learn from customers and continue to bring the dialogue forward. Fredrik de Wahl believes that competition within Digital Content Platforms (equivalent of terminal) will be based on what is important to the users. He believes that users want a broad variation of services and have the possibility to integrate watching with other activities such as social community sites. The firms that emerge as winners, will be the ones that are most creative. (Dunér, 2007). Blomkvist (2007-12-07) also explains that the essential philosophy for Sony Ericsson is to build something simple, good and user friendly. The experience perspective is important; “We believe that sales should be the result of a fantastic consumer experience, which in turn will make the consumer coming back.”

Bringing the customer into the business and having a continuous dialogue not only lets Netflix⁴ know a lot about their consumers; it also helps influence other consumers to new purchases, letting customers decide upon the level of involvement they desire and get to be co-creators of the content of their experience, something Prahalad and Ramaswamy (2000) describe. Hastings (in Anderson, 2007) believes that the biggest competitive advantage Netflix has is the recommendations and other filters, especially regarding movies that are not the blockbusters. Recommendations have the same power to create demand as advertisements but cost practically nothing. The average customer on Netflix rents seven films per month, which is three times more than the physical rental stores regulars. (Anderson, 2007:266).

Customers want to shape experiences themselves, both individually, with experts or other with customers, according to Prahalad and Ramaswamy (2000). This is made possible within digital content through improved content delivery, which provides benefits to the traditional delivery structure. Through significantly reducing latency and improving network stability, CDNs create an improved user experience. The scalability of CDNs and the fact that they require little capital investment and reduce host server-related costs signify that they offer a compelling value proposition for companies to their consumers. (McCormack et al., Bear Stearns, June 4th, 2007)

⁴ Netflix is an online movie rental service where you can rent instantly via a computer; see www.netflix.com

However, there are issues that are difficult for companies to be able to fulfil since vertical integration and distribution contracts are regulated differently in each country due to copyrights. The same goes for time windows, rental fees, pre-purchase obligations, broadcasting quotas, and advertising rules, which makes it hard to have one standard over the whole world. (Bomsel, 2006) But, this is an essential issue that is fundamental for Generation C, who want to get a hold of content whenever they want, wherever they want. Another issue is that digital content distribution relies on regulation, and regulation affects version markets and systems competition, and whereby the issue of copyrights rules arises. Digital distribution is critical for the competitiveness of content industries, although Europe suffers from handicaps in copyrighted content distribution. (ibid.)

Prahalad and Ramaswamy (2000) also explain that companies should find ways to manage and mobilize customer communities that can have a strong influence on the market. Kjellberg supports their theory with his thoughts about where money will be made in digital content: “Money will be made by the players that are good at selling information about the consumers preferences, and those who can produce the right kind of content.” (Kjellberg, 2007-12-20)

Prahalad and Ramaswamy (2000) claim that the co-creation of personalized experiences implies that customers are not only buying a product; rather, they become co-creators of the content of their experience. Ödman (2007-12-20) states that one should let content be accessible on several channels with bundling, since he believes that consumer like something they can touch and play with. Therefore, he also claims that the possibilities of bundling digital services with hardware will create value for customers and consumers. Blomkvist (2007-12-07) further emphasises that the general philosophy at Sony Ericsson as a company, is that user experience is the be-all and end-all for the consumer, and therefore letting the consumer into to the co-creation process is important to them. Although the consumers today have less user-possibilities than they had 20 years ago with products they have purchased, which shows that digital rights management protection is headed in the wrong direction (ibid.).

4.2.5 Experience Innovation

Prahalad and Ramaswamy (2003) believe that there is a need for a shift of focus from company perspective to a focus on products and services to experience environments. Ödman (2007-12-20) claims that positioning will be made through convenience and experience within digital content in the future. The expert within digital content production (2007-12-11) further

believes that new business models within digital content will be seen through the visual experience. A shift from a product and service perspective can be seen through the interviewees' shift to an experience point of view of the future of digital content. Prahalad and Ramaswamy (2003) believe that value creation should come from innovation, and that consumers should co-construct their own consumption. Regarding value the expert within digital content production (2007-12-11) describes that it will be attained when you have reached the critical mass. Blomkvist (2007-12-07) explains value as a matter of logic, cost control etc, all so that loyalty to the consumer is built up and the experience is seen as valuable. Anderson (2007:48) declares that the reason for file sharing, and the peer-2-peer evolution was not only the access to free music, but also more importantly, that it gave consumers an incredible choice. Even though there has been an enormous amount of lawsuits within the music label industry, the traffic on peer-2-peer networks continues to increase, and today about ten million users download music every day. (ibid., 2007:48) Anderson explains that in the end of the long tail, where the production and distribution costs are low, thanks to the democratization power of the digital technique, the economic considerations often take second place. Instead people are motivated to create for other reasons, they want to express themselves, have fun, experiment and so forth. The reason why they call it economy at all is because reputation and status can be just as motivating as money. (Anderson, 2007:95f). This implies that there is a completely different demand curve for such products where the creators do not only ask for money but reputation and status also play an important role.

Co-creation of value through personalized experience is the emerging opportunity space, where future innovation will be found according to Prahalad and Ramaswamy (2003). Making intuitive and especially entertaining services for consumers is very important today and will be absolutely necessary in two to three years according to Blomkvist (2007-12-07). Generation C are categorized by behaviour and are all about content-centric communication, how they share, store and manage content. (Dye, 2007). How they co-create value is an essential aspect for the generation, so that personalized experiences can be made. Another important issue is how Generation C will change companies and industries due to the role they take on both as creator and consumer, making companies scramble to find a new role in the cycle and giving Generation C unprecedented power in deciding when, where, and how to get their content. (ibid.)

4.3 Analysis of Strategic Fit

Attaining strategic fit from the business landscape and value creating drivers is an essential part of the research of this study. To achieve a competitive advantage through strategic fit for an intermediate, this section must be analyzed.

4.3.1 Customer Base as System Lock-in?

The Delta model (Hax and Wilde, 2001) points out the importance of different strategic focuses based on the strategic position selected by a firm. The strategic position implies how the firm anticipates attracting, satisfying and retaining customers. The Delta model also explains how firms should open their mindset and position themselves depending on three options. Total customer solution and system lock-in are the most appropriate aspects to look at, when it comes to firms within the digital content industry. Looking for more extensive customer understanding and relationship through reduction of customer costs or increase of profit can easily be seen through the evolvement of the business landscape of digital content, as previously researched.

System lock-in has been scrutinized from several perspectives, although the fast development of the industry, together with technological innovation and compatibility within the system make it difficult to develop a proprietary standard of complementor lock-in and competitor lock-out. This is due the fact that movies, music, videos can be formatted in several formats. Still finding the most cost efficient and broadband slim format has a future for an intermediate looking at becoming a reintermediator in the industry. Having a large customer base is an issue, which has been brought up earlier on in the analysis, and a consideration of whether this can have the desired effect of lock-in and attracting, satisfying and retaining customers will be developed below.

Regarding system lock-in, Hubert Kjellberg (2007-12-20) believes that the way to survive competition is to either own the content rights or the consumer. Through this, system lock-in can be attained by those who both own the relationship with the consumer and therefore can lock competitors out of getting it, or through owning the rights of the content distributed, i.e. the music, film, series. Change will be seen in the business landscape through, for example, record companies that do not own anything other than the distribution right of an artists

music. Blomkvist (2007-12-07) claims they will most likely be marginalized, because one can find other ways to add value to your business in today's environment.

Another issue Kjellberg (2007-12-20) brings up is that it is central to handle the payments from consumers and the data surrounding them. Owning this relationship with consumers gives the player an advantage when negotiating with partners and selling the information to third parties, such as advertisers. It also implies extensive customer understanding something Hax and Wilde (2001) explain is essential in the Delta model.

Normann (2001) brings up the importance of Prime Movers within an evolving business landscape. A prime mover is a player who organizes the value creating process and manages and organizes dematerialized flows and transforms information into knowledge. A prime mover contributes to the web of players through having a vision of it, and a capability to bring different sorts of assets and skills together for the creation of an efficient value web. Is it through having a large enough customer base that a player can become a prime mover within the web of players? Blomkvist (2007-12-07) claims that it is important to reach a critical mass, to be able to build a customer base. Whether you do it in the same way as Apple, through niche-mass and then do step-ups where you bring the customer to the next level or product, or through market conditions, it will be essential to gain a competitive advantage (ibid). Previous discussions of network effects, virtuous cycles, empowering consumers, co-creating experiences, systemness, and understanding their influence on the industry are important for constituents when looking at achieving competitive advantages when attracting, satisfying and retaining customers.

Claes Ödman (2007-12-20) discussed the fact that that digital content services will be profitable through bundling them with hardware. Bundling through hardware is another way to lock-in customers, and if one has persuaded them to buy services from one device they will very likely (if they are pleased) continue to use that sort of hardware in the future. Getting a large enough customer base also has an important implication in achieving lock-in and network effects.

4.3.2 Competitive Advantages within Digital Content

Kim and Mauborgne (2005) discuss the mindset needed for companies to differentiate themselves from competitors, especially in the digitalized world. Through making use of

existing technology firms within the industry, they can develop breakthrough ideas to gain competitive advantages. Not acting like everyone else in the industry and contributing something not yet seen, thereby creating a blue ocean strategy, is essential according to Kim and Mauborgne (2005). Innovation should increase and create value for the market and consumers, a circumstance, which has been identified in the analysis of the business landscape and the value creating drivers in our research. It is imperative for firms to look outside their direct competition and see what else they can do within the value web to gain a more vital role within the network of players, and thereby have an important power at negotiation when digital content is distributed.

Maltz and Chiappetta (2002) write in their paper “Maximizing Value in the Digital World”, published in MIT Sloan Management Review: “The key to profitability for creators of these products is to generate enough unit sales to offset their high development costs. But the ability to produce and distribute these products quickly and cheaply is not limited to the original content creator, and the potential for piracy, (...) is extremely high. One of the greatest challenges to digital business is figuring out how to maintain a profitable model in the face of widespread unauthorized competition”. As previously discussed, the issue of piracy and illegal distribution of content is an important issue within the digital content industry. Having a platform that integrates the consumer needs of getting a hold of information, movies, music and videos at a valuable price is of vital importance for a firm, which wants to be successful within the industry. But it is essential to have the right partners that make it possible or taking care of the value system through the technological possibilities. Consequently, the opportunity is great for an intermediate to become a successful and valuable player, and gain competitive advantages in the industry.

4.3.3 Strategic Fit and Leverage

Normann and Ramírez (1998) discuss value constellation and the fact that value is co-produced by players who interface with each other. The value of the offerings to the customer depends on how well the offering fits the customers other resources, i.e. fit determines the offerings leverage value. Leverage is an important issue to research, since it arises if an offering triggers customer activities, which make the customer more effective and enable them to create value in a better way. As previously discussed, Generation C have high demands of getting hold of content when they make their choices, wherever they want, in all sorts of formats. Höljö brought up the fact that there will always be a high demand in creating services

that are simple, accessible and user-friendly. Amit and Zott bring up the sources of value creation efficiency and novelty, which are both of great significance when looking at how an intermediate can attain leverage. Both efficiency and novelty bring new value to consumers, and it is clear from Prahalad and Ramaswamy's discussion of companies having to integrate customer experience into their business models that leverage can be attained when letting customers be more effective and creating more value.

Leverage creates the right opportunities for the customers and enhances customer value creation by looking at businesses in a new way. Supporting and thus enabling customers in doing things they previously could not do can be seen through the evolvement of the digital content industry. Sitting at a café and hearing a song you like, getting your mobile phone to "listen" to the song and identify it, and thereafter being able to buy it straight to your phone is possible today in ways that were not possible a few years ago (Blomkvist, 2007-12-07).

Attaining strategic fit involves matching the firm's strategy and mission with its external environment. Looking back at the analysis of the business landscape for an intermediate actor, the forces identified describe how a firm can determine if an industry has the potential for profit. Identifying these key points can give a firm a competitive advantage and thus attain strategic fit.

Not only access, content and terminal are important; when you also add advertising the industry becomes even tighter according to Höljö (2007-12-19). Looking at the earlier discussions on what advertisers will demand in the future it is clear that having a good knowledge of your customers, being able to segment them better than ever before, and being able to sell this information accordingly are assets, which attracts advertisers. The players that are able to provide such detailed and niche information can thus provide an even lower cost service to customers of digital content.

The fish tank phenomena, that is to say, the fact that any firm, small or big, can enter the market and create a new and valuable business space and therefore the industry, may be subject to a convergence. Blomkvist (2007-12-07) states that convergence within the content industry will happen soon. He predicts that one to three years from now, there will be a total convergence of both fixed and mobile networks – and then there will follow a 'clash of titans', as well as a melting pot of opportunities. It will be a new business landscape where companies will move together with their customers. (ibid.) A business landscape where firms co-create

together with customers is a co-productive landscape where customers co-produce their experiences with firms, which in turn generate more value. Prahalad and Ramaswamy would also encourage an active dialogue with customers as well as being able to manage and mobilize customer communities. Being capable of doing this in an early stage will be of great importance for an intermediate actor to understand how to achieve competitive advantages through strategic fit in the digital content era.

5 Conclusions

In this chapter, conclusions from our empirical analysis will be presented. The findings will be discussed and conclusive comments will be made throughout this section. Suggestions for further research will be also discussed.

The purpose of this research was to identify, from an intermediate actors perspective, the business landscape of digital content, the value creating drivers and how to achieve competitive advantages through strategic fit in this intense and volatile industry.

From an intermediate perspective, the business landscape has been identified consisting of three main actors in the value web, content, terminal and access. The results from our research indicate that within each actor, there are several players and intermediate actors operating on a niche basis that in turn, intensify the digital content industry with new technological innovations and new ways of satisfying the high demanding and always connected customers. The relations between the three actors will most probably evolve to the extent that certain intermediaries will disappear, certain will increase and major development will be seen in the fields of terminal and access. Production and distribution will become more straightforward with less interdependent links and actual owners and producers of the content will become the providers.

This industry attracts a strong interest, and in combination with the growing demand for digital content, it enables opportunities for reintermediation. Firms are becoming more specialized and focused, and we believe that in order to become even more competitive, a partnering with other niche players is essential in achieving a competitive advantage. From an intermediate perspective, there are great possibilities for those who become content coordinators to enter the market successfully through the high demands of speed, compatibility and innovation from content producers and customers. By becoming a bundler of services and products, the content coordinators will become the actors that will capture the most profit in the value web.

The value creating drivers that have been identified in the business landscape of an intermediate concern owning the content or owning the customer relationship. Through attaining a relationship and empowering customers through personalization and co-creation, most value will be added for the customers. Achieving a sufficiently large customer base can lead to lock-in effects, and thereby network effects, attracting more customers, complimentary services, etc. Owning the information about the customers, facilitates co-creation with customers as well as being able to use the information surrounding them to attract advertisers and hence reduce costs and effectiveness of the customers' own value creation. User experience is not achieved through buying a product or service, but rather by using it and interacting with it, something that is made possible by a content coordinator. The possibilities for a content coordinator finding value drivers and where to act can be recognized when owning the customer relationship and bringing the customer to an experience dimension. The value drivers identified within digital content for intermediate actors are not recognizably different from other industries. Although identification was needed from an industry perspective as well as a through look at the value drivers together with the business landscape.

We find the possibilities of an intermediate actor, such as a content coordinator to achieve competitive advantage through strategic fit is subject to the context and the ability of creating more innovative and co-creative distribution systems that have the ability to link customer experience with efficiency, short lead times and availability when ever, where ever. Our research shows that to have the potential of achieving competitive advantage in the value web, it is of utmost importance that the intermediate actor creates new value that has not been created yet - value that facilitates and does something different and adds more value than earlier, although this is unfortunately not unique within solely the digital content industry.

Those firms that succeed in the digital content industry will have to understand the business landscape and the value creating drivers of this intense digital world to be able to achieve competitive advantages, that will be seen in the new way firms compete with each other. Reaching a critical mass is essential to attain strategic fit and achieve competitive advantages in this business, because then the firm will be able to set standards through its customer base as well as be able to act as a prime mover within the value web of digital content.

Suggestions for further research

The digital content industry is becoming more open and is driven by both technological innovations and consumer demands. We will continue to see the industry change with new players entering the market in new forms and constellations in the coming years. The digital content industry is a constantly growing market in the economy, and for that reason it would be interesting to conduct further research in a few years and look at the business landscape and the value drivers at that time. Another interesting insight would be gained through conducting a more extensive research from the view of the three different actors - Content, Access and Terminal - and examine more in detail which of the three actors is most likely to survive the competition in the long run.

Finally, it would be interesting to make a similar research from another viewpoint. This perspective could be to take the consumers' angle and examine what are the actual wants and needs and how to create the ultimate user experience within digital content.

References

Published Sources

Amit, R. and Zott, C. 2001 "Value Creation in E-business" *Strategic Management Journal* 2001, Vol. 22, 493-520

Anderson, C. 2007 "*The Long Tail – Varför framtidens ekonomi handlar om att sälja mindre av mer*" WS Bookwell, Finland

Arthur, W. B. 1994 "*Increasing Returns and Path Dependence in the Economy*" The University of Michigan Press, Ch 1-2

Augustsson, T. 2007-11-27 "*Kampen om musiken*". *Näringsliv*, s. 12-13, Svenska Dagbladet

Bektas, T. O. and Ouveysi, I. 2005 "*Designing cost-effective content distribution networks*" Science Direct October 13th

Bryman, A. and Bell, E. 2003 "*Business Research Methods*" Oxford University Press Inc., New York

Chircu, A.M. and Kauffman, R.J. "Reintermediation strategies in business-to-business electronic commerce" *International Journal of Electronic Commerce* Vol 4, Issue 4 (June 2000)

Christensen, C M. Raynor, M. and Verlinden, M. 2001 "Skate to Where the Money Will Be" *Harvard Business Review*, November 2001, 72-81

Cronin, M J. 2000 "*Unchained Value – The New Logic of Digital Business*" Harvard Business School Press, Boston

- Dunér, H. 2007-12-18 “*Stort intresse för Joost*”. Näringsliv, s.23 Svenska Dagbladet
- Evans, P. and Wurster, T S. 1997 “Strategy and the New Economies of Information” *Harvard Business Review*, September 1997.
- Froste 1, C. 2007 “*En leende bransch*” Affärsvärlden nr 51-52, 19 December 2007 p.36 – 37
- Froste 2, C. 2007 “*Mer kräm i luren*” Affärsvärlden nr 51-52, 19 December 2007 p.38
- Grant, R M. 2005 “*Contemporary Strategy Analysis*” Maiden, MA, Blackwell Publishing, fifth edition
- Gummesson, E. 2004 “*Many-to-Many marketing: från one-to-one till many-to-many i nätverksekonomin marknadsföring*”. Kristianstad Boktryckeri AB, Kristianstad
- Hax, A. and Wilde II, D. 2001 “The Delta Model- Discovering New Sources of Profitability in a Networked Economy” *European Management Journal* Vol. 19, no 4, August 2001
- Holme, I M. and Solvang, B K. 1997 “*Forskningsmetodik. Om kvalitativa och kvantitativa metoder*” Studentlitteratur, Lund
- Jacobsen, D I. 2002 “*Vad hur och varför? – Om metodval I företagsekonomi och andra samhällsvetenskapliga ämnen*” andra upplagan, Studentlitteratur, Lund
- Leurdijk, A. and Limonard, S. 2006 “Market Potential for Interactive Audio-visual Media” Automated Production of Cross Media Content for Multi-Channel Distribution, IEEE Computer Society
- Kim, W. C. and Mauborgne R. 2005 “*Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*” Harvard Business School Press, Boston

Maltz, E. and Chiappetta, V. 2002 "Maximizing Value in the Digital World" *MIT Sloan Management Review*, Spring 2002.

Normann, R. and Ramírez, R. 1998 "*Designing Interactive Strategy – From Value Chain to Value Constellation*" West Sussex: John Wiley and Sons Ltd

Normann, R. 2001 "*När kartan förändrar affärslandskapet*" Liber Ekonomi, Malmö

Pitt, L. 2001 "Total E-clipse: Five New Forces for Strategy in the Digital Age" *Journal of General Management* Vol. 26, No 4 summer 2001, 1-14

Prahalad, C.K. and Ramaswamy, V. 2000 "Co-opting Customers Competence". *Harvard Business Review*, January 01

Prahalad, C.K. and Ramaswamy, V. 2003 "The New Frontier of Experience Innovation" *MIT Sloan Management Review*, summer 2003, 12-18

Rienecker, L. and Jörgensen, P S. 2002 "*Att skriva en bra uppsats*" andra upplagan, Liber, Lund

Schilling, M. 1999 "Winning the Standards Race": Building Installed Base and the Availability of Complementary Goods" *European Management Journal* Vol. 17, No 3, pp 265-274

Stabell, C. B. and Fjeldstad, O. 1998 "Configuring Value for Competitive Advantage: On Chains, Shops, and Networks" *Strategic Management Journal*, Vol. 19, No. 5. (May, 1998), pp. 413-437.

Trost, J. 2005 "*Kvalitativa intervjuer*" Studentlitteratur, Lund

Cornéer, O. "Ny publik på dumburken" *Veckans Affärer*, 06-12-2007, No 49, Bonnier Tidskrifter AB, Sörmlands Grafiska Quebecor

Electronic Sources

Bomsel, O. 2006 “Digital Content Distribution Systems” 27 February 2006, Economics of Digital Content Distribution

http://www.ist-ipmedianet.org/Digital_Content.pdf, 14-11-2007

Dye, J. 2007 “Meet Generation C – Creatively Connecting Through Content”

<http://www.econtentmag.com>, 14-11-2007

Internet World Stats – Usage and Population Statistics

<http://www.internetworldstats.com/stats9.htm>, 20-11-2007

Goedvolk, E-J. Faber, E. and Wagenaar, R. 2004 “*Towards a framework for understanding the effectiveness of digital content exploitation strategies*”

<http://portal.acm.org/citation.cfm?id=1052220.1052251>, 14-11-2007

OECD, The Future Digital Economy: Digital Content creation, Distribution and Access – Conference Summary. January 2006.

<http://www.oecd.org/dataoecd/54/35/36854745.pdf>, 20-11-2007

Other Printed Documents

Wang, S. 2006 Entertainment: The Big Picture; Reinitiating Coverage with Market Overweight Rating. Bear Stearns US Equity Research, June 15th, 2006

Imran, K. 2008 “Nothing But Net” J.P. Morgan, 2008 Internet Investment Guide, 02 January 2008

McCormack et al., 2007 May Broadband Buzz: A Monthly Update on Critical Broadband Issues. Bear Stearns US Equity Research, June 4th, 2007

Moyer, S. 2005 “The Future of Digital Content Distribution” Consumer Communications & Networking Conference 2005

Noto, A. 2007 “Independent Insight – U.S. Technology: Internet” GoldmanSachs Global Investment Research. June 17th, 2007.

Oral Sources

Blomkvist, Martin. Director and Head of Global Content Acquisition and Partner Management, Sony Ericsson. Personal interview, 07-12-2007, Lund

Höjlö, Patrik. Director Content Partner Management, TeliaSonera. Personal interview, 19-12-2007, Stockholm

Kjellberg, Hubert. Global Head of Content Multimedia, Ericsson. Telephone interview, 20-12-2007, Stockholm

Expert within digital content production. Director Cross Media, Production Company. Personal interview, 11-12-2007, Stockholm

Ödman, Claes. Vice President Multimedia Solutions, Ericsson. Telephone interview, 20-12-2007, Stockholm

Appendix 1

Interview guide

Introduction

Please tell us about your roll at company xxx.

How does your company work with digital content?

What is the importance of being available digitally for xxx?

Business Landscape

Which are the actors within the industry?

Which players are there within the industry?

Who are your main competitors?

How would you describe the industry today?

How do you see the market, and in what way do you believe that it will change in the future?

How do you increase your competitiveness in an industry as this?

How can you create new relationships with consumers?

How can you create more value for both consumers and your business?

What do you base your thoughts about digital content on?

Value Creation

What does the value chain look like when you sell digital music? Who gets part of the money, and how much?

What value flows do you identify within the different business models?

What and where is the value added?

Strategy and Future

What are the strategic possibilities for xxx? Xxx strengths, weaknesses, opportunities and threats?

How large do you think the future will be in five years?

What competition trends do you anticipate in the future?

How do you think digital content will evolve in the future?

How do you think the future looks for digital content within entertainment?

Where do you think the money will be made in the future?

What new players do you see coming in the future?