

Mika Westerlund, Risto Rajala and Seppo Leminen

# **INSIGHTS INTO THE DYNAMICS OF BUSINESS MODELS IN THE MEDIA INDUSTRY**



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# **Insights into the dynamics of business models in the media industry**

**Mika Westerlund, Risto Rajala and  
Seppo Leminen**



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# Executive Summary

## Our objectives

- Analyze major paradigm changes in the media industry;
- Investigate the building blocks and dynamics of media business models;
- Predict the future management challenges in the media business.

## Research questions

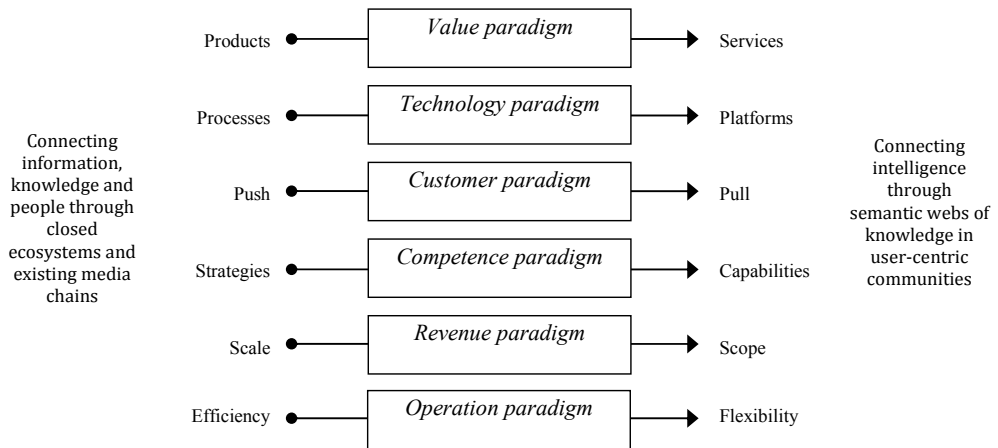
- Why should firms engaging in the media industry consistently innovate business models that are different from their current practices and ways of operation?
- How can firms renew their business model in the dynamic media industry characterized by collaborative digital ecosystems?
- What are the future management challenges for the media business models?

## Findings

Six fundamental paradigm changes in the media industry discussed in the paper:

- The value paradigm shifts the media offerings increasingly from products to services.
- The technology paradigm underscores the role of platforms instead of traditional media processes in the delivery of the content.
- The customer paradigm shifts the focus from proactive push strategies to reactive market pull strategies.
- The competence paradigm shifts the competitive focus from strategic resource ownership to access on capabilities.
- The revenue paradigm emphasizes the scope over scale in the profitability of operation.
- The operational paradigm underscores strategic flexibility and exploration instead of efficiency based on exploitation of existing resources.

These fundamental paradigm shifts are summarized in the following figure:



Future management challenges faced by the media executives include:

- Media users are increasingly better informed vis-à-vis the content providers on the relevance of the media content.
- Successful offering-providing system must be defined according to the client perspectives and not on client-independent criteria of “what the content is.”
- Socio-technical changes in the relationships among the stakeholders in the media industry transform the rules of the game whereby sustained profitability is obtained.
- New assets need to be understood and managed due to the digitalization of most media processes and increasing information intensity of the media offerings.

# Contents

EXECUTIVE SUMMARY	4
Our objectives	4
Research questions	4
Findings	4
1 INTRODUCTION	8
2 THE BUILDING BLOCKS AND DYNAMICS OF BUSINESS MODELS	10
2.1 Positioning of business models as a layer between strategy and processes	10
2.2 Business model definitions	11
2.3 Business model elements	13
3 MANAGING BUSINESS MODEL DYNAMICS IN THE INTERNET ERA	15
3.1 Business model dynamics	15
3.2 Openness and digitalization drive social and informational connectivity	16
3.3 Managing revenues in open and digital business models	19
4 NEW PARADIGMS IN MEDIA BUSINESS MODELS	20
4.1 The value paradigm: from product and production logic to process changes and new media services	21
4.2 The technology paradigm: from media channels to service platforms	22
4.3 The customer paradigm: from fragmented needs and push strategies to pull strategies and to the growing role of users	25
4.4 The competence paradigm: the capability-strategy focus change highlights micro-mechanisms and dynamic capabilities by learning	27
4.5 The revenue paradigm: not something to everyone but to selected niches	29

4.6 The operation paradigm: Dealing with the flexibility-efficiency challenge	31
4.7 Summary: the identified paradigms depict industry-level transformation	34
5 FUTURE MANAGEMENT CHALLENGES IN THE MEDIA INDUSTRY	35



# 1 Introduction

Media production and consumption are under a drastic change. The digitalization of content production, delivery and use as well as the increase of the broadband Internet access in both fixed and mobile networks allow the use of media contents in a myriad of different terminals. Simultaneously, media consumption is becoming increasingly social, participatory, ubiquitous and multi-channeled by nature. The novel technologies that enable shared public and interpersonal communications are of significant social, organizational, and economic importance. They act as notable change drivers in the media industry and pose major challenges to contemporary media firms. One secret to maintaining a thriving business is recognizing when it needs a fundamental change (Johnson et al. 2008). The objective of this paper is to analyze, from a conceptual point of view, the management of dynamic media business models, which are exposed to the paradigms of the evolving media industry. It will discuss their building blocks, the influence of industry changes, and predict their management challenges, required capabilities and evolutionary steps. It deals with questions such as:

Why should firms engaging in the media industry consistently innovate business models that are different from current practices and ways of operation? What factors drive business model development and how can firms manage this development in collaborative digital environments that are characteristic of the contemporary media world? What are the key challenges and future prospects for the media business models in the present-day Internet society?

To investigate changes in the current media environment and the effects of these changes on the business models of firms in the media industry, this paper draws on prior research in business models, social media, communities and management. Media industry is an ambiguous umbrella concept stemming from the idea of mass communication. One way to analyze media industry builds on categorizing various mass media technologies, i.e., how the message is delivered to the audience. For a long time, mass media was dominated by various types of print media (books, magazines, fliers, etc.), and, later on, diverse broadcasting technologies (radio, television, Internet, etc.). Another way to discuss media industry is to consider media's purposes. The purpose of mass media can be seen to include, e.g., advocacy (e.g., political purposes), entertainment, or public service announcements. Yet, an interesting way to discuss media industry is through the media content type. In this way, media industry includes at least news and information media (e.g., magazines, television and ra-

dio, news, advertising, etc.), education and learning media (online teaching and training, etc.), entertainment and games media (music, games, movies, etc.), and community media (social media, virtual worlds, online communities, mobile media, etc.). Advancing the ideas originally put forward by Cusumano (2010), we argue that irrespective of its definition, the media industry is facing paradigmatic changes in the following six areas:

- *Value paradigm* – the global service revolution shifts mindsets from media products and production logic to process changes and new media services;
- *Technology paradigm* – digitalization of communication and the emergence of novel communication technologies shift the role of technology from facilitating processes to enabling collaborative services;
- *Customer paradigm* – transformation from push strategy to pull-strategy and to the interactive roles of media users;
- *Competence paradigm* – capability-strategy focus changes from top-down strategy design to micro-mechanisms and developing dynamic capabilities by organizational learning;
- *Revenue paradigm* – change in the scope-scale optimizing tactics compels firms from something-to-everyone to everything-to-selected media consumers, whether it be locally or globally, and
- *Operation paradigm* – challenges pertaining to firms' flexibility and efficiency shifts their operational focus from emphasizing efficiency to seeking strategic flexibility and agility.

Bearing these paradigmatic shifts in mind, we discuss the central principles that explain how many prominent firms have managed their strategy and innovation to ensure sustainable competitive advantage in an uncertain and rapidly evolving environment of the digital and social media. In our analysis, we draw on the recent developments in the strategy research in regard to the business model concept of the firm and the essential business model design elements. These paradigm changes underscore the issues that need to be considered when media firms apply dynamic business modeling in order to cope with the challenges pertaining to the dynamics of the media market. In short, we discuss the business strategy-related challenges of next media.

This report is structured as follows. After this introductory section, in section two, we discuss the building blocks of the business models of the firms in the media industry. Then, in section three, we put forward how social computing has affected media business model dynamics and management in the Internet era. In section four, we identify and describe six major paradigm changes that take place in the media business. Finally, we discuss challenges related to managing business models in the dynamic media industry.

## **2 The building blocks and dynamics of business models**

The business model concept is becoming increasingly popular. The Internet and e-business are principal drivers of the surge of the interest for business models and the consequent emergence of a literature and research which revolves around the topic (Zott et al., 2010). At the same time, the Internet and its mobile forms, along with social computing, are major forces pushing the media industry towards new ways of doing business. Firms in the media business increasingly are faced with fluctuating business environments and fragmented customer needs. While responding to these challenges, many companies have differentiated their strategies and developed business models that require specialized capabilities. As a result of specialization, companies need to acquire knowledge and capabilities beyond their own areas of expertise, in order to create and deliver competitive value propositions to their customers (Teece et al. 1997; Gulati et al. 2000). This development has led to increased efforts to obtain essential capabilities through networks of business partners and customers via more and more user-centric innovation.

### **2.1 Positioning of business models as a layer between strategy and processes**

Business models manifest the competitive strategy of a firm. However, the term “business model” has only fairly recently become popular in business and management discourse (Zott and Amit 2008). In their extensive analysis of business model research published in academic and practitioner-oriented journals, Zott et al. (2010) found that business models have been studied especially in three interest areas. These areas are: a) e-business and the use of information technology in organizations, b) strategic issues such as value creation, competitive advantage, and firm performance, and c) innovation and technology management. However, the concept of the business model that exists in the literature for management, information systems, electronic business and other areas of business research typically refers to value creation and value capture, i.e. to the ways of creating value for customers, and to the ways in which a business can turn market opportunities into profit, via sets of actors, activities and collaboration with bodies outside of organization. Research on business models rests, in many respects, on strategy discussion, and draws upon strategic concepts and issues (Rajala and Westerlund 2008).

## 2.2 Business model definitions

The concept of business model can be defined in various ways. Yet, in major proportion of business model studies the definition of business model is actually neglected and its meaning taken for granted (Zott et al. 2010). On the other hand, the concept of 'business model of a firm' has altered remarkably over the years in the academic and business literature. Concordant with the foremost interest areas identified in Zott et al.'s (2010) study, Westerlund (2009) shows that the term business model was first coined in the literature some 40 years ago in reference to a firm's *internal operations*, and it underscored computer-assisted information flows between the firm's departments. Over a time span of more than three decades, the concept gradually evolved into public use with the surfacing of modern IT; the Internet solutions and their wide-spread business use within and between companies and the public. The most recent phase in this conceptual development links the business model with a firm's *external strategies* and relationships, and it pinpoints a number of aspects that define what business models actually are and how they differ from each other.

Various authors have analyzed and proposed alternatives for classifying business models. According to Zott et al. (2010), research on e-business models can be organized around two complementary streams; the first stream aims to describe generic e-business models and provide typologies, whereas the second focuses on the components of e-business models. We contend that these streams emerged consecutively and apply to business model research in general.

An early approach, the *business model typology perspective*, emerged in the late 1990s along with the rise of the Internet and electronic business, and its proponents (e.g., Rodin, 1996; Timmers, 1998) suggested simple taxonomies, types or generic classes of business models based on their functionality, integrity or innovativeness. As a result, literature on e-business models mushroomed quickly and the evolving e-business scene was introduced with novel turnaround business models such as e-shop and e-auction. Examples of such new digital era online enterprises include Amazon.com and eBay, both becoming massive success stories and survivors of the late 1990s dot-com bubble that restructured the emerging Internet business field. The focus for many firms was to establish a new type of online business – one that was not listed in the Internet business model categorizations of the day – because there was easy money available from funding bodies for new attractive Internet business ideas.

Web stores and online auctions such as Amazon.com and eBay, as well as many less successful ones, were a step forward from the New Media business

models that dominated the early Internet. Early New Media business models were based mostly on graphical design and coding skills, because there was a great demand for firms to establish an Internet presence, but also a lack of knowledge and software tools that would allow anyone to do a website easily. This changed rapidly in the introduction of new software tools, and more and more firms rushed to the Internet hoping that the greatest business paradigm of the millennium would make them rich; many of them investing massive amounts of money in the eve of the IT bubble.

After the dot-com explosion and the subsequent burst in the 2000s business models populated the world in an increasingly expansive manner (Doganova and Eyquem-Renault 2009). It soon became obvious that in order to further analyze the concept of business models, to examine what makes a specific model superior, and to investigate how a firm can transform its current business model to meet with the changing requirements or “the new laws of the 21<sup>st</sup> century ways of doing business”, researchers needed better conceptual tools. The interest focused especially on those businesses that survived the bubble burst; their characteristics and strategic choices. The typology perspective to business models was followed by the *business model ontology perspective*, its proponents (e.g., Rajala et al. 2001; Osterwalder 2004) pursuing to identify what the actual elements of the business models are that make them viable or competitive.

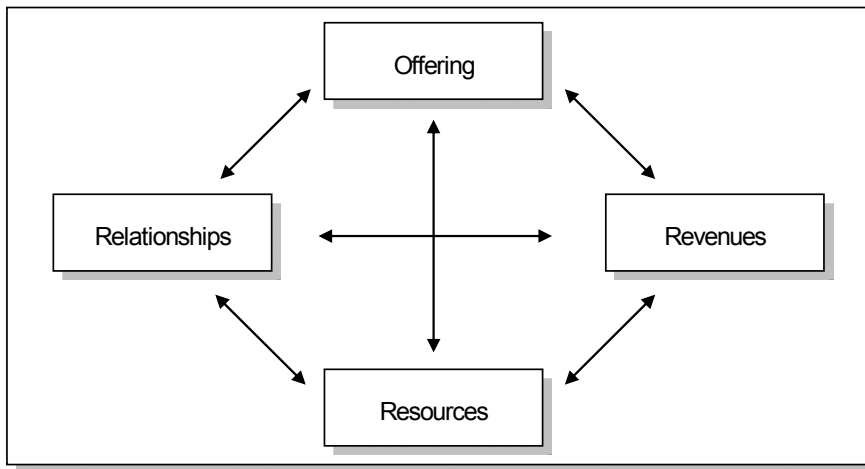
The ontology perspective was actually initiated and preceded by so-called business model representations that are graphical illustrations or visualizations about how a business works, and are exemplified by, e.g., value maps and value webs (see Tapscott et al. 2000; Allee 2000). They typically show linkages between few selected tactical components and enable managers to design and discuss their business model with an ease. We see such representations as a shortly-lived period in the course of business model’s conceptual development, where practitioners and consultants attempted to depict business model under its surface. However, it initiated a remarkably more important perspective on the importance of elements, i.e. the ontology perspective which focuses on what actually embraces the business model. Zott et al. (2010) argue that presently students of the business model ontology perspective are decomposing the structure of business models with increasing depth and complexity, and many go as far as to identify second-order components that comprise the key elements of the business model of a firm.

In this paper, we apply both above described perspectives; the typology perspective and the ontology perspective, to discuss how business models have

evolved and what their management challenges in the dynamic and transforming media context are. Combining different perspectives is well reasoned as business model researchers in general take a holistic view on firms' strategy and action through the use of the business model concept (Zott et al. 2010). Furthermore, we believe that a management focus is especially important, as firstly, dynamic business models have mainly to do with management challenges in turbulent environment. Secondly, we dispute that research on business models has previously focused on the design of business models, and anticipate that in the future much of the research will center on the management issues of business models. Drawing on the notion by Doganova and Eyquem-Renault (2009), we think that the management aspect aims at more robust and more profitable business models.

## **2.3 Business model elements**

What makes a viable business model? The essential elements of business models are defined somewhat differently by different researchers (e.g., Rajala et al. 2003; Hedman and Kalling 2003; Morris et al. 2005; Johnson et al. 2008). Many of the studies identify a number of elements that are characteristic of different business models. Although scholars of business models discuss a various number of elements with diverse emphasis, it is possible to identify some elements common in many listings. These elements, expressed using different labels by different authors, include: (1) offerings; (2) the resources needed to develop and implement a business model; and (3) relationships with other actors (e.g., Timmers 2003; Morris et al. 2005). Finally, the elements are interconnected with (4) revenues (which include sources of revenue, price-quotation principles, and cost structures) that are characteristic of a particular business.



**Figure 1. Business model elements (Rajala and Westerlund, 2008)**

These elements of the business model of a firm and their interconnections are illustrated in Figure 1. Offering and revenues describe the value for the customer and the firm, and resources and relationships illustrate how the value is produced and delivered (Johnson et al. 2008). In particular, the elements in the media context describe:

- **Offerings:** relevant service objects include the media content, the whole value proposition and the solution how to use it in order to create value.
- **Resources:** capabilities and assets in the media production and delivery system, processes, knowledge, skills and organization.
- **Relationships:** the customer interaction vis-à-vis the levels of service, socio-technical networks and intra-organizational & inter-organizational collaboration.
- **Revenue models:** the elements of capturing value, which include pricing, revenue management, and service bundling.

It is clearly visible, that some elements of the business models are more narrative whereas the others are more calculative (Doganova and Eyquem-Renault 2009).

### **3 Managing business model dynamics in the Internet era**

Prior research suggests that competitive advantages in environmental flux rely on a firm's capacity for innovation and adaptation. Specialization in core competencies has increased the importance of developing business model-specific capabilities in knowledge- and technology-intensive industries such as the media business. This is crucial as turbulence and dynamics of business in the media industry is on the augmenting. In this section, we discuss the issues in managing the dynamics of business models in the media through apparent change factors. Major issues that have come along with the development of information technology include social computing in the forms of increased openness and the digitalization of content. This is especially evident in the popularity of the social media phenomenon. Social computing that fosters openness and digitalization act as 'the overall force that changes the name of the game', and it remains behind the media business model dynamics and management issues in the contemporary Internet era.

#### **3.1 Business model dynamics**

The concept of dynamism in the context of business models refers to turbulent environment and firms' struggle to continuously innovate and develop their strategies and operation in order to cope with the changing customer needs, fierce competition, as well as new technology and market demands. Research has acknowledged the transform of competition in many industries into a hypercompetitive state already as early as mid-1990s. According to Thomas (1996), the key driver of hypercompetitive shift is the dynamic resourcefulness of an industry, or the ease with which new strategic assets can be created. Determinants of dynamic resourcefulness include the dynamism of related transactors (notably consumers and suppliers), the knowledge base of the industry, and structural conditions that promote easy entry. All these aspects are fostered by the development of online technologies and digital communication, and are certainly observable in the media industry.

Industry dynamism and hypercompetitive environmental changes can be tackled by dynamic business models and innovative strategies. Innovation and change are inextricably tied together, and local and global rivalry creates pressure on companies to innovate and improve their strategies (Thomas 1996). However, radical business and technology innovation and completely new strategies are not always a prerequisite for survival. Firms are often required to moderately adapt and amend their operation and strategies in accordance with the changes



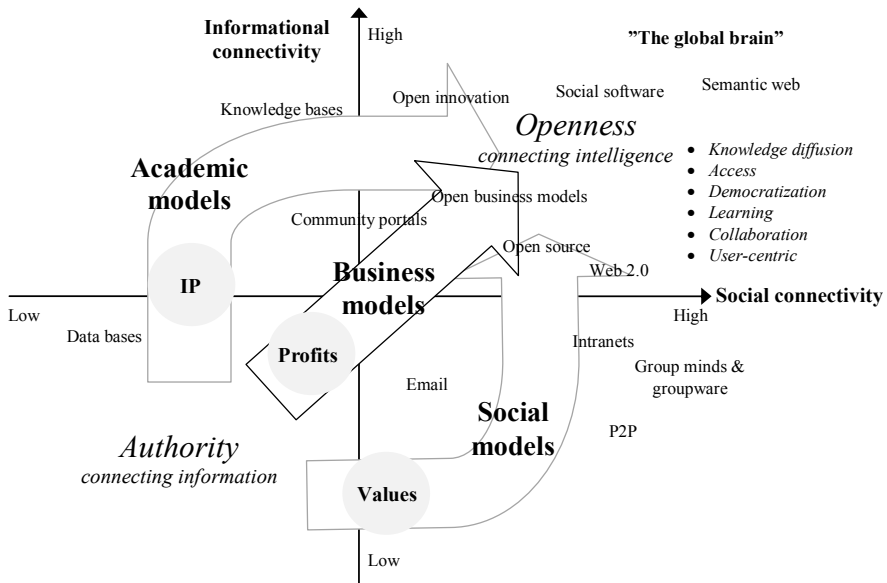
beyond their control. In this vein, constant dynamism in business calls for continuous learning. For a long time, learning has been considered a key driver of a firm's innovation and business development that leads to its competitive advantage. Hence, learning is an important factor in understanding dynamism and dynamic business models. According to Albors et al. (2008), previous literature puts forward a myriad of types of learning, where distinguish between “adaptive versus generative learning” or “tactical versus strategic learning” are among the most common ones.

Adaptive learning is a firm's response to changes in business environment; firm adapts to these changes which enables its survival in the scene with moderate competition and new technologies. Conversely, generative learning concerns trials and using accumulated knowledge to design completely new ways of operation, which gives the firm long-term competitive advantage in turbulent environment and may even enable the firm to alter its business field. Tactical learning refers to grass-root level changes and adaptation in firm's daily operation, whereas strategic learning traditionally refers to top-down major changes in organizational design and strategy. However, the recent emergence of discussion on so-called micro-mechanisms has narrowed the gap and pointed out the influence and importance of personal client-provider or other collaborative operative level interaction in shaping strategies. All in all, despite the types or levels of learning, a major issue of understanding dynamism in business models is the moral that as business is on the move, so are firms' strategies and visible action in the market, and such dynamic business models accentuate information exchange in collaborative relationships.

### **3.2 Openness and digitalization drive social and informational connectivity**

Dynamism and changes pertain not only to business models. Almost all operation in society can be modeled and has been affected since the introduction of ICT. In order to understand how Internet and social media – as the new playgrounds for media industry – have affected media business model management, we need to discuss social computing's effects on some other traditional modes of operation. Albors et al. (2008) compare three common models that emphasize authority and collaboration: academic models, business models, and social models (see Figure 2). Operation in each of these models has traditionally been considered to base on some kind authority, such as the ownership of intellectual property (IP) or a set of established relations. In the Internet era, they have been more and more influenced by digitalization and openness through virtual connectivity which is due to the technology evolvement.

In collaborative environments such as online communities and social media one of the main drivers of operation is increased openness and freedom in sharing knowledge, resources and information. Whereas academic models of operation have concerned IP rights and their relevance to scholars and their respective universities or research organizations, and considered authority issues from the perspective of citations and shared views, social models that were based on values that stress the authority of information and relationships, are becoming fully open (and often free to access or free to use) information dissemination and learning in the community. Authority is now based on votes and shared values, and operation is driven by voluntary collective action. Open source software and open source content communities, such as Wikipedia, are good examples of modern environments where the new logic of social models apply.



**Figure 2 Evolution of the models of operation in the Internet era (Modified from Bernard et al. 2006 & Albors et al. 2008).**

Figure 2 show that academic models emphasize IP-related authority. Business models, in turn, stress profitability and market success as their primary operational mode ("whatever works the best and enables us to make money of it"). However, they lack the shared values element social models, as parties in collaboration may have contradictory objectives and values. One party (e.g., an open source community member) is willing to work free and voluntarily for the good of others, whereas a business party is interested in how to gain profit of that activity. Albors et al. (2008) argue, that in contemporary media business that

is woven on digital social media, one has to balance between the three distinctive models and ultimately they merge into a new unite form. Media business models in the future will probably increasingly become this kind of merged or hybrid models, where profit seeking meets social action and the sharing of intellectual property in harmony.

Bernard et al. (2006) suggest that collaborative virtual environments – as well as their business models – can be classified according to the evolution of their tools and collaboration activities using two bi-polar dimensions: social connectivity and information sharing potential or information connectivity. Media business models struck by the vibrant social media phenomenon can be evaluated by how collaborative, rich in information, knowledge-intensive or socially interactive they are. In general, social connectivity and information sharing illustrate changes in business model management caused by increased social computing. Media business models faced by the more and more popular social media phenomenon – along with changes in informational and social connectivity – seem to evolve from simply connecting information of people towards a more complex form of connecting intelligence.

The evolution towards more complex forms of media will require novel forms and ways of managing business models in order to tackle with the challenges of the evolution. Based on the analysis of Bernard et al. (2006), an apparent megatrend in the social media is from *connecting pieces of knowledge, information and people in closed ecosystems and media chains to managing intelligence and contents through semantic webs of knowledge in open, user-centric communities*. An example of the novel 'Metaweb' applications is the Wolfram|Alpha, a computational knowledge application aiming to provide systematic knowledge computable and accessible worldwide. More specifically, it aims to "collect and curate all objective data; implement every known model, method, and algorithm; and make it possible to compute whatever can be computed about anything" (see: [www.wolframalpha.com](http://www.wolframalpha.com)).

Another example of this trend is the new search engine 'Blekko', ([blekko.com](http://blekko.com)), which keeps lists of categorized sites that can be applied to a variety of users' queries based on slashtags created either by the user, blekko or other users. For example, if the user is searching for medical information, the query can either automatically or manually be restricted to just sites that are actual, so-called *bona fide sources*, not just spam farms. To date, Blekko introduces seven main categories of knowledge (health, automotive, lyrics, colleges, personal finance, recipes, and hotels), and the users can also create their own based on their interests. These categories will probably get a new meaning along with ubiquitous

computing, where even common household appliances are equipped with sensors and form the Internet of Things. The amount and quality of data will multiply.

### **3.3 Managing revenues in open and digital business models**

According to Albors et al. (2008), profits and other economic benefits have been linked to proprietary business areas, and open innovation is generally associated to cost savings in open source environment. Yet, values and motives of the users in social online communities are main drivers enabling business in collaborative virtual environments. Such community-engaged businesses arouse from collective use of intelligence and knowledge. The question on how do companies create value to the socially connected users of the new media could probably be best answered by asking how companies can enable the users to connect to the collective intelligence in the virtual environments. This pertains to newspapers and other information content providers, who should benefit from helping customers to participate in the content provision by making choices and taking actions to make the media more relevant to their individual needs. Emerging systems of 3G and beyond make it possible to determine the context of users, places or objects, by collecting information from sensors, bio-sensors, systems and (mobile) devices, and the question is how media firms can turn this into viable context-aware business models (de Reuver and Haaker 2009).

Casadesus-Masanell and Zhu (2010) suggest that firms such as media service providers should transform dynamically their business models along with customer lifecycle. They put forward four possible business models: a subscription-based model, where the firm sells the product without ads for a positive price (e.g., HBO); an ad-sponsored model, where the product is bundled with ads and given away for free (e.g., Metro); a mixed model, where the product has advertisements and it is sold at positive price (e.g., New York Times); and a dual model, where the firm offers two products, a high-quality product that, just as in the mixed model, is sold at positive price and comes with a few ads, and a low-quality product that is ad sponsored (e.g., Pandora). Casadesus-Masanell and Zhu (*ibid.*) further refer to the subscription-based model and the ad-sponsored model as pure models because they entail one single source of revenue (price or advertising), and the mixed model and the dual model as hybrid models because they are the result of combining pure business models. The idea is that new entrants choose ad-sponsored, reduced quality service to enter the market, after which they improve the quality of the service and choose one of the abovementioned business models.

This section including Figure 2 illustrated how various models of operation in society have been affected during the so-called Internet era characterized by social computing. The major phenomena affecting all operational models include changes in informational connectivity and social connectivity. Overall, many modes of operation have grounded on the authority of information and social relations. However, increased openness and digitalization have altered the rules of the game. The trend is now from connecting information and people in closed ecosystems to connecting intelligence in open communities. This means, e.g., a demand for more user-centric design. However, the section illustrated that diverse operational models emphasize different aspects if the change is caused by digitalization and openness. For example, business models are faced by new challenges in profit-making, whereas social models call for new values. In giving suggestions for managing media business models under turbulence and dynamics, we argue that instead of focusing merely on how to manage revenues, business models should be managed more comprehensively. Therefore, one should take a good look at major paradigm shifts that the dynamic media industry is currently facing.

## 4 New paradigms in media business models

Managing firm business models calls for a good understanding on what is going on in the industry. The media industry is shifting gradually towards a 'content game', away from merely networking individuals and pieces of information. In this section, we discuss this trend through six paradigmatic shifts the media industry is facing. The first of them is *value paradigm*, which describes a product-service paradigm shift where the media consumption is transforming from products to collaborative processes and to new media services provided through social online platforms. The second shift is *technology paradigm*, which illustrates the changing role of technology in the media business from facilitating distribution channels and processes to enabling service platforms. *Customer paradigm*, as the third paradigm, is essentially about changes in the media content provision, which is moving away from push strategy orientation towards pull-strategies, and where firm business models are built upon the interactive roles of media users instead of seeing users as passive audience. The fourth change pertains to *competence paradigm*, which portrays the shift from top-down strategy design to micro-mechanisms and to the development of dynamic capabilities through organizational learning. The fifth change, *revenue paradigm*, means a transformation from scale to scope, i.e., it describes a shift in value-creation activities and offerings from something-to-everyone to everything-to-selected. The sixth paradigm, *operation paradigm*, discusses firms' needs to shift their focus from operational efficiency to seeking strategic flexibility and agility in their busi-

ness model design. In all of these six paradigms, globalization introduces issues that influence the evolution and development of collaborative digital environments (Albors et al. 2008). In the following, we will discuss each of these paradigms in detail.

#### **4.1 The value paradigm: from product and production logic to process changes and new media services**

The product-service shift identified in many studies describes the transition of value creation from products to collaborative processes and co-produced services. Normann (2001) views the economy as a web of activities and actors linked in co-productive value creation where offerings are artifacts designed to enable and organize value co-production. The long-standing mass media model of one-to-many is being challenged by the growing influence of a new model that leverages the ability to target the individual and multiple niche audiences, as well as empowers the individual and niche audiences to select between sources of content. A vital factor is the shifting focus from media products to media services.

Cusumano (2010) adverts to the ongoing change from products to services in many industries including the media industry, and suggests that managers should use service innovations to sell, enhance, and even de-commotize products or standardized services. The goal should be the right balance between product and service revenue, and firms should focus on creating new value-added opportunities and pricing and revenue models, as well as productize services to deliver them more efficiently and flexibly by using information technology and service automation. For example, Apple - with its winning iPod product – was not the first to bring digital music players to market, but its true innovation was to make downloading digital music easy and convenient through its iTunes service (Johnson et al. 2008).

We see that one current opportunity for noteworthy service process enhancing is provided by the widely popular social networking websites that collect millions of users and activate their own content creation. Albors et al. (2008) define a social networking website as “a website that allows for social networks to be made and opens up different forms of communication”. This definition reflects the specific characteristics of media use that is quite far from consuming goods. Combined with the more traditional media products, especially in the news media industry, social networking services have lots of potential to outsource content creation, processing and delivery to the audience.

Traditional media products are changing into complex service stocks of audio and video broadcasts (podcasts and videocasts), classified ads, product advertising, and written reports generated by the audience to the audience. In fact, interactive communication and content creation through social networking services may call for some media industry practitioners to revise whether their business is no longer media business but a new form of communication business. The change of media consumption patterns, in general, does also warrant that the public-service broadcasters integrate the innovative technologies into their business model, and enter into interactive digital service market that was previously dominated by new media firms and commercial actors.

Normann and Ramirez (1989) emphasize that the service perspective contains the important lesson that, strategically, it is crucial to consider a company from the customer's point of view. Although traditional service management concepts are still valid to a great extent, we need to realize that the only difference between the "service" and the "nonservice" operation that really counts for the customer is the role (or roles) that the seller plays in helping customers to create value for themselves. The new kind of media consumption has been facilitated by drastic technological changes (i.e., the emergence of Internet-based technologies) that have enabled the birth and popularity of online communities and social networking, through which many users increasingly help themselves in their search for information and social connectivity.

The recent technological development has also enabled the use of resources (such as the media content) in novel ways. Instead of selling media content to subscribers as products in single forms and packages, many new media providers use a wide array of technologies such as tagging and linking in order to provide interesting combination of forms and contents. Part of the media contents is also co-produced with the users who interact in the process through organizing, slashtagging or voting to improve the relevance of the content according to their interests.

## **4.2 The technology paradigm: from media channels to service platforms**

According to Zott et al. (2010), scholars have noted the phenomenon of 'media convergence', the convergence of different media channels on one digital platform, which has resulted in structural change in the media industry. McPhillips and Carlo (2008) have referred to it by introducing the term 'media business model'. Structural change in the media industry has also been driven by the advent of new communication channels, such as mobile e-services (m-services).

For example, Eriksson et al. (2008) have considered e-newspapers published for mobile reading devices equipped with e-paper displays, and analyzed the implication of future m-service innovation on the development of new business models.

The idea of competing through technology platforms in high-technology industries is well-known and put forward already in the 1990s (see e.g., Kim and Kogut, 1999). However, Cusumano (2010) takes a broader view on the term platform and proposes that firms should focus not only to providing services in addition to products, but they should concentrate on dominant technologies, standards, and platforms. According to him (*ibid.*), there have been two principal ways to obtain competitive edge in this respect during the past several decades: either develop a technology that becomes a dominant design, or stick with one that is a dominant design, and develop products and services for that technology. Accordingly, platform can be seen as a technology or practice platform that dominates a certain industry through its widespread popularity or technical superiority.

On the other hand, these two options; either developing or sticking with a dominant technology, are highly interconnected as they drive each other. Microsoft is one of the most famous examples of firms that developed a technology (Windows) that has become a dominant design (Cusumano, 2010). A classic example on the relevance of a dominant technology design is the struggle between VHS and the technically more advanced BETAMAX video formats, where the winner was VHS and its proponents because of its openness to interested parties. Numerous competing device makers began manufacturing and selling VHS-operated video recorders and supplies to wide audience, thus helping it to become a 'social de facto standard'. Also, for movie makers and distributors it was easier and more cost-efficient to provide films for one dominant format instead of multiple standards.

Albors et al. (2008) remind us that most of the 'social de facto standards' have developed into business requirements and firms have adopted them. This adoption, in turn, has fostered their popularity of use and allowed for a certain technology to become a dominant design. It is common for emerging industry sectors and technologies that multiple new formats and standards evolve before one or few of them become dominant designs. Ambient intelligence, or more commonly known as the 'ubiquitous computing' (ubicomp), in which information processing has been thoroughly integrated into everyday objects and activities, forming the Internet of things, is currently an evolving field of many new standards to emerge. Consider another example: in digital music-related technology



innovations, MP3 became a leading standard even though few sound firms predicted its success, since most were investing in and developing products with better sound quality. However, MP3 became popular among users and developers and boosted the emergence of numerous online music services, media devices and software that make use of that specific standard instead of another, more superior technology.

In this vein, the rapidly grown social use of an inferior format (MP3) ensured its further popularity, initiated the growth of thousands of online music stores, and made it the leading digital standard for several years. Those who make most money are not the ones that developed the original technology standard, but the large number of enterprises that develop new services and software using that technology. In fact, many smaller firms can save the heavy burden of technology development costs by choosing a certain standard as the basis of their business operations; one that they believe will be the dominant design thus generating most money. They can concentrate on producing novel content and solutions, and establish a viable business model that makes use of current platform instead of developing their own.

This precise point is probably one of the reasons why Nokia has lost its market share to Apple in smart-phones in the recent years. Its mobile platforms were first fairly closed to external developers, following the company's strict intellectual property policy, whereas Apple's iOS platform has succeeded in raising interest among external developers and users to design their own solutions and new software, as well as media content. As a response, Nokia announced its future smart-phones rely on the Symbian OS that is open source-based, i.e. open for users and developers, and turned its focus on OSS communities providing new software and ideas. This is a good example of dynamic business model management that Nokia did in order to keep with the turbulent market needs. However, other significant open source-based mobile platforms and phone prospects have entered into market, such as Android, especially driven by Google, the company that is the undeniable winner of the previous 'World Wide Web browser wars'. And, in the end of the day, Nokia announced in early 2011 it will rely on Microsoft's mobile operating system.

These examples illustrate that some companies may win by developing a dominant design, but the technology's success is especially based on its large user base. That is, a winning technology becomes 'a social de facto standard' because of the large user and developer community. For most firms, it may be best to stick with the dominant platform(s) and develop their services using that standard. The same phenomenon has already occurred, at least to a degree, with

several social media firms, such as Facebook, Wikipedia and Twitter. The Wiki architecture that enables creation and editing of online content is freely available to anyone, but Wikipedia was the first to become successful online community by using the extant platform for its own good. Wikipedia's example has encouraged many organizations to use Wiki software for professional purposes and there are even online news service websites that draw on the platform.

In the social media context, it can be argued that tens of thousands of small applications (Facebook Apps) developed by numerous users and small social media firms (e.g., Zipipop in Finland) for the Facebook platform have further driven the firm's enormous success as the dominant social networking site. The large user community and the resulting quick information dissemination capability, which also are characteristic of Twitter, in turn, have attracted many online news and media firms to develop their commentary sections and user operations based on platforms such as Facebook and Twitter. It enables them to harness users' social networks as they potentially can learn of the news, administer the content and keep track of readers as these services draw on registered users. When a reader wants to, e.g., forward the news to selected friends or groups, or submit a comment on a particular news article, he/she will first log into his/her favorite social media service to enable such operation.

### **4.3 The customer paradigm: from fragmented needs and push strategies to pull strategies and to the growing role of users**

Data or content produced and consumed by users is commonly known as the User Generated Content (UGC) (van Dijck 2009). During the past few years, there has been an exponential growth of such user generated content in the media. It is widely evident that blogs, for example, have made a tremendous impact on both mass communication media and the ways the content is consumed by the users, who also play the roles of communicator, producer, explorer, collector and reviewer in terms of their own consumption of information. To the mass media, especially the newspaper industry, the power of blogs has had a significant impact. In 2004, Mark Glaser described the idea behind citizen journalism as the phenomenon "through which people without professional journalism training can use the tools of modern technology and the global distribution of the Internet to create, augment or fact-check media on their own or in collaboration with others." Since then, the history of citizen journalism has shown that media outlets involving citizen journalism have managed to improve editorially and have even been profitable, but only by not expensing editorial resources.

Clemons (2009) argues that while the majority of attempts to monetize Internet applications targeted at individuals have focused on natural extensions of tradi-

tional media, there are several potential online business models (e.g. key word search, social search, and community content recommendation) that are not based on advertising. Obviously, in these business models customers will pay for relevant high-quality information that is explored, filtered and ranked, or even produced by other users or user communities. In short, they will pay for various forms of the UGC.

Many recent studies on online communities (e.g., Lai and Turban 2008; Bhagat et al. 2009) argue that there is a tendency for individual consumers to take more active role in taking charge of the online channels and integrating them with their other online communications, especially social communications at social networking sites such as Facebook. They show that consumer flocking has promise in creating advantages for both marketers and the users of the new media. For instance, by quickly bringing together large groups or 'flocks' of consumers through their communications within existing social networks, active users may gain significant benefits through cooperating with like-minded peers. Respectively, marketers and service providers can achieve a quick turnover and thereby lower their transaction costs through serving such groups.

According to Bhagat et al (2009), the characteristics of consumer flocking appear to be distinctly different from those of the traditional consumer groups. Consumer flocking on the Internet is not geographically confined unlike traditional group buying (such as consumer cooperatives). Instead, such flocks can be temporal groups – or fleeting formations of consumers – that stay intact only as long as the group members continue enjoying a benefit from being a member in the group and they may not continue after the fulfillment of the specific exchange. Consumer flocking truly provides a modern-day trend.

Albors et al. (2008) specify that such 'democratization' is relevant in social collaboration, and, in the media business context, it is no longer sufficient for media firms to assemble news, financial data, marketing data and other information for the readership, but they need to arrange information together with the community in a way relevant to the user, and the users become actors and contributors in this scenario. In this vein, users' role has changed from being a passive audience to becoming active marketers and co-producers of media contents. Moreover, according to Bhagat et al. (2009), the users of Internet want to be increasingly in control and more connected to what they value. According to van Dijck (2009), the triangular traditional relationship between media producers, advertisers and consumers has become ever more intimate along with UGC.

YouTube serves as a case for inquiry. Starting as a hugely popular but financially flailing video-sharing site by a couple students, YouTube was bought up by Google. It was certainly not about bringing in innovative technology to the home, as Google already had a service (Google Video) running on superior software, but bringing in communities of users. In less than a year, YouTube became an (independent) subsidiary of a commercial firm (Google) whose core interest is not in content per se, but in the vertical integration of search engines with content, social networking and advertising. Instead, content is almost solely produced by users. (van Dijck 2009)

People use the Web today in extremely different ways than they did a decade ago. Individual users have their own unique preferences for favorite sites, utilities, media and friends. Therefore, customer specificity and personalization has come to be key characteristics of the applications and tools people use for information-gathering, sharing, communication, self-expression and interaction in the web. Some of the Internet browsers, such as flock.com, have taken on this challenge and try to deliver a more personal experience of the web. Flock.com calls itself a “social web browser” and aims to enable users to discover, access, create and share videos, photos, blogs, feeds and comments across social communities, media providers, and popular websites in their personal ways.

This change calls for companies to modify their traditional company-driven (push) strategies into customer-driven (pull) strategies. Cusumano (2010) pinpoints that managers should embrace, wherever possible, a pull-style of operations that reverses the sequential processes and information flow common in service design and delivery. In response to this shift, the online news media industry has witnessed the birth of innovative ‘citizen journalism’ –based newspaper websites, such as the NowPublic or the Korean OhMyNews where ordinary people become ‘citizen reporters’ by producing and contributing to the news content. An interesting feature of OhMyNews is that the service is free to use, but users are appealed to join a voluntary subscription scheme. User generated content and even user generated advertising will certainly play a major role in many media business models in the future.

#### **4.4 The competence paradigm: the capability-strategy focus change highlights micro-mechanisms and dynamic capabilities by learning**

The *competence paradigm* portrays the shift from top-down strategy design to micro-mechanisms and developing dynamic capabilities through organizational learning. The top-management in charge of strategy is now by no means the sole designer of business models. The need for continuous morphing of firms

exposed to the web business was recognized soon after the rapid rise of the Internet era. For example, Rindova and Kotha (2001) argue that in hypercompetitive environments, such as the Internet, the sustainability of competitive advantage and stability of organizational forms and functions have limited applicability. They further claim that in Internet-related firms' competitive advantage co-evolves with their dynamic capabilities and this calls for organizational priority unconventional to traditional management and organization thinking. Said in another words, strategy and capability building should be considered from bottom to top, and not vice versa.

Some of the most successful Internet-based companies, such as Amazon.com and eBay, provide consumers with rich social context and relevant external information on the purchases which they are making. The companies have promoted collective information sharing practices between their clients via wikis, blogs, and other online tools. Such sites have a mechanism for inter-group feedback in that they allow users to leave a short review of the product or service they have bought. As a result, prospective clients can learn from existing users who have previously rated the product/service or seller. In such vein, companies like eBay and Amazon.com rely on micro-mechanisms and harness the dynamic capabilities of their customers not only to promoting their service but also to improving their offerings.

Cusumano (2010) states that managers should not focus simply on formulating strategy, business models, or vision of the future, but they should focus on building distinctive organizational capabilities and operational skills that rise above common practice. Combined with strategy, these capabilities enable the firm to offer superior media products and services as well as exploit foreseen and unforeseen opportunities for innovation and business development. The idea is that strategies and business models may be copied and they progress quickly in market turbulence, but distinctive skills and sustainable capabilities stay and act as a basis of countless new options and strategies, therefore enabling firms' survival under the turbulence. Brink and Holmen (2009) illustrate that radical changes of bioscience business models are typically explained by building new technological and business capabilities. Kim and Kogut (1996) also point out that forecasting demand for specific products and services, or designing business models based on specific (narrowly-focused) strategies may lead to the development of capabilities poorly suited for the emerging and rapidly evolving markets that eventually prove to be economically interesting.

However, Kim and Kogut (1996) further note that competing in rapidly evolving industries poses the complex problem of choosing what capabilities should be

developed for highly uncertain and volatile markets. We anticipate that capability-building typically takes place through learning, and the micro-mechanism perspective suggests that this learning takes place in firm-customer surface, usually by employees who have first-hand experience with the clientele. Organizational competence development by learning through problem solving in front-line employee-customer collaboration is increasingly topical in literature (see e.g., Di Mascio 2010). The required capabilities are developed mostly in collaboration with the customers in various episodes, and, therefore become rightly chosen provided that the organization and its members are open to new ways and methods. Therefore, a key issue is to ensure, enhance and improve the openness of a firm and its employees.

In addition to developing required capabilities for new business models internally, capabilities increasingly are being obtained beyond company boundaries from a network of business partners. For example, Calia et al. (2007) present an in-depth case study as an example of how the technological innovation network provides the necessary resources and capabilities to change a firm's business model, in order to achieve global competitiveness. Prior studies on network business models (e.g. Rajala and Westerlund 2008) pinpoint the essential managerial capabilities for business model innovation. They underscore that business models should not be developed in isolation but in conjunction with network capabilities that rely to a great extent on adaptive and absorptive competencies.

## **4.5 The revenue paradigm: not something to everyone but to selected niches**

The *revenue paradigm* means a transform from scale to scope, i.e., focusing the value-creation activities and offerings from something-to-everyone to everything-to-selected media consumers. Ad-sponsored business models appear to be increasingly prevalent in today's economy and many companies choose to finance themselves using ad revenues and offer their products and services free to consumers (Casadesus-Masanell and Zhu 2010). This is especially prevalent in media business such as newspapers; e.g., Metro, the world's largest newspaper measured by circulation, is free and ad sponsored. Similarly, newly launched music-service providers such as Imeem give users free access to ad-supported, streaming music files, whereas industry leaders such as Apple's iTunes music services and RealNetwork's Rhapsody are fee or subscription based (Casadesus-Masanell and Zhu 2010). These examples show that both free and fee – based business models have a great potential for success.

Since a greater part of content in the Internet has been free to use, many Internet users are reluctant to pay for services in the web. Especially newspaper firms have struggled with the dilemma how to gain profit from online readers that are used to free news and information content in the Internet. Attempts to charge users for the access to online news and information services have commonly failed; it affects severely to the news services use in terms of diminished size of online readership or viewership, which are fundamental indicators of success similar to the circulation of newspapers in the print media industry.

The revenue paradigm has mostly to do with the scope-scale optimization in firm's strategy. According to Cusumano (2010), scope economies instead of scale economies help firms to eliminate redundant activities, improve quality and utilize resources more effectively. Furthermore, he (*ibid.*) argues that scale economies bring operational efficiency through the drop of costs as the size of operations increases, but scope economies are potentially even more important to differentiation and competitive advantage than scale economies. This is because scope economies are relatively vague to define, difficult to measure, and hard to achieve.

Cusumano (2010) states that along achieving scale economies, firms may see their performance or customer satisfaction suffer unless they can find ways to fulfill individual needs effectively across customer engagements. Slater et al. (2005) argue that because unlimited copies of the digital content can be created and distributed, even a minimal reward could be large enough to cover the original purchase price and production costs. From the service providers' perspective, such a reward structure makes it possible to serve a long tail of potential consumers. On the consumers' perspective, it provides the potential users an economic incentive to purchase and distribute digital files legitimately, which has been an important issue in the media industry. Therefore, gaining a breakthrough in micropayments; in their technology standards and in the popularity of use is of importance to future media business models.

A classic example of overemphasizing the scale of economies in firm's business model is the case of T-Ford, where the only color option for the car was black. The company failed to understand that customers have dissimilar needs and wants. In principle, in such a situation the company should either offer more options or focus on narrow segment only, i.e. those customers who share similar needs. Also many media companies provide a large mix of services in their endeavor to attract more and more potential customers. The still strongly alive and popular something-to-everyone ideology originates from early days of the Internet when developers rushed towards building comprehensive Internet websites

and portals with 'a bit of everything' in order to collect as many 'clicks'; visitors and frequent users, as possible. It remains a question if this logic is still reasoned.

The something-to-everyone approach certainly has a potential to collect a number of different customers, thus lowering the costs per user in producing news media services, but at the same time it may hamper service quality because of the excessive resource exhaust. Moreover, usability and the ease of use and search may be impeded in complex media portals, and customer satisfaction is hindered because of superficial information due to scattered focus and resource constraints. Strict focus on a smaller niche of customers with similar needs, interests and preferences could potentially improve the quality of information and service output, as well as free up some resources and help in building a stronger image around the service. Although it probably leads into smaller customer base and scaled down services, it actually can turn out to be a more economically viable business model. We anticipate that the future media business models will evolve and emphasize everything-to-selected customer niches, which is a great challenge to media business managers.

At the extreme, citizen journalism fill the niches that mass-media fails to fill. Many mainstream media outlets are putting fewer journalists on the scenes, making more residents hungry for local news. Such journalism is described in terms such as "public", "participatory", "democratic", "guerrilla" or "street journalism", all describing that it is the concept of members of the public playing an active role in the process of collecting, reporting, analyzing and disseminating news and information. In this vein, UGC once again warrants its position as an important trend. Various hybrid models combining the efforts of unpaid bloggers who write as a hobby and trained, professional, seasoned journalists have shown to be successful by both covering niches and providing quality content. Currently, some additional names given to the hybrid concepts merging the professional and citizen media include grassroots media, people's media, or participatory media.

## **4.6 The operation paradigm: Dealing with the flexibility-efficiency challenge**

The *operation paradigm* underscores the needs to shift the focus from operational efficiency to seeking strategic flexibility and agility in business model design. Strategic flexibility and continuous morphing are essential in turbulent environments. These concepts refer to a firm's ability and action to respond to the demands of dynamic competitive environments. According to Ciborra (1996),



firms can ensure flexibility and temper market turbulence in the knowledge economy by having a good organizational platform; a meta-organization which is a formative context that molds structures and has a readiness to sport whatever organizational form is required under the circumstances. Platforms are confronted by surprises, and above the organizational platform, employees' reactions, actions and routines shape firms into various organizational forms that are required in order to survive with the challenges and needs. It is up to a firm's strategic flexibility how well it can cope with evolving industry and market.

Strategic flexibility is unquestionably a key concern in maintaining the dynamics of business models in the changing media environment. In order to understand its role and importance, we should first define what strategic flexibility actually comprises. Firstly, Ilinitch et al. (1996) point out that strategic flexibility is a paradoxical concept as it includes simultaneously the ideas of discovery and preserving. Secondly, they (*ibid.*) adhere that flexibility is both a managerial aid and an organizational design task. The managerial task is to provide dynamic capabilities for organizational flexibility and change, whereas the organizational design task is to configure technology, structure, and culture for preservation and control. Thirdly, they (*ibid.*) bring up the importance of 'meta-flexibility' of a firm that combines three different types of flexibility: operational (reactive), structural (adaptive), and strategic (radical).

Shimizu and Hitt (2004), in turn, perceive strategic flexibility as an organization's capacity to identify major changes in the external environment (e.g., the introduction of disruptive technologies), quickly commit resources to new courses of action in response to those changes, and act promptly when it is time to halt or reverse existing resource commitments. Strategic flexibility can thus be seen as a firm's ability to redeploy its assets without friction. Such ability is undoubtedly one of the key resources for companies in, e.g., the social media environment. To add up, Aaker and Mascarenhas (1984) conceptualize strategic flexibility of a business in terms of a flexible resource pool and a diverse portfolio of strategic options, through which firms are able to manage uncertain and fast-occurring conditions effectively.

Sanchez (1995) further elaborates strategic flexibility in the context of product competition as comprising the flexibility inherent in product-creating resources (*resource flexibility*) and flexibility in using these available resources (*coordination flexibility*). Javalgi et al. (2005) describe market-focused strategic flexibility as a firm's intent and capacity to generate firm-specific real options for the configuration and reconfiguration of appreciably-superior customer value propositions. In this vein, mastering the challenges of changing media environment calls for market-oriented and user-focused flexibility, which encompasses all aspects

of value creation for the users and the ways of capturing that value through appropriate revenue models. In accordance with the presented views, we see that strategic flexibility consists of both managerial and organizational options and action, includes diverse sub-types of flexibility, pinpoints a multitude of resources and capabilities, and focuses internal response to external change under certain circumstances.

What dimensions of the business model of a firm in the media business does this flexibility concern? Busquets et al. (2007) emphasize that one of the key challenges for management in a contemporary networked environment such as the social media is to analyze and decide what are the appropriate actions every time management decides to develop new concepts, new services, or enact new domains. The expenditure and mobilization of limited resources on the wrong types of problems can lead to inefficient and ineffective managerial decisions. Busquets et al. (2007) conclude that adaptive behavior remains one of the core competences in a business network. They argue that by managing information and knowledge, managers can accommodate to new situations, innovate relevant products and services, and invent new domains of action.

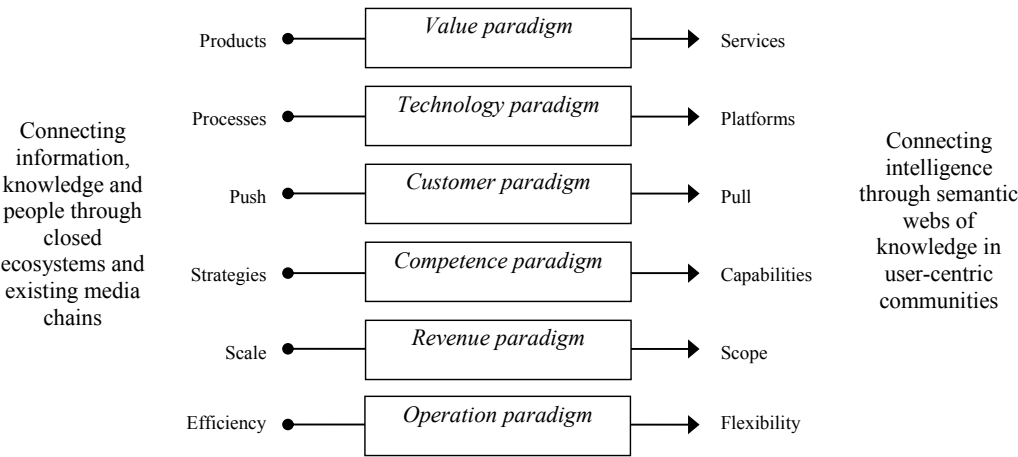
Using data from Yahoo! and Excite, strategy researchers Rindova and Kotha (2001) illustrate how Internet search engine firms in the 1990s were required to morph from simple Internet information search engine sites into complex Internet knowledge portals providing a variety of services in less than a decade. The change was not straight-forward but included several steps and the base for firms' competitive advantage shifted from information search capability to interactive services leverage. The change has since continued, and, e.g., albeit the nowadays moderate popularity, Lycos which was a 1990s boomer and one of the first profitable web businesses in the world, has moved away from a search-centric portal and toward a community destination for broadband entertainment content. Albeit less popular to its competitors, during the last ten years Lycos has introduced several innovative media services such as 'watch and chat' video applications and online video playlists along with commentary options.

In a similar manner, e.g. nationally popular newspapers and magazines such as *Ilta-lehti*, *Helsingin Sanomat* and even many local "small-scale" newspapers have transformed their online presence strategies from simple news websites to rich multi-media and interactive service portals with lots of added functionality such as commentary sections, blogs, video news and discussion forums, as well as gaming corners and links to popular game portals. Strategic flexibility plays a key role in such a change, as along with the strategy and operational transformation, many firms have experienced considerable organizational evolution in

their pursue to keep track on and respond to what the media clientele of the present day actually wants and what people are used to in different online services.

**4.7 Summary: the identified paradigms depict industry-level transformation**

Finally, we conclude the section by summing up the industry-level changes in the social media environment. The identified paradigm changes are related to an industry-wide transformation, which can be described as the grand shift in the purpose of media firms from connecting information, knowledge and people through closed ecosystems and existing media chains towards connecting intelligence through semantic webs of knowledge in user-centric communities. That is, firms in the media industry need to evolve to encompass new challenges that are posed by social computing, which extends the scope of information connectivity and social connectivity in the Internet-based computing and communication tools to the realm of social endeavor.



**Figure 3 Paradigm shifts in the media business.**

The directions of the particular paradigmatic changes are illustrated in Figure 3. It is evident that the paradigm shifts discussed in this section pose new challenges for managers of the media business in the present-day Internet society. The challenges entailed by these paradigm changes are discussed in the next section.

## 5 Future management challenges in the media industry

Business model management under turbulence and dynamic industry changes is not an easy task. It is equally difficult to suggest best practices and key aspects to be considered for good management in such an industry. Strategy discourse has primarily focused on the individual firm, evolving from an emphasis on industry positioning to internal resource allocation, and finally, to building dynamic capabilities through learning. The fundamental changes of the media industry, discussed in the previous section, include the emergence of social computing, which raises new challenges for both business practitioners and researchers. Moreover, the six paradigm changes discussed in the previous section compel media firms to continuously innovate in order to create value to the users of the media, and to sustain competitiveness in the digital era. In this section, we address the future management challenges caused by these paradigm shifts in the media business.

We are able to comprise some obvious future management challenges for media firms. In concordance with the findings of Normann and Ramirez (1989), who have studied the management challenges in the contemporary business environments, our study highlights four factors in the emerging socio-technical reality that pose new management challenges for the media executives. These management challenges emerge clearly from the previously described paradigmatic changes and include:

- **User centrality:** Media users are increasingly better informed vis-à-vis the content providers on the relevance of the media content, which support pursuing user-centric strategies in the media business.
- **From co-creation to co-learning:** As successful offering-providing system must be defined according to the client perspectives and not on client-independent criteria of “what the content is”, the winning offerings are often co-created between the users and the media service providers. Hence, the value of the content is to be co-learned by the same token.
- **The rise of platforms:** Socio-technical changes in the relationships among the actors in the media industry (including content providers, device providers, telecom carriers and other stakeholders in the media industry) lead to the rise of new platforms that transform the rules of the game whereby sustained profitability is obtained.

- **The need for external capabilities:** New assets need to be understood and managed due to the digitalization (and the increasing intelligence) of most media processes – from the digital recording, production and processing of the media content to its digital transmission and use.

First, the fact that media users are increasingly better informed than the content providers on the relevance of the content lead to the lucrativeness of client-centric strategies over product- or production-centric ones. Therefore, in the contemporary media environment, business models should be footed on the principles of user-centric value creation. In other words, they should be designed on the grounds of understanding the new media users' needs and behavior both in terms of the media contents and the means by which the contents are created with and for the users.

Second, because of this co-learning process, the “commercial role” of the successful offering-providing system must be defined according to the client perspectives and not on client-independent criteria of “what the content is.” The underlying principle of “citizen journalism”, which was discussed earlier in this document, is that the value of the content for the users tends to be higher when the users have a role in producing the content according to their interests. That is, the content provider can no longer base its relative advantage vis-à-vis the user on simply having superior information. Instead of relying on strategic notions such as “market differentiation”, content providers must establish a relationship of continuous mutual co-learning with their users and clients.

Third, the socio-technical changes in the relationships among the content providers, device providers, telecom carriers and other stakeholders in the media industry, transform not only the commercial roles of individual offering systems but also the “rules of the game” whereby sustained profitability is obtained. One of the most visible changes in the rules of the media industry is that technology (including media products and services) bring together groups of users into two-sided networks, which can be understood as new “media platforms”. Such platforms consist of components (hardware, software and services) and rules (standards, protocols, policies and contracts) according to which the media content is to be developed and delivered. The power of such platforms is based on that users tend to rely on these platforms when they perceive that doing so is more efficient than relying on unmediated bilateral dealings in media consumption.

Finally, the digitalization and the increasing intelligence of almost all media processes –from the digital recording, production and processing of the media content to the digital transmission and use of the contents in mobile networks accessed, e.g., by smartphones and intelligent pads– implies that new assets need to be understood and managed. In addition, the growing role of users in

the content production, and, the emergence of online social communities in the sharing and taking advantage of the digital content changes the rules of the media game. Hence, combining the user-initiated, media service provider-initiated and third-party content into an offering forms a grand challenge for media businesses.

Bearing these management challenges in mind, we propose that two of the most crucial assets needed to keep relevance in this game include the understanding of customer bases that are increasingly in the virtual environments, and, control over access to the resources needed to help customers to serve themselves in these different customer bases. As discussed in the previous sections, in a networked environment, such as the media industry, adaptive behavior remains one of the core competences in business strategy. In all, we contemplate that the changes and paradigms described in this paper will bring major challenges for the management of media business models, but also offer great new business opportunities. Research on business models has previously focused on the design of business models, but in the future much of the research will center on the management issues. Systematic business model management allows firms to learn, adapt, amend, and innovate best ways to tackle with the evolving environment. As Doganova and Eyquem-Renault (2009) put it, the business model circulates in space and time, and an attempt to manage business models provide today's dynamic media firms with an exciting journey to the tomorrow's media business field.

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Media production and consumption are under a drastic change. The digitalization of content production, delivery and use as well as the increase of the broadband Internet access in both fixed and mobile networks allow the use of media contents in a myriad of different terminals. Simultaneously, media consumption is becoming increasingly social, participatory, ubiquitous and multi-channeled by nature. The novel technologies that enable shared public and interpersonal communications are of significant social, organizational, and economic importance. They act as notable change drivers in the media industry and pose major challenges to contemporary media firms. One secret to maintaining a thriving business is recognizing when it needs a fundamental change (Johnson et al. 2008). The objective of this paper is to analyze, from a conceptual point of view, the management of dynamic media business models, which are exposed to the paradigms of the evolving media industry. It will discuss their building blocks, the influence of industry changes, and predict their management challenges, required capabilities and evolutionary steps. It deals with questions such as:

- Why should firms engaging in the media industry consistently innovate business models that are different from current practices and ways of operation?
- What factors drive business model development and how can firms manage this development in collaborative digital environments that are characteristic of the contemporary media world?
- What are the key challenges and future prospects for the media business models in the present-day Internet society?

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