THE EVOLUTION OF THE SOFA-TV IN THE NEW DIGITAL SCENARIO

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Abstract

The traditional television is now at a turning point because the introduction of digital technology has changed the competitive context: it has modified the bargain power of the traditional players by offering new opportunities to the new entrants and imposing new strategies to the existing ones. This paper, basing on 32 case studies and the census of Sat TV, DTT and IPTV offerings, aims at describing the current state of channel offerings, individualizing the principal players and identifying their strategies, thus allowing us to give a few predictions as to the possible future changes in the industry. The analysis will have a general applicability, as the considerations made are not particularly country-specific, although performed within the Italian context, one of the most advanced in the development of digital TV platforms.

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The TV industry

The TV industry, for decades quite static, is currently undergoing important changes (Meisel, 2007): such business is in fact being shaped by a number of driving forces, such as the digitalization of the TV signal, the diffusion of new alternative access technologies, the development of broadband and streaming video technologies, the introduction of Web TV and new generation access terminals, and the progress of interactive and personal television solutions (Bria, Kärrberg, & Andersson, 2007; Burbridge, 2006; Hu, 2007; Jirachaipravit & Probert, 2007; Hyers, 2006; McGrail & Roberts, 2005; Probert, 2007; Shin, 2007; Shim, Ahn, & Shim, 2006). Past changes, as well as those to come, are so radical that some authors prefer to talk about TV (r)evolution rather than evolution, asserting that the very meaning of the term "television" needs to be revised (Rangone & Turconi, 2003).
It is clear that the traditional television is now at a turning point. As a matter of fact, the digital television technology introduction has changed the competitive

context. This phenomenon is going to renovate the audiovisual industry, modifying the bargains power of the players, offering new opportunity to the new entrants and imposing new develop strategies to the existing ones. Therefore in the digital scenario today some new specialized operators are entering the market by focusing on own competences without have to buy frequencies or to build a transport network.
The technological evolution has shifted the boundaries of the TV industry. Television platforms are in competition, not only among themselves, but also with "New Media" offering contents and services not specifically related to the television sector (Poel, Renda, & Ballon, 2007; Furregoni, Rangone, Renga, & Valsecchi, 2007): i) Internet and ii) all the new ways of offline use of digital contents (e.g. podcasting, downloading of entertainment contents on the PC or mobile phone). There is strong competition between traditional media and new media for the *share of time* of users and the *share of advertising* of investors.
Three digital platforms viewed through the "traditional" television screen (Sofa-TV) can be identified on digital networks: Sat TV, DTT and IPTV (Toletti & Turba, 2008). Globally, the majority of sales presently continue to apply to Sofa-TVs even if other digital platforms are emerging (for instance Mobile TV and Web TV).
For this reason, this paper will focus on Sofa TVs, in particular describing the current state of channel offerings, individualizing the main players and identifying their strategies in order to offer a few predictions about possible future changes**.** The analysis will have a general applicability, as the considerations made are not particularly country-specific, although performed within the Italian context, one of the most advanced in the development of digital television platforms.
In order to achieve such results, the paper is further divided into four sections. The first section will present the empirical study on which our considerations are based. The second section will describe the offerings of the Sofa-TV sector. The third section will deal with the players of the Sofa-TV industry and their strategies. Finally, the fourth section will offer some elements for further discussion.

Empirical study

The information needed for the analysis and evaluation of the Sofa-TV sector in Italy was mainly collected through a case study methodology, but an exhaustive census of the Sofa-TV offerings was also taken in order to complete the information base. The empirical study has been conducted in 2008 on a sample of 32 companies operating at different stages of the new digital TV value chain and with different characteristics (e.g. size, revenue, business model). For each case we had single or multiple interviews talking with all the most important decision makers. The panel comprises:

- 13 cases from broadcasters and Telco operators (i.e. Elemedia, Fastweb, Gruppo Mediaset, Gruppo Telecom Italia, Infostrada, La7/TI Media, MTV Italia, Rai, Rete A, R.T.I. Interactive Media, SitCom, SKY Italia, Tiscali);
- 6 cases from content providers (i.e. Digicast, Einstein Multimedia, Endemol, Turner Broadcasting System Italia, Walt Disney, Yam112003);
- 8 cases from service providers (i.e. BIP, Cisco Italia, IBM, IconMedialab, Kora, Skylogic, TXT Polymedia, Xaltia);
- 5 cases from media/advertising centers (i.e. Carat/Isobar, Digitalia '08, MediaCom Italia, Niumidia Adv, Sipra);

Moreover, an exhaustive census of the Sofa-TV offerings have been done aimed at mapping all the channels transmitted on the digital Sofa-TV platforms present in Italy today. More than 500 channels were individuated and analyzed both in 2007 and 2008, and for each, 23 important variables were investigated.
All the research on the New TV sector began in January 2007 and is still in progress.

The Sofa-TV offerings in Italy

In this chapter, we will analyze in detail the television channel offerings in Italy relative to the three digital platforms included in the Sofa-TV category: Sat TV, DTT e IPTV.
Between 2007 and 2008 the offer is grown on all the Sofa-TV. In particular:

- The offerings on Sat TV grow from 243 to 297 channels, thanks to SKY Italia's portfolio expansion;
- The DTT offerings increase from 40 to 45 channels, thanks to the introduction of new channels on the part of, first, Mediaset (e.g. Joy, Mya, Steel e Disney), then Rai (Rai4) and finally radio broadcasts from the Espresso Group (Radio Deejay, Radio Capital, m2o);
- IPTV channel offerings rose notably, from 153 to 218, as the result of two phenomena: first, the transposition of channels from SKY Italia satellite platform to IPTV; and second, the significant increase both in the On demand channels, due to the entry of two new players (Tiscali and Infostrada) in this arena, as well as in the channels of already existing operators (geared towards specific market niches that were, up until now, ignored).

The Sofa-TV offerings can be broken down referring to the means of distribution of the channels. There are essentially two: On demand channels, where contents are viewable upon viewer request; and linear channels, where there is a programmed schedule that is predefined and delivered in an ongoing manner. There are also certain channels that cannot be classified as either On demand or linear because they do not have sufficient ongoing programming, nor are they viewable when the viewer chooses. All these channels provide valuable contents (particularly soccer, but also sports, movies and TV series)

but are available exclusively during certain predefined times and for only a few hours per day.
It should be noted that the On demand channels are only present on IPTV, the only platform that, from the technological point of view, can support one-to-one delivery on request. The other platforms, nevertheless, are trying to increase the viewing flexibility of their own contents in order to more closely match the On demand rationale. On the one hand, both the satellite and the DTT platforms have introduced their +1 versions for certain pay channels in order to make them more easily viewable for their users (since they transmit the programming with a one-hour delay) and on the other hand, the monopolizer of the satellite platform, SKY Italia, counts mostly on its MySKY service which, in fact, allows the user to create his own On demand library through program recording.

To complete the analysis of the offerings, it is beneficial to distinguish between "native" channels on each platform (created specifically for that platform) and transposed channels (those replicated on the platform in question, but native of other platforms). Naturally, given the technological limitations that were previously mentioned, such a distinction makes sense only in regards to linear channels, since those On demand are present exclusively on, and were created solely for, IPTV. In the case of linear channels, we see how the previously indicated growth in the number of channels can be explained in two ways. On the one hand in fact, it can depend on the diverse propensity for innovation (intended as the ability to create new channels) of the different platforms, and on the other, it can be tied to the diverse propensity for imitation (intended as the ability to replicate the offerings generated by other platforms). In the case of satellite and DTT, the propensity for innovation prevails, and the widest assortment of "native" channels continues to be that of satellite. However, in the last year, there has been a significant planning effort on the part of DTT as well, despite the intrinsic limitations of transmission capacity. In the case of IPTV, there is the prevalence of duplication of the SKY Italia channel offerings, since at the moment, such a platform is not able to create its own original offerings of linear channels.

The digital-TV value chain and the principal players

The value chain provides a means to analyse the contribution that each player makes to the delivery of value to the customer (Jirachaipravit & Probert, 2007). Technology and competitive strategy includes the analysis of the value chain (Kurokawa et al., 2005; Segal-Horn, 2003). The value chain of the new digital television can be represent with four main activities (Figure 1):

Figure 1 - Digital-TV Value Chain

Source: Author's calculation

- *Content production*, which include the concept, the production and the post-production of video contents.
- *Packaging & Scheduling*, which include the contents aggregation, their schedule in a programming and the organization of channels bouquets.
- *Distribution & Diffusion*, which include all the signal delivery activities.
- *Service and customer management*, which include all the pre and post sale activities, CRM and payment management.

The introduction of digital technology in the Sofa-TV arena has greatly changed the competition in this sector, allowing the entry of both new operators, born specifically to take advantage of the possibilities offered by digitalization, as well operators coming from other industries. In particular, in the Italian Sofa-TV market, the categories of most important players refer to: the "traditional" broadcasters of analog TV (i.e. RAI, Mediaset and La7); satellite TV broadcasters (i.e. SKY Italia - the result of the fusion of the first two Italian operators in the satellite TV arena - Stream and Telepiù); and a series of players who, with already consolidated businesses in sectors like telecommunications in particular, but also paper publishing, entered the Sofa-TV arena thanks to the opportunities introduced by the new digital technology (e.g. Fastweb, Telecom Italia, Infostrada, Tiscali, Gruppo L'Espresso, Class Italia).
Therefore, digital technology, while on the one hand bringing a strong increase in the number of competitors in a sector characterized for years by the Rai-Mediaset duopoly, and on the other, putting in competition many different players, has decisively changed the strategies of the players and their ways of competing in the Sofa-TV arena.
Following this paragraph, we will try to highlight the main characteristics of the most important clusters of competitors ("traditional" broadcasters, "digital" broadcasters, and the Telcos) discussing the strategies developed by these operators.

1."Traditional" broadcasters

Due to both recent EC legislation delineating the passage to digitalization and its analog to digital switch-over times, and to the effective strategy executed by SKY Italia on satellite, traditional channel operators have been pushed to a faster and more efficient capitalization of digital opportunities. However, in

order for DTT to not represent merely a siphoning off of revenues from the analogical to the digital platform, they must maximize strategies and channel offerings that, on one hand can offer a competitive alternative to SKY Italia's pay TV (and the IPTVs, as well), and on the other hand, can increase the volume of advertising on free-to-air channels through either an increase in the audience and/or its greater segmentation and profiling, or through innovative advertising campaigns, that, thanks to the possibilities offered by digital technologies, could prove more effective.
On the other platforms of Sofa-TV, traditional broadcasters have continued, up until 2008, to position themselves further upstream in the chain as content and programming suppliers with less concentration on the final client. Already from 2009 things should change, since a consortium of the three biggest traditional broadcasters is working to launch a free satellite platform as an alternative to that of SKY Italia.

2. SKY Italia

At the moment it is the only important operator in the satellite platform arena, even if, as noted, things could change soon. In these last few years, it has been getting extremely positive results (it is in fact ranked the Number Two Italian television operator in terms of revenue, if we do not consider the national Rai-imposed tax that all Italians must pay in order to have television).
In the last year, SKY Italia has aimed for both a further broadening of its already ample and varied channel offerings, as well as a greater penetration of its most innovative services (MySKY, which allows an easy program recording and/or delayed viewing; and HD, which allows High Definition viewing of a great number of contents).
It is not present on DTT, whereas on IPTV it plays an indirectly key role, since its offerings represent a fundamental component of three of the four Telco operators' packages in this sphere.

3. The Telcos

The Telcos play their game in the field of television by pushing IPTV, even if, in absolute terms, the results are still marginal compared to other digital platforms. It is, however, necessary to highlight that the offerings in the Telco television sphere are more tied to the need to expand their service portfolio in order to reduce the churn rate and increase the ARPU, than to their desire to develop a new business that can be profitable in and of itself.
Two new players, Infostrada and Tiscali, entered the field, and even if up until now they play an absolutely marginal role, they are interpreting the concept of IPTV in an original way, with a "hybrid" model that brings different characteristics, typical of the Web to Sofa-TV. Tiscali, in particular, has greatly

invested in IPTV, creating a decisively innovative product in regards to user interface, graphic qualities and On demand content offerings.

Conclusions: current trends and future turning points

In conclusion, it is possible to make some consideration as to what might be the future evolution of the industry. Such considerations, although obtained from the analysis of the Italian reality, can certainly be applied to other international contexts as well, since the factors that could influence the development of the industry are, in large part, not country-specific.

The future turning points that we see on the horizon are: i) the competitive battle in the pay contents market, which is getting increasingly more interesting, with on the one hand, SKY Italia's continued growth, increase and enrichment of offerings, and on the other, Mediaset's new and improved, more aggressive game played by in the field of DTT; ii) Rai's ability to develop a position in the sector, considering its complete exclusion from the Pay TV arena, currently the most attractive attribute of digital television; iii) IPTV operators' ability to carve out their own niche and exploit both the specificity of this platform and their key resources as operators of Telecommunication and Internet service providers.

In particular, the main factors that will be able to influence the development of the market, not only in Italy, but in general in every country characterized by the evolution of the TV towards digital platforms are the following three:

- the normative and regulatory framework
- technological evolution of the networks
- the evolution of the systems and tools for measuring the audience and the users

1. The normative and regulatory framework

It is obvious that any evolution of the normative or regulatory framework could heavily influence the dynamics of this sector. Up until today in Italy the two most interesting phenomena are: on the one hand, the definition of times and modalities (including the theme of public subsidies for the purchase of STBs) of the switch-off of analog TV, which has already begun to apply to certain regions of Italy and which, up until today, seem to be, in large part, fixed; and on the other hand, the theme of regulation of product placement in TV programs, which could have a strong impact on the roles and strategies of the operators.

2. The technological evolution of the networks

The three categories of Sofa-TV are base on completely different channels from a technological point of view, due to both their current characteristics as well as the evolution that they will undergo in the years to come.

In an attempt to simplify and schematically present this theme, we can characterize the different digital platforms by three main performance characteristics:

- The bandwidth, which influences the number of deliverable channels and their quality (for example, influencing the possibility of transmitting in HD);
- The intrinsic interactivity, that depends on the presence of an embedded back hl channel;
- The geographic coverage (which, in reality, is not an intrinsic characteristic of technology, but depends on the investments made within the system of operators).

It is obvious that the positioning of the three digital platforms on these three parameters is varied and is destined, moreover, to undergo very different dynamics in time:

- Sat TV presents clear strengths in its territorial coverage and bandwidth; the weakness of this platform is, however, the absence of an intrinsic return signal, which limits its capabilities for certain formats (like On demand) and for certain more interactive services;
- IPTV has, on the other hand, as its own strong point, the back channel intrinsic of its network (IP) and therefore capabilities on an interactive level; in terms of coverage of the territory and breath of range, it still suffers from problems tied to the digital divide, with the presence therefore of areas of the country not yet reached by a sufficient bandwidth;
- DTT starts with good coverage of the territory, but suffers from a limited bandwidth and from a lack of intrinsic back channel.

With reference to the back channel it should be noted that the platforms that don't have embedded potential can still use external channels, with normal Internet connectivity at home or on the cellular network (as for example, has already been done for certain services, like the pay per view contents).

3. The evolution of the audience and user measurement systems and tools

One of the great novelties brought by digital platforms is represented by the possibility of establishing a real relationship with users, to know their behaviors, and therefore, to profile and group them (even if this possibility is much greater in the presence of a back channel).

It is evident that, as these characteristics are very interesting for the advertisers, they have the ability to create new revenue opportunities for the broadcasters. However, in order that this truly become a reality, there is a need for adequate measurements which are both consistent with the new platforms, and trustworthy systems of measurement of the audience, ones accepted by the entire market.

The three factors analyzed above, the regulations, the technological evolution and the achievement of audience measuring systems, will in coming years strongly influence the offering strategies and business models of the broadcasters on the different platforms and therefore their reciprocal competitiveness.

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