BUSINESS MODELS OF INNOVATION IN THE CREATIVE AND CONTENT INDUSTRIES: INSPIRING INSIGHTS FROM THE CINEMA INDUSTRY

SETTING THE SCENE: INTRODUCING RESEARCH QUESTIONS, PROBLEMATIC, THE STAKES, R&D IN CREATIVE INDUSTRIES.

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CULTURE AND CREATIVE INDUSTRIES: AN EVER INCREASING INTEREST

Academic literature
Public policies
Artists and stakeholders
For more than 30 years

...But
an important issue is neglected:
R&D in creative industries
INNOVATION AND CREATION: AN IMPORTANT ISSUE IN MCI (ALMOST) LIKE IN OTHER ONES

Support to growth, competition, renewing…
- Innovation in culture and creative industries: a means to develop creative contents

Surprisingly neglected in the literature
- Merely considered from the content viewpoint
- Despite a large amount of projects, initiative and papers

Therefore, important questions are at stake
Where technological development and R&D take place?
How are innovations adopted and implemented in cultural industries?
AT FIRST SIGHT, DISRUPTIVE CHANGES COME FROM TECHNOLOGICAL INNOVATIONS IN CULTURAL INDUSTRIES

Historically
- Sound movie
- Music industries
- TV
- ...

Recently
- Thanks to the Internet and digital technologies

But always emerging outside the cultural industries
HIDDEN INNOVATION OR HIDDEN R&D?
VARIOUS REASONS TO NEGLECT R&D IN THE MCIS

Small size of cultural firms
Lack of technological competencies
Propensity to highlight creation v. managerial matters and technology
Low R&D ratio even for largest firms: the Disney case

Statistical biases:
Art & culture excluded from Science & Technology
R&D expenditures overshadowed
THE CENTRAL ISSUE(S) AT STAKE IN THE REPORT

How does technological –enabled innovation develop in the MCIs?

What is the ecosystem that surrounds the "specialized technological companies" who feed the CCIs with high tech product innovation?

Who is jointly developing R&D and innovative solutions with them (universities, clusters …)?

How do those "worlds co-exist and collaborate"?

How does the model plug in the creative value chain from creators to consumers including producers and distributors?

Who is financing the various public and private players?

What is their market strategy and position on the market in terms of local/global market access?
THE REPORT STRUCTURE

Chap.1  Litterature review on Innovation and R&D  MCI
Chap.2  Cross comparision in the *Telecom and Media Ecosystem*
Chap.3  Some exemplary Innovation cases in the MCI
Chap.4  R&D and Technological developments: the case of cinema
Chap.5  Cross comparison book publishing / movie industries
Conclusion  Economic dynamics, strategies and public policy concerns
MAJOR EVOLUTIONS FOR CULTURAL INDUSTRIES
AN OUTLOOK OF THE MAIN ISSUES
A TWO-TIER EVOLUTION

Characteristics of ICT and technology at the digital age

- Power, flexibility and modularity
- Irregular economic results but extraordinary success
  - High tech leapfrog
- Transformation of localisation organizations and cooperation
- Centrality of information systems
- Growing size of technological aspects
  - Infrastructure, Investments, skills

Management practices and company organization

- Intensification of inter-company relations
  - Co-development, cooperative work…
- Reorganization of localisation structures
  - Globalisation + localisation in industrial districts
- New approach to customers
  - One to one, viral, CRM…
Numerous changes are taking place simultaneously

- New technology, products, media
- Uses and consumer attitudes
- Structure of the value chain
- New market structure
  - Principles of remuneration (outdated)
  - Geographical basis (ill suited)

Growing integration of markets and industries
New economic players
THE IMPACT OF THE CREATIVE SIDE

Artistic dimension
- Conception and creation are distributed
- Cultural industries domains expand

The quality of creation
- Value is content
  - No cost-price relations
    - Different business production model
    - Price ruled by diffusion
  - Cost inflation
    - Economic of quality
THE KEY INFLUENCE OF THE PRODUCTION PROCESS

Various locus for innovation and R&D

- Production process
  - Dreamworks
- Filming technologies
  - Panavision, 3D
- Postproduction
  - special effects, robotics

The cases of Weta, Mc Guff…

Prominent role calling for intermediary?
THE ROLE OF DISTRIBUTION

Reversing cost structure
- Small part of the price paid by consumers is dedicated to creation and production
- Investments in distribution vs. in production

A support to innovation … to restructure and diversify distribution channels
- New technical devices
- Market structure (mass economy and star system dynamic)
- Growing and concentration of channels
- The case of Amazon

But…
Embedded innovation as well
the case of Ymagis
THE INFLUENCE OF THE INDUSTRIAL ECOSYSTEM

Firms and sectors existing for long

- Motionlessness in industrial structure, business model, strategy

Similar competition

- Big / small – International/ national
- Different production structures
- The role of clusters (Hollywood, Joinville le Pont)
- Partnerships and networks
  - To share talent, technology suppliers, production

Fresh perspectives

Coupling Bollywood (old movie cluster) and Bangalore (young ICT)
- Recreating specific new ecosystem: American Zoetrop
CREATIVE INDUSTRIES : A PRIME EXAMPLE OF INDUSTRIAL DYNAMICS AT THE MODERN AGE

★ Fertile crossing Art and science, Technology and culture
  ★ A support to technological innovation (Aaton)
  ★ A support to content creation (Remix, machinima)

★ Creative industries drive the internet
  ★ Attractiveness of creative contents
  ★ Main dominant websites

★ Exemplifying the drivers of the modern economy :
  ★ Value is information and content
  ★ Prescription and economy of attention
    ★ multi-sided markets
    ★ intermediaries
    Incomplete information market
    Infrastructure, convergence and cross media
    Multichannel

Practices and time dedicated by consumers
  ★ Mobility
  ★ Multitasking
  ★ Social networks
LOOKING FOR MR. R&D IN MCIS

• Various designs and drivers
  • Specific corporate or public national research centers: ORTF, National Film Board
  • Leading economic actors
  • Distributed / alliances and consortia

• Industrial division of labour
  • ICT / Content industries
STRIKING FACTS
VARIOUS INNOVATION MODELS EXISTING IN THE
MCIS
CINEMA

- Disruption in distribution
  - Netflix

- Embedded incremental innovation in production
VIDEO GAMES

Some characteristics

Newest, multichannel, legacy systems, high technology, interaction rather than content
Project = unique technical development
Low embedded R&D (5%)

But…

Successful European firms (Rovio: Angrybirds)
Tencent case:
R&D staff = more than 50% of employees
Patents policy
Tencent research Institute
MUSIC

Late to respond to radical economic changes

Technological strategy aiming at diversification: portfolio of services

Emerging European actors
  Spotify, Deezer

Profitability at stake for dominant platforms
NEWSPAPERS

The economic context

Major changes and multiplication of forms of competition
New players
Important role of ISPs and OTTs
upsetting the traditional business models
rebalancing the value chain
Difficulty of medias to set up a (the) right strategy

But…

Opportunity in the bundling of innovation on content and technology
the case of Vice
DYNAMICS WHICH FEED (OF) THE INTERNET NOTICEABLE IN ALMOST ALL INDUSTRIAL FIELDS
TRANSFORMATION OF THE VALUE CHAIN AND NEWCOMERS

- Thanks to technological flexibility
  - Reconfigurations of the offerings
  - New supply dynamics

- Strategic movements in the value chains
  - Upstream to control the technology
  - Downstream to control the consumer
  - Unprecedented forms of vertical competition

- Emerging platforms and technology players
  - Encouraging new sources of competition
  - Backing new competitive resources
POROSITY BETWEEN AMATEURS AND PROFESSIONALS

- Symbolic value for authors and reduced risk for producers
  - The generalization of « self published »
  - Crowdsourcing, UGC and cost reduction for content
  - Social medias and communities
    - Calling for light technologies : Home studio e.g.

- Consequence : changing forms of labour market and production
  - « Traditionnal » professionalization process at stake
  - New forms and contracts for IPR
STRIKING RESULTS TO BE DISCUSSED
STRATEGIES STRUCTURED AROUND THE CONTROL OF THE TECHNOLOGICAL COMPETENCIES

Factors often undervalued if not lost in the digital economy
- Especially in the MCIs: the case of Publishing industry

Basis for (re)definition of markets and competition
- Enhancement of business skills of incumbents
- Support for new entrants
- Market design and blurring of traditional bondaries for firms and industries
  - Supported by technology disruptions (outsiders)
  - Supported by new strategic business models (outsiders and mavericks)
  - Supported by technological convergence
Redefining markets thanks to technology

**Production**
- From product to services
- Multichannel perspective
- Mass customization
- Film as a lab

**Informational**
- Recommendation algorithm
- Better informed customer buying decisions (product / service comparisons)
- Better informed supplier understanding of their own market segment

**Transactional**
- Web-enabled products and services to create additional value for the customer
- New delivery mechanism for intangible and tangible products/services
- Hyperoffering
STRUCTURAL CONSEQUENCES FOR BUSINESS MODELS

Information and communications technology enables a wide range of business models.

The capability of the state-of-the-art technology is just one criterion in model selection.

Many of the conceivable models have not yet been experimented with commercially.
A CONTEXT FOR "NEW MODELS"

- Competing business models
  - New cost structure for production
  - Alternative solutions for content development
  - Multichannel development / Multimedia / multiformat

- The market structure
  - Emergence of new players (OTT, technology suppliers…)
  - The weight of distribution and - paradoxically – secondary creation processes
PROLIFERATING BUSINESS MODELS
STARRING SOME OF THE (HUNDREDS) LEGAL DOWNLOADING PLATFORMS
WHY SO MUCH VARIETIES?

- Exploration strategies in search of success
  - The Internet is a strategic resource
  - Key factors may help to lead an migrate to either successful or unsuccessful eBusiness models
- Different “e”-Business Models can be sustained
VARIOUS TAXONOMIES OF BUSINESS MODELS...
(MIRRORING TAXONOMIES OF INNOVATION / R&D ?)

**Integration**
Models which occur traditionally in have been improved or transplanted onto the Internet (and vice versa)
= Incrementally embedded innovations
Substituting marginally less efficient model

**Substitution**
Irruption of native models in the ICT environment
= Disrupting rules of games and playing field
Downstream in distribution
Upstream in production
But not only (cf. role of amateurs and piracy)

*Badly known (how, what, whom ?) : cf. mapping in publishing*

*More frequently referred to : the music industry paradigm*
VARIATIONS AND VARIETY ACCORDING SUBSECTORS

Technological culture (books v. videogames)
Users’practices (videogames)
Profitability (music)
Strength and stability of the supply chain (cinema)
Structure of dominant leaders

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<th>Integration of the value chain</th>
<th>Investments in creation</th>
<th>Legacy technology</th>
<th>Digital technology</th>
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NEWCOMERS : THE TECHNOLOGY SUPPLIERS

Traditionally outside the sector: not anymore
- Initiators and drivers of change
- Presence at several levels

- Middlemen and Intermediaries
  - Technological Platforms
    - Production
    - Distribution

Facilitator and gatekeeper (CTO)
Technological kingpin Reconciliation of industry players
THE ECONOMY OF R&D

- The sharing of risks
  - Who invest? (start up, insiders, technology suppliers, producers)
  - How much? (and how to measure it)

- Technology push / pull
  - Technological development in the (extended) supply chain (outsiders and insiders)
  - Optimizing processes and incremental innovations (incumbents and mavericks)

- Commodity / Legacy devices and ecosystems
  - Economy of platforms
  - Technology and standard rivalry
    - Patents
    - New ecosystems and Industrial partnerships
THE TECHNOLOGICAL ECOSYSTEM

- Ecosystems of technical services turning autonomous
  - Vertical integration v. outsourcing
  - Specialisation and ecosystem structured around technology

- Partnerships and consortium
  - From various origins and purpose
    - R&D and collective technological development
    - Vertical partnerships (supplier/ provider)
    - Content development
EUROPEAN POLICIES AT STAKE: A VERY MIXED BAG

- Cultural policies
  - v. commoditization of content
  - Beyond silo financing to support cross media and new blurred markets

- Industrial and innovation policies
  - Direct support or enabling policies?
  - Creative clusters
    - cap Digital and Capital games

- Infrastructure regulation
  - Netneutrality:
    - technology suppliers do not step in the value chain of content but rather compete it

Antitrust regulation
  - v. vertical integration

- Tax incentives
  - Cf. Ubisoft
CONCLUSION
TECHNOLOGICAL INNOVATIONS IN WIDER DIGITAL DYNAMICS
THE IMPACT OF THE INTERNET

Spreading out of online transactions
- Destructuring and by passing traditional channels
- Discounting prices
- New incomers in the industry

Development of dedicated new equipment and platforms
- I-pod, smartphone, tablets…
- High scale new sharing practices … and piracy

Convergence of download / streaming, flow / stock perspectives
- Increasing number of online available contents (music, videos…)
- ISP vs. content providers

Content producers’ situation put into questions
- New remuneration procedures
- Piracy and fair use
SUPPORTING A NEW ECONOMY?

What?

a proliferation of offers and forms of monetization
- New technology, products, media, services
- Bursting and breaking down the consistency of traditional contents
- Uses and consumer attitudes
- Free/ paid, stock/flow, located / pervasive

How?

new technologies, new value chain and new entrants

Why?

a new means for innovation
- Competing on BM rather than on goods and services
  - New economic players
  - A new contrasting role for technology and R&D

Evolutionary process or exploring successful strategies?
Disruptive evolutions or marginal incremental implementation?
THANK YOU FOR YOUR ATTENTION!

END