Adapt or die: 
Media innovations and the erosion of media boundaries

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“The fact that the media industry owes its existence to technological advance, and that technology is a permanently moving carpet under its feet, is surprisingly seldom acknowledged by the industry itself” (Küng, 2008).

This paper focuses on the changes for media companies in the new digital world. The online world has brought both opportunities as well as threats for the conventional media market and changed the media landscape for time to come. To begin with the idea behind innovation and creative destruction are explained to showcase how the digitalization of the media industry has changed the traditional media and even threatens to leave those that don’t adapt behind. The clear-cut boundaries between media are no longer available, making media usage more personalized than ever before. The paper discusses the change of supply in media with the evolution of digital media and its effect on the Icelandic media landscape. Finally the so-called long tail effect which has emerged in the media will be discussed.

Digital technology

Digital technology has affected the economics of media as well as the economics of supplying media. Although digitalization is only the most recent step in the evolution of media it is in many ways more different than many other innovations of media. The innovations of television, color television, the radio and even the printing press are all examples of changes in media with digitalization being the most recent. Like many other industries, technological evolution in the media industry composes of long periods of relatively minor changes until a big and revolutionary new technology emerges (Küng, 2008). New innovations can have a force so great on their market that it can destroy other companies that previously held a good market position, a concept known as creative destruction (Schumpeter, 1942).

Although the Internet has had a great effect on media companies, its emergence has so far not destroyed any major media companies, it has had enough effect to make the big dogs sit up and take notice. Adding to this is the innovators dilemma (Küng, 2008). The innovators face dilemma in that while managers in effective companies do the what from a business standpoint seems the right thing and listen to their customers and cater to their need, an innovation can come along that the costumers did not realize they needed or wanted until it comes out and in some cases it may be too late for some companies to change to another technology. Thus while innovations can be a stepping stone for all companies on a market they do also possess destructive potentials. The Internet is both an innovation and an opportunity for innovation and while they offer other media branches a creative outlet they could also bode the demise for some media companies as well as types media (Doyle, 2010). Icelandic media companies are fortunate enough that the media market is rather small so that sources for media innovations are more limited than in bigger media markets and competitors can most of the time afford to wait for other companies to accept
innovation, or wait for an innovation to succeed abroad before they accept the innovation themselves.

Media, as well as other types of cultural markets have some qualities that are not shared by most other markets. First and foremost the products of the media market are considered public goods and don’t deal with scarcity; it doesn’t matter how much a person watches a movie or listens to a song, it does not limit other people’s ability to do the same. There’s only an initial cost of producing a media product and after that there’s only a marginal extra cost of duplicating it. The same can be said about broadcasting, since the price of broadcasting is the same no matter how many persons watch or listen to the broadcast (Doyle, 2002). Closely related to the public good type of product is the fact that media is a dual product market. The definition of dual market refers to the fact that the media generates two different types of product. On the one hand media produces media content (programs etc.) for audiences to see and on the other hand media audiences for advertisers (Doyle, 2010).

Thanks to economies of scope in the media industry the media output can easily be refitted to other kinds of media (Doyle, 2002). It’s for example easy for a media company to make the audio of TV news show available over a radio and making the transcript available over a website (as well as a newspaper). This is one of the reasons that boundaries between media markets are getting harder to define. It’s difficult to say that a media user that watches a TV show originally made for TV on a mobile phone is watching TV. Another user that streams through the internet a radio show via his TV is in fact not watching the TV but listening to radio, on his TV. An hour long audio file that is intended for football fans downloaded and listened to through an Ipod could be a radio show that is downloaded as podcast or just an amateur broadcast that never played on radio.

Supply of media

The supply of the media industry can be easily divided to three different stages. The first stage is production, in which the media content is created and made. The second stage is packaging, in which the media content is gathered into a product (f. ex. newspaper). Lastly, the media product is distributed and sold to the media consumers. This process has in many ways been affected by the digitalization and globalization of recent years and decades (Doyle, 2002).

The first effect mentioned here is that the arrival of technological convergence has blurred the boundaries between different kinds of media products as well as media markets. The concept convergence refers to the merger of the technologies of media, telecommunication and computing. While the boundaries of markets and media have begun to blur and even disappear altogether the competition has increased by a steady growth in the number of distributive outlets (windows) which are available to media firms (Doyle, 2002). Those changes are not only positive for media users, but also for media companies. All those new forms of distribution have also created some new revenue streams for studios and even adjusted the types of programming they develop (Lotz, 2007).

The digital media has many advantages, the most effective being a more efficient use of bandwidth which then frees up more space for additional channels (as well as additional competition). This additional bandwidth then leads to improved technical quality in picture as well as sound (Debrett, 2009). Adding to improved communication and transport infrastructure, erosion of boundaries has been credited to changes in legislation as well as a more liberal trading environment. All those effects caused in part by digital technology is bringing down production cost and thus opening up the market for new media companies (Doyle, 2006). All the new windows
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of production, packaging and distribution have changed the nature of television. The evolution of the media can no longer be called linear dictated by some network executives. Instead the nature of television has changed from a single line to a wide open range of content in which the media consumer can simply go and use whichever part of it he chooses (Lotz, 2007).

The digitalization has affected another aspect of the traditional international media landscape. A common practice outside of the United States is the use of some kind of protection against a free flow of media material mainly to protect countries cultural identity. Those protections can come in the form of quotas, tariffs and subsidies (Hoskins, Colin, McFayden, & Finn, 2004). The reasons behind those kinds of legalization are according to a OECD report: “Audiovisual services typically reflect the social and cultural characteristics of nations and their peoples, and are consequently regarded as being of great social and political importance. For these reasons, government regulations and public support programs play a major role“ (Doyle, 2011). Iceland, like many other countries, finds it hard to regulate against internet media since the webpages are hosted in different countries with different regulations and can’t always be controlled with Icelandic laws.

Iceland is considered one of the most digitalized countries in the world (Internet World Stats, n.d.), a not surprising feat considering that 94,8% of Icelanders used the internet over a three month period in the year 2011 (Statistics Iceland, 2011b). Since the country is among the most digitalized in the world, Iceland should be considered among the top of the list of countries that pirate media products. According to recent research over 60% of the public’s use of movies is illegally downloaded (Visir, 2011).

A quick search of the most popular websites among Icelanders (Alexa, n.d.) shows that the forth most popular website in Iceland is Youtube. Being among the most popular websites on earth (Campbell, Pitt, Parent, & Berthon, 2011) the viewers on Youtube watch about 4 billion hours of Television material each and every month. The viewers are likely to find new videos now and then since on average 72 hours of material is uploaded to the website every minute which means that 8 years of material is uploaded each and every day (Youtube, 2012). The 20th most popular website in Iceland is the website The Pirate Bay (Alexa, n.d.). The Pirate Bay is a file sharing website where people all around the world can exchange files (whether they are movies, music or something else) with people all around the world (The Pirate Bay, 2012). Due to unrestricted excess for web users and room in regulation, the website is considered one of the biggest pirate sites on the internet (Varvello, Steiner, & Laevens, 2012). The third and last webpage worth mentioning is the website Deildu.net which is the 30th most popular website in Iceland (Alexa Iceland, n.d.). Deildu.net is, like The Pirate Bay, a file sharing webpage where people in Iceland can exchange files of all sorts and sized to other people in Iceland. At the time of the writing of this article Deildu.net has 45.920 registered users, but the website has closed membership and only accepts new members through invitation from current members (www.deildu.net).

Digitalization has made it possible for media companies to expand and open up the door of globalization for people. It is now possible for people to access many TV stations and radio stations across borders. The demographic for TV stations, radio stations and web sites is no longer simply the people that the broadcasting tower reaches but the whole globalized world. The opportunities of media in this kind of media landscape are enormous and there have been suggestions that open and inexpensive media could lead to easier flow of information and knowledge to the poor and the less educated (Graham, 2010).

The emergence of digitalization has not only brought with it erosion of boundaries of the media. Interactivity is also a big part of the new media (Doyle, 2002). The most obvious way of interactivity is VOD (Video on demand) where the user can simply
make up his own TV schedule as he sees fit. This service is available in Iceland and usually only offers users program that has previously been shown on local TV.

For the medium of radio podcast has been introduced so that listeners can simply download episodes and listen to them when they see fit instead of when the show is scheduled on the radio. Podcasts are available from some radio channels in Iceland, the leading producer most likely being the national radio channel RÚV which offers users most of its regular shows (and news) in podcast form after broadcast (http://www.ruv.is/hladvarp).

Also worth mentioning is the key word personalization. Traditional media like radio not only face options like podcasts and online streaming of radio shows, but also becoming increasingly popular are online personalized music stations (f.ex. Grooveshark.com, Pandora.com and Spotify.com) where users can simply make up their own music station and choose from millions of songs free of charge. A final consequence of the more open and accessible media environment leads to the fact that the average user can easily become a producer (Anderson, 2009). This can best be exemplified by websites such as Youtube.com where users can simply upload their own videos and thus becoming media producers. The openness and vast space of the internet poses a challenge for the Icelandic media. With the addition of podcasts and the possibility of streaming online radio channels the possibilities for radio listeners to personalize their radio experience are next to limitless. Although some of the bigger online radio channels that are popular in the Nordic countries are not available in Iceland due to copyright reasons (f.ex. Spotify.com) those personalized channels are growing in popularity in other parts of the world.

The usage of mobile phones as a way of accessing online media content is also on the rise. In the year 2011 26% of Icelanders used their mobile phones to access the internet, with people at the age 25-34 being the most frequent users with 42% of that age group using their mobile phones to access the internet (Statistics Iceland, 2011a. According to a 2011 US research mobile internet should take over the old fashioned desktop internet usage in the United States by the year 2014 (Richmond, 2011). This usage of mobile internet has also changed the way people use other media since 86% of mobile internet users are using their devices while watching TV.

With the option of using many media outlets at the same time people’s ability to skip advertisements altogether, add to that the possibility for user to use digital video recorders, video-on-demand (VOD) as well as blatant online piracy the development could turn to other aspects, namely sponsoring and product placement. If a large company like Coca-Cola is trying to reach younger audience that is used to multitasking while watching television it might even be more likely that they see the advertisement if it is in the episode that they are watching instead of between episodes. Still the majority of the advertisement marked is still ad-spot based. Today about 90% of all TV advertisements in the US are regular old fashion advertisement (Aris & Bughin, 2009). Even though product placement is considered an alternative in some countries it is forbidden in Icelandic law to place advertisements outside advertising slots when such representation is intended by the broadcaster to serve advertising and to deceive the public (Broadcasting act No.53, May 17 2000).

The long tail

So far a so-called 80/20 rule has been dominating most markets. The 80/20 rule predicts that 20% of the content on any given market account for 80% of sale, and most likely almost 100% of the profit. In his research Anderson (2006) found out that due to the limitless boundaries of the digital world an online media company does not follow those rules. Online media companies do not have to watch out for physical
space, that’s to say that songs and movies don’t really take up actual space in physical stores when they are online. What Anderson found out was what has since been called the long tail effect. Even though some songs were more popular than others, he found out that about 98% of all online media products do get sold (even though they do so at a decreasing rate).

The expansions of available media products through the online media landscape and the erosion of media boundaries make it easier for niche audiences to reach their desired media content and thus the market for everyone has expanded exponentially to the point that most people can get their hands on the media product that they desire (Lotz, 2007). Larger physical bookstores only have limited space for books and therefore tend to sell only books that are the most popular (most likely to sell), while online stores like amazon.com can offer everything from The Hunger games to memoirs from regional Canada to home energy efficiency in sustainable living. The reason being the before-mentioned change by digitalization where the digital binary code has unified media products of all types and reducing the creating, storing as well as the transferring cost of many media product between spaces as well as formats (Murray, 2005).

All the changes that have shifted the supply chain of media content have forced the media companies to develop the right strategies to stay ahead of the curve and/or maintain their position in the media landscape. Offering the media consumer what he is interested in will be crucial for the media company (Rooke, 2009). Although opportunities can be found in the openness of the media landscape there also exist plenty of risks on the market. With innovations looming around every corner of the media landscape, media companies have to be quick to adjust to read what the consumer want and even predict what the consumer might like before the consumer even realizes what he likes. There can therefore both be found opportunities as well as risks in the openness of the media landscape. Even though many see the digital world as a complimentary part of the media landscape, it is worth noting that: “The new digital technologies have not simply led to an increase in the range of titles through globalization, but have in addition led to expansion in the firm density of the industry amongst UK-based publishers and have supported strategies of product innovation capable of exploitation by small and medium scale enterprises” (Cox, Howard, & Mowatt, 2008).

The digitization should thus be a sweet relief for many of the Icelandic niche media users. Since Iceland has limited number of media companies (Guðmundsson, 2010) supply has not met the demand from fringe audiences. Thanks to online options those users will no longer have to make do with what they have available on the radio or TV, they can simply open up the door to the online world.

Digitization of the media landscape has caused some fundamental changes in the world of advertising. The fragmentation that followed the digital offering caused the market shares of most mass media companies to decline by 20% – 30% (Aris & Bughin, 2009). Besides the market shares of individual companies, the transition of television from broadcasting to narrowcasting has had its effects on the advertising industry. Narrowcasting has enabled advertisers to narrowcast their own message to the specific demographic group of people. As a result of this they can change the message so that they are different than those that are used in most mainstream media (Lotz, 2007). This change has also enabled more companies than before to advertise since it is no longer only business for the richer companies. It used to be that smaller or medium sized companies would only post smaller ads in local newspapers but the emergence of the long tail previously mentioned has opened up the door through advertisers like Google (Aris & Bughin, 2009).

It looks as though all three groups; media consumer, media companies and advertiser, stand to reap the benefit of the digitization of media. In smaller countries like Iceland the internet opens up a new market for many media consumers as well as
advertisers and it is the media companies’ best interest to find a way to stay relevant. So far most media companies have had time to sit back and enjoy the ride, but with media innovation and media evolution happening at an increasing rate there is always a possibility of being left behind.

Conclusion

It seems clear that the new internet landscape is in many ways unlike any previous media landscapes. Thanks to digitization and indeed globalization the media industry has opened itself up for newcomers and is now even more accessible for both new media companies as well as individuals. The reasons are that it has never been easier or cheaper to participate in the media marketplace. Also, there have never been more places in the media process for newcomers to dip their toe into and make a contribution. The amount of audience participation is also on many levels. The user has changed from being a simple media consumer, to utilizing personalized and interactive media and even to make his or her own material through participation. This has never been easier for the media consumer. At the same time more windows are opening up for advertisers and media companies to utilize. Smaller businesses should find it easier in today’s media climate to advertise since it has become increasingly easier to get to niche audiences. This openness of the modern digitalized media market is both an opportunity as well as a threat for companies. More types of media outlets are followed by more ways to get to the audience and although companies can still use the same advertising method they used 20 years ago it should prove less affective then before. Although the advertising business has been relatively steady, the shift between media has not and the focus increasingly turning towards the internet and online material.

Iceland’s acceptance to technology innovation is a part of the countries characteristics and indeed encouraged by the Icelandic government since innovation and utilization of innovation is considered a driving power for economic growth (Prime minister’s office, 2004). Icelandic media has been a concentrated group for a long time and even though local news will always stay local the openness of the internet should give Icelandic media companies something to worry about. With the increased amount of online options for media consumers, Icelandic media companies will have to start thinking globally instead of locally. Experience has shown that when the right time comes media companies have two options; adopt or die.
References


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