

THE INFLUENCE OF THE DIFFUSION OF TRIPLE-PLAY SERVICES AND IPTV ON ACTOR'S POSITION IN THE VOD BUSINESS NETWORK: THE FRENCH CASE

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Abstract

The launch of triple-play services, including IPTV can be considered as a “critical event” having a strong structural impact of the market. It has not only induced a strong development of the French broadband Internet access market, but has also disrupted the supply of significant services. In particular, the IPTV system implemented by broadband Internet access providers is challenging both the supply of traditional services, such as broadcast TV, but also the supply of on-line services such as VoD. In this paper we analyse the evolution of the VoD supply in France, and in particular the effect of the launch of IPTV systems. Two main effects have been identified. Firstly, the launch of attractive triple-play offers has induced a strong development of the French broadband Internet access market, which in turn has resulted in the entry of numerous players in the VoD market. Secondly, the IPTV system has changed the balance of power in the VoD value-chain, thus inducing or amplifying strategic moves along this value-chain. In this paper, after presenting the VoD business and context, we first analyse the initial situation of the French broadband Internet and VoD market in the pre-IPTV period, and introduce the “critical event” represented by the launch of triple-play services. Then we analyse the entries of different companies and the inter-organisational arrangements used. Finally, we show how the change in the balance of power induced by IPTV has amplified the strategic moves of major market players. We conclude by outlining competitive and regulatory implications.

INTRODUCTION

The emergence of the so-called multimedia industry, based on the expected merging of three vertical industries (telecommunications, computing and the media) into a new horizontally layered one, raised tremendous interest at the end of the 90s. There was a great deal of conjecture about how this new industry would be structured and what types of player would be successful in positioning themselves in this emerging value chain ([8], [25]). It seems that convergence has only really occurred ten years later. Such a long delay is justified by two main reasons. First of all there was an over-estimation of the effectiveness of the techniques employed, the capacity of the systems available and the speed of consumer uptake. In fact, it is only recently that adequate techniques and resources have become available to users. Secondly, it has taken some time before lessons could be learnt from the experiences of many different organisational arrangements and business models tested by the various types of players.

This is particularly the case for Video-on-Demand. On-line movies were probably one of the best publicised examples of a multimedia service, as VoD can be considered as exhibiting a symbolic significance for convergence. The supply of VoD services requires the combination of resources initially possessed by players from telecommunications, computing and audiovisual industry. It also exemplifies the disrupting character of convergence, as this is a substitute for more traditional distribution channels, such as movie theatres, broadcasting TV, or DVDs. In this paper we identify a “critical event” which strongly impacts VoD business as well as other services: the launch of “triple-play” services in France and in particular of IPTV. It has not only induced a strong development of the French broadband Internet access market, but has also disrupted the supply of significant services. In particular, the

IPTV system implemented by broadband Internet access providers is challenging both the supply of traditional services, such as broadcast TV, but also the supply of on-line services such as VoD. This critical event also allows us to broadly distinguish between two phases of convergence. During the first phase, major players are strongly constrained by their past trajectories. They are subject to strong information asymmetries as they have a low level of understanding of other industries' business and tend to remain on their core resources and capabilities. Moreover, the business prospects of services such as VoD remain uncertain, so that they adopt a rather cautious approach in their strategic moves. After the launch of triple-play services, VoD also exemplifies a second stage of convergence in which players do not remain on their initial resources and competences bundle, move along the value chain, and eventually enter each other's business. Players from the various industries have become more familiar with other companies' business by interacting with them for the production and marketing of new services. Moreover, the more sizeable business prospects reduce the perceived risk of more adventurous strategies. This is particularly true of telecom operators which benefit from an increased market power.

In this paper, after presenting the VoD business and context, we first analyse the initial situation of the French broadband Internet and VoD market in the pre-IPTV period, and introduce the "critical event" represented by the launch of triple-play services. Then we analyse the entries of different companies and the inter-organisational arrangements used. Finally, we show how the change in the balance of power induced by IPTV has amplified the strategic moves of major market players. We conclude by outlining competitive and regulatory implications.

1. VIDEO ON DEMAND BUSINESS AND CONTEXT

1.1 The VoD distribution channel

VoD is a service providing video programs (typically movies, but other programs as well) as requested by the customer in a catalogue and delivered at a time chosen by the customer. VoD can be an expensive service, its cost depends on the size of the program catalogue, the flexibility offered as to viewing and the quality of pictures sent. Let us look, first of all, at the VoD market from an economic perspective and see its position in relation to the movie and media industries.

Movies are distributed through multiples channels in sequential release windows in a specific order. The majority of the revenues generated by a film are received within 18 months of a film's distribution cycle. After exhibition in its country of origin, the film is distributed passes over the following months through other channels: exhibition abroad, home video (cassette or DVD), Pay-Per-View, pay TV then free broadcast TV. This timeline must be respected by all stakeholders in the sector. This film cycle is based on potential revenue along the different market segments, according to territoriality (by country and by linguistic zone) and time (duration and distribution rights) agreements [12].

Release authorisation	Exception	Distribution mode
From release approval		Movie theatre
6 months		Video cassette or DVD
33 weeks		Authorised VoD platforms
9 months		Pay-per-view
12 months		Encrypted Pay TV
24 months	18 months	Broadcast TV (if movie co-producer)
36 months		Broadcast TV

Table 1: Release windows in France for movie distribution channels

VoD, as a new distribution channel has required a new release window in this film distribution cycle. The choice of the VoD release window for new movies is therefore critical for the VoD and competing channels. Many VoD companies (in particular aggregators) insist on the necessity of linking VoD time window with the traditional physical channels of delivering movies that are video and DVD rental/retail stores¹ [17]. In France, as a result of the success of “triple play” offers by ISPs on the French market, new negotiations took place between the movie industry, TV channels and ISPs, leading to a new agreement on release windows, in December 2005. According to this agreement, new movies can be marketed as VoD after 33 weeks, a release window situated between those of DVD and Pay-per-View (Table 1). This agreement also guarantees the rights holders a minimum share of 50% of the unit price for new movies and 30% for other movies (more than 36 months).

1.2 The VoD value chain

The VoD value chain will depend on the nature of technical architecture used and on the complexity of the network. While this framework can vary according the nature of the technology used, the general structure is quite similar. In addition to content closely linked with Digital rights management (DRM) – that is a key issue for any kind of content distribution and especially for movies – the VoD system requires software, hardware and network assets which, in turn, create new middle layers in the value chain:

- Head-end video servers and platforms (encoding content servers, middleware)
- System management functions (access control, DRM, and billing functions can be also included)
- Transport/access (transport across the network from the head-end to the DSLAM or cable hub near the consumer and connection over the “last mile” to the subscriber’s STB)
- End-user equipment (STBs)

Table 2 presents the VoD value-chain, structured around three main activities: content provision, service provision and distribution, and commercial distribution. The

¹ “Some 80% of a title’s home-video rental and DVD purchase business is done within the first 30 days of its hitting the rental shelves. In other words, the newer a movie, the more valuable it is. The implication is that the closer the VoD release window gets to the video rental window, the more VoD operators can charge for their content and the greater the usage that can be expected. Currently, the premiere pay-per-view window is lagging the home rental window by an average of 50 days. The effect of that gap is to dampen demand for VoD and to limit the price that can be charged for a VoD movie” [17].

detailed functions for each activity show the critical role of service provision in the value chain, comprising technical, marketing, and IPR management functions. Some players can be positioned on more than one activity.

Activity	Function	Stakeholders involved
Content provision	produce movies, manage rights, market programs	Content providers, movies studios, films companies
Services provision	Stock films on servers (based on technologies for encoding such as digitalisation and compression) and then distribute them either through downloads (temporary) or streaming, deliver VoD for the consumer over DSL, cable. Multiple functions: <ul style="list-style-type: none"> - negotiate rights with content providers, - ensure the remuneration of the holders of the rights, - manage all the data associated with the program (language), - ensure the protection of these programs by appropriate encryption, - update the offer according to consumption parameters and contractual rights, - produce program guides and graphic interfaces, - set up a commercial policy suited to the various types of products - manage invoicing and payment - ensure promotion of the service - negotiate agreements with physical distributors (network operators) for integration in the platform offer, either under the name of the end distributor, or under the service provider's own, or using the "co-branding" system that enables each party to make the most of its contribution 	Various players
"Physical" transport and/or commercial distribution	<ul style="list-style-type: none"> - construct a server-client architecture dedicated to VoD (including a billing system) - provide the infrastructure and access networks to carry VoD 	Access network providers, broadband network operators, ISPs
Consumption		End-users

Table 2: The VoD value chain (Source: Adapted from [15])

As broadband offers new opportunities for the distribution of movies, the development potential of VoD interests several players: telecommunications operators (an opportunity for them to adopt a « triple play » strategy), ISPs, ADSL providers, television channels, cable and satellite operators, film companies and production studios. Operators see VoD applications as a means of increasing the return from their broadband investments, while TV channels can take advantage of telecommunications deregulation in order to develop interactive services. Movie studios and film companies consider VoD as the missing link for a speedy and more efficient marketing and distribution of films. They try to attract service providers through their huge catalogue of movies and programming.

2. THE PRE-IPTV SITUATION AND THE LAUNCH OF TRIPLE-PLAY SERVICES

2.1. Moviesystem's quasi-monopoly

During the pre-IPTV period, VoD services were marketed via websites or Portals, and were usually viewed on a PC. Customers had to engage into specific transactions with

the VoD service providers in order to view movies, i.e. consult a movie catalogue online, select a movie, pay for it, and download the movie (or view a streaming movie).

The French VoD market started with the quasi-monopoly of a firm called Moviesystem, later bought by Canal+ and renamed Canalplay. The case of the first mover on the French market is particularly relevant for understanding the specificities of the VoD business. Created in March 2000, Moviesystem has been the pioneer of VoD in France. Starting from a traditional activity of purchasing the exclusive rights for movies and wholesale distribution of VHS cassettes to professionals, Moviesystem entered the VoD market with the acquisition of a VoD Internet service, NetCiné.com. Moviesystem was initially supported by Pathé and Europa Films, which provided funds and the VoD rights for their catalogues. Consequently supported by innovation funds, Moviesystem signed numerous agreements with content providers and claimed to manage at the end 2004 a catalogue of 1,500 films from 70 production companies. In May 2004, Moviesystem was bought by Canal +, a leading French and European Pay-TV company. Moviesystem's three main activities in VoD business were the purchase and management of exclusive rights, the development and operation of a specialised middleware platform and the commercial operation of VoD services.

Moviesystem's middleware platform was organised around Windows Media™ 9 technology. This platform allows the addition of meta-data for protecting rights, the digital coding and the encryption of films and other programmes. It also provides a full range of features, such as management of content, conditional access and Digital Rights Management, user interface customisation, reporting and edition of statistics and bandwidth management. The IP-based streaming platforms can be installed on the operators' network. In order to ensure quality and speed of streaming, as well as to deal with peaks in demand, it is better to have numerous servers located as near as possible to the end users.

Moviesystem addressed the VoD market through both direct and indirect distribution. With regard to direct distribution, Moviesystem operated its own service directed at Internet users, called NetCine. NetCine's web site offered films for streaming that are grouped into various categories (such as news, comedy, drama, children, adult, etc). The film catalogue was updated every week with titles recently released onto the rental video market. In order to simplify and secure transactions, Moviesystem introduced an electronic payment system with tokens. NetCine claimed a customer base of 30,000 individuals at the end of 2004, and direct distribution was not envisioned as the most promising channel compared to indirect distribution via ISPs or other distributors. However, it had the advantage of serving as a showcase for prospective distributors and also as a test market. Moreover it allowed the distribution of adult content, which may not be in accordance with the policy of some distributors.

With regard to indirect distribution, Moviesystem mainly developed partnerships with ISPs. Under each ISP's brand name, NetCiné's services were distributed on the main French ISPs portals, whether focused on ADSL, such as France Télécom's Wanadoo, Club Internet, 9 Télécom and AOL, or on cable TV (Noos). The indirect distribution channel allowed Moviesystem to address a potential market of roughly two-thirds of broadband access subscribers. Moviesystem was also involved in new developments

resulting from the adoption of “triple play” strategies by the main ISPs. It participated in the launch of an innovative VoD service with Monaco Telecom, where the film can be viewed directly on a TV screen, and has also worked with France Télécom, Free or 9 Télécom, which were looking for VoD services that would complement their new online IPTV services.

Moviesystem was also able to provide its distributors with a complete and customised solution. Moviesystem was in charge of the updated provision of movies, the analysis of customers’ habits, the customisation of the user interface, and the management of digital rights whereas distributors were responsible for providing the adequate infrastructure, including servers located near end-users and for billing users. The revenues were split as follows: rights owners got 50 % of revenues, an average of 5 % was spent for the billing platform used and the remaining 45 % was more or less equally shared between Moviesystem and ISPs. Indirect distribution offered Moviesystem many advantages; a larger potential market, an extended server infrastructure, a billing system that users were already accustomed to, as well as benefiting from the attractiveness of bundled offers. However, as ISPs were keen to protect their customer base and to keep control of their billing system, Moviesystem could not get full access to customer information, thus restricting its marketing opportunities.

The initial success of Moviesystem is representative of the first phase of convergence, during which the capabilities of players were significantly constrained by their past experience. Moviesystem has been able to bridge two different industries by significantly reducing transactions costs resulting from strong uncertainties and from information asymmetries [10]. On the one hand, firms in the media industry traditionally distributed their films via movie theatres, TV channels or video rental outlets. They were therefore not familiar with dealing interactively with end customers, such as analysing their behaviour and preferences and managing direct or indirect transactions with them. They were also not accustomed to the technical and management aspects of computing and communications systems. ISPs and network operators, on the other hand, lacked experience in managing a catalogue of films. It requires artistic and marketing capabilities, such as the ability to assess the commercial value of films on this complementary market, to package them, and to put them together to provide an attractive offer. However, the launch of triple-play services will trigger a second phase of convergence.

2.2 The critical event: the launch of triple-play offers on the French market

Triple play services have been increasingly popular in France due to the initiative taken by the ISP “Free” to launch the first triple-play offer in winter 2003, including ADSL2 Broadband Internet, several IPTV channels, and free telephone calls to fixed subscribers (now to 70 countries), for a monthly subscription of 29.90 Euro. Free was subsequently imitated by the other ADSL services providers proposing similar offers. The high level of competition and innovation in the French market has resulted in strong growth, leading to a penetration rate now exceeding 50% of TV households in 2006, and reaching a total of 15.55 million subscribers at the end of 2007; a market

which is largely dominated by ADSL based broadband services (Table 3)¹. With 4.1 million IPTV subscribers, the French market exhibits the highest number of subscribers in Europe [22] for this service.

Subscribers (million)	2000	2001	2002	2003	2004	2005	2006	2007
Broadband Internet	0.196	0.602	1.655	3.569	6.561	9.471	12.695	15.550
ADSL	0.068	0.408	1.368	3,172	6.103	8.902	12.019	14.800

Table 3: Broadband Internet subscribers in France (Source: ARCEP)

3. THE IPTV PERIOD: MARKET ENTRIES AND STRATEGIC MOVES

3.1. Market entries on the French VoD market

The launch of attractive triple-play offers has not only resulted in a strong market growth, but also induced numerous market entries. From 2005 on, The French VoD market has been characterised by multiple entries from players. The French VoD market, initially characterised by a quasi-monopoly, has become very competitive, exhibiting the highest number of competing services in Europe, with 32 different services offered [22] (Table 3).

Country	N° of Suppliers	Internet Services	IPTV Services	Cable Services	Satellite Services	DTTB Services
France	32	26	13	1		
Netherlands	30	27	3	1		
UK	16	11	4	4	1	1
Germany	26	20	4	2	2	

Table 4: Commercial VoD services in selected European countries² (Source: [22])

Table 4 shows that the high number of VoD services in France is partly due to the high number of VoD services linked to IPTV. IPTV systems allow offering a much more user-friendly way of distributing VoD services. They allow consumers to view content on their TV, using the IPTV graphic interface and remote control. Consumers are then billed by their ISP. Therefore, IPTV has become the main distribution channel for VoD: 80% of VoD content is now viewed via an IPTV system [22]. Attracted by the high growth of the French residential broadband market, numerous players have entered the VoD service market from 2005 onwards (Table 5). Telecom operators and ISPs, large TV broadcasting and pay-TV companies as well as satellite operators have launched their VoD services. Various players such as producers, wholesalers and retailers, have also entered this market. However, the various players have adopted different entry strategies [11].

¹ The number of TV households in France has been estimated at 24.219 million households in 2005 by the European Audiovisual Observatory.

² Excluding free of charge services, video clip services and adult services. The same service provider can distribute services through several channels. Therefore the number of service providers may be inferior to the sum of the services offered through the various electronic distribution channels.

2002	2006
Moviesystem (Bought by Canal+ in 2004)	Arte VOD
2003- 2004	VirginMega (Retailer)
France Telecom: Ma Ligne TV (ADSL operator)	FNAC
2005	Neuf Cegetel (ADSL operator)
Canal +: Canalplay (Ex Moviesystem) (Pay-TV)	Alice (ADSL operator)
Vodéo (Content Aggregator)	MSN (Search engine/Portal)
TF1: TF1vision (Broadcast TV)	Google (Search engine/Portal)
TPS: TPSVOD (Pay-TV)	Yahoo (Search engine/Portal)
France Télévision (Broadcast TV)	Cinezime (Content aggregator)
M6 Video (Broadcast TV)	Universcine (Content aggregator)
Editions Montparnasse (Producer)	Toondra (Content aggregator)
Free (ADSL operator)	Glowria (Retailer)
AOL (ADSL operator)	Imineo (Content aggregator)
Club Internet (ADSL operator)	Paris Première video (Cable TV channel)
	Orange (24/24vidéo) (ADSL operator)

Table 5: entries on the French VoD market (Source: [11])

Telecommunications companies and ADSL service providers are naturally leading the market due to their hold on their subscribers with their IPTV box which allows them to control the most appropriate viewing terminal for VoD, the television. Subscribers to IPTV services can easily access VoD services by using the remote-control device of their IPTV box and will be charged on their ADSL service provider's bill. The competitive pricing of ADSL services leads them to push for the adoption of other services aiming at improving their profitability. According to their resources, they can either provide their own services by negotiating with rights owners (such as France Telecom/Orange with Pathé), or distribute the services of another service provider (such as Alice with VirginMega).

Content aggregators can be divided into two categories. TV companies try to take advantage of their TV program catalogue (reports, documentaries, games, and series) that they complement with movie catalogues. They benefit from their traditional relations with producers, from their market knowledge and their brand image. The other category is composed of niche players that are specialized in a specific topic such as Vodeo (reports, documentaries), Imineo (education), and Cinezine (independent producers). They distribute their VoD services on their portals, but may also distribute their services via other service providers, such as TF1Vision with Neuf Cegetel, or Vodeo with Noos.

Retailers have expanded their operations to the electronic distribution of movies, taking advantage of their brand image and on their market knowledge. FNAC has chosen to subcontract its VoD service to Glowria, while its main competitor VirginMega has decided to develop its own platform. Glowria is another type of retailer initially specialized in renting DVDs by Post, following the model of Netflix in the USA. This company has invested in a platform and a catalogue of movies, and distributes its services directly through its website, through agreements with

distributors reselling its services under their own brand, or providing its technical platform without providing movies.

Global players such as Apple or Amazon also threaten to become competitors. Amazon has launched its VoD services in the USA, Amazon Unbox, and may expand its target market to other countries, such as France. Apple has launched its iTunes Video Store in the USA and plans its extension to Europe.

Foreign search engine and portal companies have also entered this market with a different strategy that we can qualify as “disruptive” by analogy with the concept of disruptive innovation by [9]. According to [9] disruptive technologies initially underperform established ones in serving the mainstream market, but may eventually displace the established technologies³. Google (with YouTube), MSN and Yahoo provide free of charge VoD services which cannot compete in either terms of quality or choice with paid services; the video quality is not very good and the catalogue is composed of short clips, documentaries, demos and video clips provided by users. However, they outperform traditional services in two dimensions, namely price and the participation of users. By attracting masses of users viewing and producing videos, they may pave the way for more commercial services.

Telecom operators/ADSL operators	
France Telecom (Orange)	Partnerships with Broadcast TV (Arte, TF1, France Télévisions), aggregators (Zooloo Kids) and content providers (Warner Bros)
Neuf Cegetel	Partnerships with Glowria (platform) and TF1 Vision (content)
Alice	Partnership with VirginMega (platform)
Content aggregators	
Vodeo	Partnerships with other service providers (e.g. Noos)
Retailers	
FNAC	Partnership with Glowria (replacing Moviesystem)
Glowria	Partnerships with several service providers
Search engines and portals	
MSN	Partnerships with producers (Endemol), TV channels (i>TELE, Eurosports, Canal J, Filles TV) and Music majors (Sony and EMI)
Google	Partnerships with INA, CanalPlay, Vodeo, Arte
Yahoo	Partnerships with Dailymotion, TV5, INA, Vodeo

Table 6: Partnerships in the French VoD industry (Source: [11])

None of these actors possess all the necessary resources that are necessary for the VoD value chain. Therefore, they rely, to a variable extent, on partnerships and alliances (Table 6).

3.2. Selected Strategic moves

Major players on the French market have made significant strategic moves, in particular by incorporating or developing new activities in stages of the value-chain

³ New products based on disruptive technologies initially have lower performance on dimensions valued by the mainstream market segment, but have a higher performance on dimensions appealing to some other niche markets. If the performance of a disruptive technology increases faster than the established one on the main dimension and/or the preferences of the mainstream market change, the established technology (and the incumbent firms) may be displaced.

different than the ones they were initially positioned on. VoD also exemplifies a second stage of convergence in which players do not remain on their initial resources and competences bundle due to strong information asymmetries. Players from the various industries have become more familiar with other companies' business by interacting with them for the production and marketing of new services. Through their first experience of marketing content services, operators have become more knowledgeable with audiovisual and Media business. Audiovisual and Media companies, on the other hand, have become more experienced in digital business. The strong growth of the broadband Internet access market in France has therefore triggered significant strategic moves along the value chain. This is particularly true of telecom operators which benefit from an increased market power. We present here a few stylised strategic moves.

3.2.1. From packaging (TV) to VoD Service provision

A first type of strategic move observed on the French market is TV companies, located on the "TV packaging" or "TV edition" stage of the value chain, moving to another packaging position as a VoD service provider, by acquisition or development.

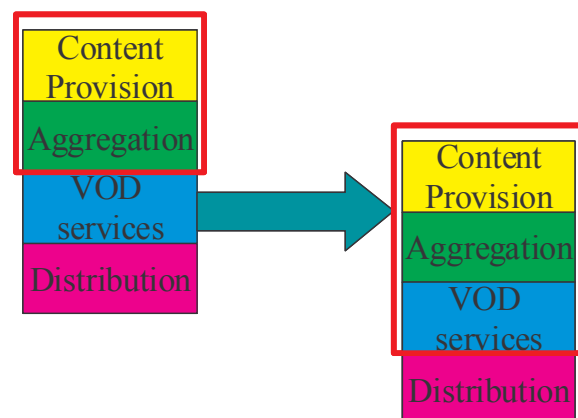


Figure 1: From TV channel to VoD services move

CANAL+

The first historical strategic move has been the acquisition of Moviesystem by Canal+, which marks the start of a strategic waltz between major players. In May 2004, Moviesystem was bought by Canal+ group, the main French Pay-TV company and changed its brand names (Moviesystem and NetCiné) to CanalPlay, which proved to be a mixed blessing. On the one hand, its business could benefit from the resources of a large company and from various synergy opportunities, however, on the other hand, it was losing the advantage of being an independent player on the market. In particular, the fact that Canal+'s main shareholder, Vivendi Universal, was also a major shareholder of France Telecom's major competitors on the fixed and mobile markets, influenced the decision by France Telecom to lower its dependence on CanalPlay for VoD services. When France Telecom launched its IPTV service, "Ma ligne TV" in 2003/4, it was mainly relying on Moviesystem's services. Progressively, France Telecom has implemented a policy of negotiating directly with rights owners, first for its IPTV VoD services, then for its portal-based VoD service. CanalPlay is still a significant provider to France Telecom/Orange among others but it is difficult to assess its position. Currently, CanalPlay offers more than 2,000 videos on demand,

1,000 of which are films made for cinema. It claims that 2.4 million videos were purchased via CanalPlay in 2006 and, since January 2007, customers can download permanently and burn films on DVDs. In 2005, Canal Play became a provider of VoD services for Free IPTV services.

TF1

Another move was made by TF1, the French leading broadcaster, which followed a different strategy. In 2005, TF1 launched a streaming VOD service (users do not have to wait to download a large file before seeing the video; "moving images" are sent in compressed form over the Internet and displayed by the viewer as they arrive). TF1 strategy relies on purchasing popular contents' rights and on partnerships with the major American and European studios (among them Warner, Universal, Sony Columbia, Europa Corp, Pathé). The site TF1 Vision proposes also catch-up TV with the series from TF1 Broadcasting (*Lost*, *Koh-Lanta*...) and Premium VOD with the season 2 of *Heroes* practically at the same time as its American distribution. TF1 is referenced on IPTV through the main operators: Alice, Free, Neuf.

3.2.2. From Distribution to VoD services and eventually TV packaging and content

Another major strategic move is broadband access providers, such as telecom operators and ISPs, initially only supplying a distribution channel to VoD service providers, moving to upward stages of the value-chain. As for TV companies, there are some differences in their strategic approach.

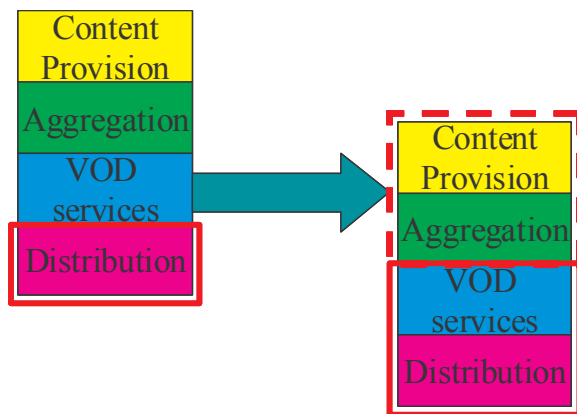


Figure 2: Strategic move from distribution to VoD services

Orange (France Télécom)

Orange has a very offensive strategy concerning VoD. This strategy has also extended to audiovisual services, such as TV channel and content production. Orange VoD strategy must also be understood in the context of its overall strategy of "convergence operator, aiming at providing seamless services across IPTV, Internet and mobile channels.

Initially relying on Moviestream for its portal-based VoD service, France Telecom has progressively developed its own service, “24/24 video”, by negotiating directly with content providers. At the end of 2007, Orange had 7.3 billion subscribers, of which around 1.2 million have access to IPTV programs. Its “24/24 Video” service uses its catalogue of 3,000 films and 6,000 TV programmes to update its offer every week. In November 2006, Orange has launched a new SVoD service “24/24 Jeunesse” allowing access to series for children for a monthly fee of Euro 4.90, followed later by the launch of “24/24 Musique” and “24/24 Séries”.

However the most disruptive strategic move of Orange has been the entry into TV business, resulting in a blurring of borders between VoD and TV, as well as with fixed and mobile channels. Four main events can be outlined. The first was the launch in 2007 of “Orange sport TV” for its IPTV subscribers. The second was the acquisition of three shares (out of twelve) of the soccer league championship diffusion rights, for both live and VoD diffusion, on Internet, TV and mobile. The third one is the announcement of the launch of an exclusive catch-up TV service⁴ of the French public TV channels, “Rewind TV”. The last (and not the least), was the announcement of an exclusive deal with Warner Bros, HBO, International Television, Gaumont, and Fidélité Films. Orange has negotiated exclusive rights for their catalogue for duration of at least 5 years, for direct diffusion and VoD, for IPTV, Internet and mobile channels. Orange has also announced the launch of six exclusive Orange new pay-TV channels diffusing this catalogue. Orange is also marginally involved in movie production, via a subsidiary called “studio 37”, and created in 2007.

Free

Free (Iliad Group) is the third ADSL operator in France with 2.9 million subscribers, but the first for IPTV with around 2.4 million customers with IPTV access⁵. This is due to the fact that the triple play package has been the standard offer by Free, while other competitors offered the choice between single, double and triple play. Free initially had a strategy of giving an access to the main VoD service providers on the market: Canalplay (Canal+), TF1 Vision (TF1), M6 Video (M6), and Vodeo.tv. However, Free has also made a move towards providing its own services. After negotiating directly with Warner and Disney-ABC International Television, Free has launched an SVoD service, “Free Home Video”, giving access to 50 films and 100 series every week for a monthly fee of Euro 5.90. Free has also announced the launch of a High Definition premium service for a monthly fee of Euro 9.99.

Neuf

Neuf (Neuf Cegetel) is the second ADSL operator with 3.2 million customers at the end of 2007. Resulting from the merging of several ISPs, Neuf Cegetel only launched its VoD service in December 2006. Its main offer, “Neuf VoD” mainly distributes the services from its partner Glowria. Neuf also gives access to TF1 Vision and M6 Video. Neuf represent an unknown factor on the VoD and related services market. First, one of its major indirect shareholders is also the major shareholder of Canal+, Vivendi Universal. Neuf Cegetel has been recently integrated in Vivendi Universal’s mobile telecommunications subsidiary, SFR. Until now, no integrated strategy has

⁴ Catch-up TV services allow consumers to view selected past TV programs during a given period after their diffusion. Most catch-up TV services don’t include movies.

⁵ However, the exact number of subscribers effectively using IPTV service is unknown.

emerged from the different components of Vivendi Universal. However, Orange’s initiative in TV business is considered as a frontal attack for Canal+, and may induce significant strategic change.

CONCLUSION: COMPETITIVE AND REGULATORY IMPLICATIONS

The introduction of IPTV systems and the supply of VoD via IPTV systems have a strong competitive impact, which in turn may raise regulatory concerns. Moreover, the blurring of borders between service categories, as well as between diffusion channels also challenges traditional approaches.

IPTV systems significantly increase the market power of broadband access suppliers, which also supply the IPTV box giving exclusively access to the services they have selected (figure 3). Via the IPTV box, they de facto control what is offered to subscribers. Of course, subscribers still have the possibility to go to their PC, and access any website providing VoD services, but they will have to stand higher transaction costs than if they remain in front of their TV, use their remote control and get billed by their broadband access provider. Even if subscribers have technically access to all the services offered on the Internet, they are subject to what we call “potato couch switching cost”. The strength of this switching cost is already reflected in the high market share of IPTV related VoD services (80% of VoD content according to [22]).

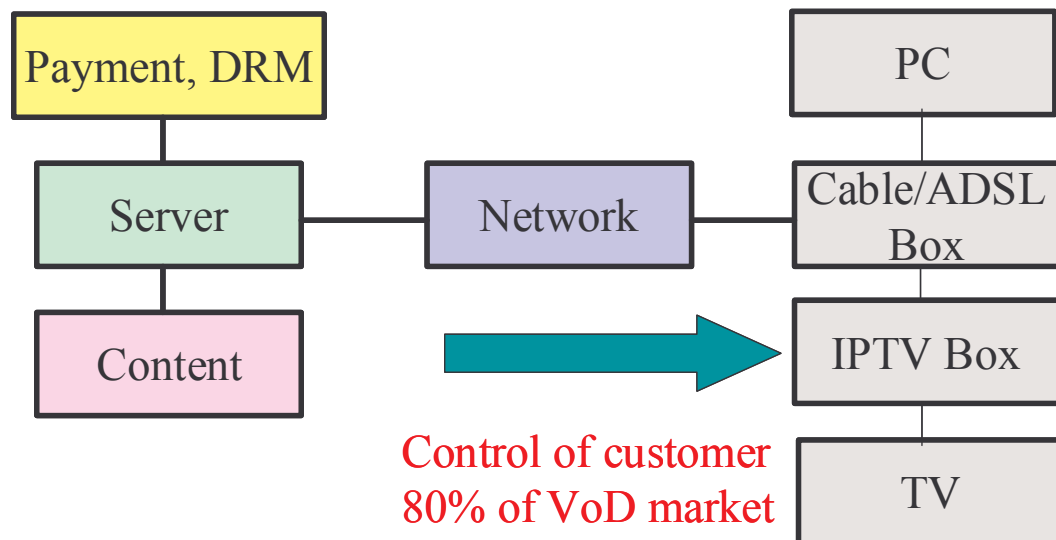


Figure 3: The competitive role of IPTV systems

Regulatory concerns have been mainly focused on issues of access (i.e. unbundling) and interconnection for current and new generation networks. Under the “old” Internet access way using a PC, content issues were not a concern, as subscribers can access any content supplied on the Internet. However, the “potato couch switching cost” that we have outlined shed new light on content provision issues. To some extent, the problem becomes similar to the “closed wall garden” effect identified in the case of mobile Internet.

Until recently, with the exception of Orange, broadband Internet access providers were giving access to a variety of VoD service providers. However, changes in

business models for VoD may well strongly affect the current situation. In line with similar initiative for music provision, operators are now launching SVoD services based on subscription. For a monthly fee, subscribers have unlimited access to a catalogue of movies and TV series. It may be expected that this service will be attractive for consumers. From a competitive point of view, customers switch from a position of occasional customer by the act, to fully owned subscribers who are even more captive. Until now, Orange only provides TV series on SVoD, but Free already provides movies.

Convergence tends to have a confusing effect, by blurring borders between service categories. Firstly, SVoD services have adopted the pay-TV subscription model, offering a choice of movies and other programs for a monthly fee. Some VoD initiative may also adopt a financing mode relying on advertising. Secondly, TV channels adopt a “on demand” feature with catch-up TV services. Current services don’t include movies, but it may change in the future. From the customer point of view, the difference between a VoD service on subscription and a pay-TV channel, which programs can also be viewed on demand may not be so important. In case of regulatory intervention, analysis based on the separation of TV and VoD services may not be so relevant.

Moreover, because of technological innovation (i.e. 3G) and of increased system integration capabilities by telecommunications operators, the same content can be viewed on IPTV, Internet and mobile channels, apparently providing an advantage to convergence-based operators. This challenges approaches which are based on the analysis of single channels.

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