Master’s Degree

In innovation and Marketing

Final Thesis

Business model innovation in the world of television
The OTT’s landscape

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Introduction

We live in a world where the process of digitalization is changing the way people act and think and where the services of the firms are provided also on-line.

The traditional Television is now in competition with a new model provided on demand, able to provide contents whenever you want and always new.

The work begins with the study of the audio-visual sector, including the explanation of the different types of TV (from traditional TV to principal OTTs) and analyses the changes in consumption of television with a peculiar attention on the new consumer behaviour, because with the born of the Streaming TV the consumer has had a lot of alternative opportunities to television and the model OTT remains a winner. We move from a passive consumer to an active consumer thanks to the Web and to the modern era that prepares more and more demanding people.

Then it focuses on the business model evolution of the system, starting from the first models and ending with the last innovative ones.

The major exponents of “Over the Top” have been taken into consideration with particular attention in the last chapter to the case study of Netflix, the first global operator of OTT television, born in California and now the first tv player in the world with over 70 million subscribers in the world and present in 190 countries; investigating the business structure in this emerging market and its evolution over the years.

It represents a perfect example of new business model in the audio-visual system with all the related features. Starting from the history of the firm, passing through the analysis of the business model over the years and ending with a consideration on the correlation with the traditional Cinema in addition to the relationship with the TV.
Chapter 1. Analysis of the sector

1.1 Audiovisual industry

It is important to define the perimeter of the element of the study and the basic definition said that the audio-visual industry includes the combination of sounds and images. But this is a synthetic and incomplete definition that lacks a precise delimitation of the sector.

The industry can be considered as a subset of the cultural industry so first of all it is necessary to analyse the cultural sector. Different roads exists to reach a taxonomic definition for cultural industries, but they all share the same need: the measurement of the value of cultural industry (Torre, 2014).

<table>
<thead>
<tr>
<th>INTRINSIC VALUE</th>
<th>INSTITUTIONAL VALUE</th>
<th>MICROECONOMIC VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focused on the impacts of culture on personal and social welfare, mainly measured by individual enjoyment and aesthetic excellence.</td>
<td>Focused on the impacts of culture on direct and indirect macroeconomic effects, mainly on the labour market and tourism sector.</td>
<td>Focused on the value of cultural products, mainly measured by the willingness of the public to pay for it. It is also used to value a cultural firm.</td>
</tr>
</tbody>
</table>

Source: (Torre, 2014)

Generally, story has focused on the intrinsic value of culture and it was focused on the impacts of culture on personal and social welfare. Other scholars have been investigating the economic value of culture. Two roads can be followed: the first one is focused on the impacts of culture on direct and indirect macroeconomic effects and has inspired the present definition of cultural industry used by governments; the second one has been less explored and it is measured by the willingness of the public to pay for a cultural product. (Torre, 2014)

It is necessary to identify the borders of cultural industry. Theories based on the Institutional value link the intrinsic value to the concept of creativity and intellectual
property. The evolution of the interpretation has led to a broader vision of the industry. Following the definition provided by the UK Department of Culture Media and Sport (DCMS) in 1998: creative industries “have their origin in individual creativity, skill and talent and have a potential for wealth and job creation through the generation and exploitation of intellectual property”; it is possible to find a combination of cultural and economic factors. Following this definition every product with a creative aspect can be considered as a cultural one. (Torre, 2014)

The 2006 KEA study distinguishes cultural industry between cultural and creative sectors and the former are split into core art fields and cultural industries. Core art fields are non-industrial sectors producing non-reproducible, cultural industries include instead industrial sectors producing cultural products for the replication. (Torre, 2014)

In 2009, UNESCO suggested a different and wider definition of cultural industry. The new definition considers also cross-sector products, linked to cultural ones. The new interpretation includes the inclusion of the sector “design and creative services” and the inclusion of cross-sector areas functional for the production and the distribution of products in cultural sectors with the main component not cultural. (Torre, 2014)

Combining the different definitions and schools of thought it is possible to delineate the boundaries of the cultural industry which is thus composed by 3 levels: strong culturality, hybrid culturality and a functional culturality (Table 2).
**Table 2 - The perimeter of cultural industry**

<table>
<thead>
<tr>
<th>STRONG CULTURALLITY</th>
<th>HYBRID CULTURALLITY</th>
<th>FUNCTIONAL CULTURALLITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Includes products, and correlated sectors, expression of original creativity,</td>
<td>Includes products, and related sectors, which: a) perform an instrumental function</td>
<td>Includes products, and correlated sectors, which are useful for the promotion and</td>
</tr>
<tr>
<td>without any instrumental function, which may be considered as prototypes.</td>
<td>but may be inspired by a creative component and may be considered as prototypes</td>
<td>circulation of cultural products and are transversal to any cultural sectors.</td>
</tr>
<tr>
<td></td>
<td>b) are deeply connected to a cultural function because they perform a recreation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>and an entertainment function</td>
<td></td>
</tr>
<tr>
<td>STRONGLY CULTURAL SECTORS</td>
<td>HYBRID-CULTURAL SECTORS</td>
<td>FUNCTIONALLY CULTURAL SECTORS</td>
</tr>
<tr>
<td>performing arts, visual arts, cultural heritage, books and press, music, radio,</td>
<td>a) architecture, design, fashion, advertising b) sport, recreation and tourism</td>
<td>intangible cultural heritage, archiving and preserving, education and training,</td>
</tr>
<tr>
<td>film, television, DVD, video, video games, new media</td>
<td></td>
<td>equipment and supporting materials</td>
</tr>
</tbody>
</table>

*Source: (Torre, 2014)*

The strongly cultural sectors enclose for example Television, DVD, video, visual arts, video games; all sectors characterized by an original creative element and the absence of instrumental function. The hybrid cultural ones include two types of sectors: those that are characterized by instrumental functions but can also involve creative features not replicable (i.e. design, fashion...) and those related to culture. Functionally cultural sectors encompass products useful for the production and the distribution of cultural products. (Torre, 2014)

The audio-visual sector so can be included among cultural one, but the products, due to their heterogeneity are difficult to position because they can be enclosed in the strongly cultural sectors or in the hybrid ones. But it is difficult to reach a unique position in this scope with this classification. Therefore, it is necessary to adopt a different approach and the theoretical taxonomy of cultural sectors has been translated into a statistical definition in order to delimit better the system.
Combining the theoretical approaches present in books with the working definition, it is possible to state that “the audio-visual industry is represented by those industrial sectors characterized by products containing moving images. The nature of the producer, the scope and feature of the products, as well as the way products can be broadcasted and distributed, identifies different audio-visual markets/sectors, each one with its specific regulations, or even non-regulated, as for new emerging ones”. (Torre, 2014)

It is possible to circumscribe different audio-visual sectors based on the intersection of three variables:

- The nature of audio-visual product
- Production process
- Distribution dynamics

Hence, using these variables it is possible to identify three macro-sectors:

- Television
- Cinema
- Web

The evolution of the context does not facilitate the identification of the primary distribution channel for each product because there is a trend to produce for a single product a variety of specific adaptation.

Accordingly, there is a trend to produce hybrid products which are designed in order to be placed on different distribution platforms without requiring any specific adaptation. Furthermore, new media players are starting to produce their own original products, including TV shows and films, that are released via web (i.e. Netflix).
1.1.1 **Tv products**

Tv products can be imagined as a group of audio-visual products that the public can watch on a TV platform and it is possible to identify 2 types of TV products:

- Non-fictional audio-visual works
- Fiction products

**Table 3 - Tv Products**

<table>
<thead>
<tr>
<th>TV Products</th>
<th>Fiction</th>
<th>Non Fiction</th>
</tr>
</thead>
<tbody>
<tr>
<td>SINGLE EPISODE</td>
<td>FILM</td>
<td>INFORMATION</td>
</tr>
<tr>
<td></td>
<td>TV MOVIE</td>
<td>ENTERTAINMENT</td>
</tr>
<tr>
<td>TELEFILM SIT-COM</td>
<td>DRAMA SOAP OPERA Telenovela</td>
<td>SPORT</td>
</tr>
<tr>
<td>SERIAL</td>
<td></td>
<td>CULTURE</td>
</tr>
<tr>
<td></td>
<td></td>
<td>COMMUNICATION</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MARKETING</td>
</tr>
</tbody>
</table>

*Source: (Torre, 2014)*

Non-fictional audio-visual works include for example information, entertainment, sport and culture and are destined to be exclusively shown on TV. Furthermore, these programmes can be broadcasted live or recorded, while fiction products are always recorded.
Fiction can be watched also in other context; therefore, television may not be the priority market of exploitation.

They can be divided in this way:

- Single episode products: include films (televised only after theatrical release) and TV movies
- Serial products: composed of different episodes, which have a common thread and stable characters. They can be divided into telefilms, situation comedies and drama, soap operas and telenovelas. In the former characters are stable but every episode has a different plot, in the latter narration and characters are stable. (Torre, 2014)

1.1.2 Cinema products

These types of products (Table 4) are primarily intended to have a theatrical release and are normally sorted by duration into feature or short films or sorted by content into fiction products and documentaries depending on the presence of specific narrative elements. (Torre, 2014)

**TABLE 4 - CINEMA PRODUCTS**

Fiction products can also be sorted by genre (by type of content and narrative style).
The commonly classification it is the following:

**TABLE 5 - FILM GENRES**

<table>
<thead>
<tr>
<th>GENRES</th>
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<tbody>
<tr>
<td>Action</td>
</tr>
<tr>
<td>Adventure</td>
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<tr>
<td>Animation</td>
</tr>
<tr>
<td>Comedy</td>
</tr>
<tr>
<td>Crime</td>
</tr>
<tr>
<td>Documentary</td>
</tr>
<tr>
<td>Drama</td>
</tr>
<tr>
<td>Family</td>
</tr>
<tr>
<td>Fantasy</td>
</tr>
<tr>
<td>Horror</td>
</tr>
<tr>
<td>Musical</td>
</tr>
<tr>
<td>Mystery</td>
</tr>
<tr>
<td>Noir</td>
</tr>
<tr>
<td>Romance</td>
</tr>
<tr>
<td>Sci-Fi or Science Fiction</td>
</tr>
<tr>
<td>Short</td>
</tr>
<tr>
<td>Thriller</td>
</tr>
<tr>
<td>War</td>
</tr>
<tr>
<td>Western</td>
</tr>
</tbody>
</table>

**Source: (Torre, 2014)**

The difference between fiction Tv products and film works can be found on the peculiar types of narration styles, duration or tools used for shootings.

### 1.1.3 Web audiovisual products

The web allows young independent filmmakers to distribute their work (generally low-budget products) freely to the public and these types of product have exponentially increased during the last periods.

Recently the biggest media players, mainly the Over the top, have entered the market producing their own products (Netflix was the first). The amazing success of the OTTs has allowed the growing of revenues over the years and this has enabled them to invest it in their own production. The own production is a key point in this market because allows OTT to be independent of traditional broadcasters. (Torre, 2014)
Audio-visual web products typically include an increase of product types, many of them not to be categorized based on traditional standards. They cannot be sorted by genre, but they can be categorized based on their specific format.

Particularly web series represent the main innovative element; they have a very short duration (max 25 minutes) with an average duration of 5 minutes per episode.

The possibility to reach a large amount of public has encouraged the development of 2 types of peculiar web products: those using web as a marketing and promotion tool, and those based upon social features of web products. (Torre, 2014)

**Table 6 - Typologies of Web Audio-visual Products**

It is possible to identify 3 kinds of specific fiction products: viral videos, branded web series and fashion film. With reference to non-fiction products are highlighted: web realities and web talks. There are also other audio-visual products: tutorials, vlogs and still life videos. (Torre, 2014)
1.2 TV on demand

Whereas TV and theatres force you to watch something at an appointed time, VOD (Video on demand) services allow you to access video at your own leisure and from every device.

OTT is the term of the moment in the entertainment world, and it is rapidly growing in popularity. A growing sector destined to change the equilibria of the global and national market.

The main difference between linear television and TV on demand is that the former refers to traditional TV. In order to watch something, you have to tune into a specific channel on television at an appointed time. The latter is also called OTT (over the top) and it refers to the delivery of content via the internet without requiring users to subscribe to a traditional cable or satellite pay-TV service. (Hemdev, s.d.)

OTT is: “video content transported from a video provider to a connected device over the internet outside the closed networks of telecom and cable providers.” (Hemdev, http://www.zypmedia.com/, s.d.)

An OTT application disaggregates the traditional transmission model and is delivered directly through internet and it can be accessed via various devices. Examples of OTT application that substitute the traditional television are Netflix, Amazon prime video, Now Tv.

Often there is a confusion between VOD and OTT, we tend to consider them as the same thing. A Video on demand system allows users to watch a large amount of video at any time, so service like Netflix or Infinity are perfect examples of VOD due to the fact that enable audiences to pick and choose what they want to watch from their collections and access the connections whenever they wants.

There are two types of VOD, one that requires users to pay for a cable subscription and one that does not and is delivered directly through an internet connection (and this is OTT).

The main categorization deal with how the content is commercialized, so there are multiple subcategories of OTT/VOD category which we will explore:
1.2.1 SVOD

The SVOD is the subscription type service, with a fixed canon it is possible to watch all the content without additional costs. Netflix and Amazon Prime Video are the most widely known options that use this type of model. The great thing of SVOD is the large amount of content available to consume and the flexibility of the subscription-based model. The no long contract contrary to the traditional tv method.

**Table 7: The Video Demand Ecosystem**

**The Video on Demand (VOD) Ecosystem**
A closer look at how over-the-top (OTT) video lives within the VOD ecosystem.

**Source:** (HEMDEV, HTTP://WWW.ZYPMEDIA.COM/, S.D.)
1.2.2 TVOD

The TVOD, transactional TV use the pay per view system, so in this way you pay for each single content. It is the model of Apple or Chili TV. It is the opposite of SVOD because you do not have to pay anything to sign up but then you have to pay for the specific content you watch.

There are two sub-categories – known as Electronic Sell Through, by which consumers have permanent access to a piece of content once purchased; and download to rent where customers can access the content for a limited time upon renting. (Cammish, 2016)

The former is the digital equivalent of DVD system because when you have paid the content, it will be always available on that cloud-based provider in a “digital locker,” even if they stop actively using that particular service.

1.2.3 AVOD

AVOD is a free service principally based on the advertising, in fact the letter A in the acronym means advertising. It is the Youtube model or the model of broadcaster that allow users to re-watch online programs already on the air.

Advertiser have a huge opportunity in AVOD because every year viewers continue to migrate to streaming services and influence advertisers to shift from traditional TV to Digital TV also for the power of the digital data.

With the popularity of over the top content soaring, it is likely that business models will change as technology and consumption habits continue to evolve.

According to the latest report of “Trends of the EU SVOD market – 2017” it appears that revenues from subscription-based video on-demand services, so-called "SVOD", including also rental / purchase services (TVOD) is worth around 4.3 billion euros in 2016. (Grece, 2016)
The growth rate of revenue was higher than the growth rate of subscribers. This datum indicates that the average price of SVOD services increased over the period.

Whereas TVOD was the first driver for the development of pay on-demand services, SVOD has clearly become the driving force. The following graphs compare the annual growth rates of the two segments between 2011 and 2016:

**TABLE 8 - COMPARED ANNUAL GROWTH RATES**

![Comparison of SVOD and TVOD growth rates](image)

*OBS analysis of Ampere Analysis data1

**SOURCE: (GRECE, 2016)**

SVOD represent a big part of total 2016 pay on demand services revenues demonstrating a sharply growth compared to 5 years earlier.
Looking at the graph below it is possible to note that the number of subscribers to SVOD has grown exponentially in the years between 2011 and 2016 compared to pay TV.

**Table 9 - Compared Revenues**

**Source:** (Grece, 2016)

Looking at the graph below it is possible to note that the number of subscribers to SVOD has grown exponentially in the years between 2011 and 2016 compared to pay TV.

**Table 10 - Breakdown of Pay Services**
The rise of the SVOD market did not lead into a decline of the pay-TV market because in Europe it is considered a complement to the traditional audio-visual consumption habits instead a substitute. (Grece, 2016)

By the end of 2016, there were about 44 million subscribers to SVOD in Europe and the average annual growth rate of the number of subscribers between 2011 and 2016 was about 110%. (Grece, 2016)

According to the forecast of IT media consulting, contained in the report “Video on demand in Europe: 2018-2021 – Not so quiet on the western front”, the total income in Western Europe will grow from 6.2 billion in 2018 to 8.8 billion in 2021, with an annual increase of 12%. The SVOD’s model will develop above all, to the point of being 81% of the revenue in 2021, compared to 19% of the TVOD. At a global level instead Digital Tv research expects service subscribers to increase from 409 million in 2017 to 777 million in 2023, while SVOD revenues will reach 69 billion dollars (44 billion in 2017)- (Corti, 2019)
1.3 Changing in the business and consumption of television

1.3.1 The digital revolution

The phenomenon of the digital revolution has allowed the born of new business model in the audio-visual industry. These models of business are totally revolutionary in this sector and now take place in another place, internet.

Different technological innovations to television need to be understood not only as technological innovation, but as “reconceptions” altering our relationship with media culture in general. In fact, each phase of television must be understood as a point in time when the technologies that define what television is, change the way consumers interact with the medium. (Jenner, 2018)

It is possible to catalogue the television evolution into different eras. The first period, dating from 1950s to 1980s is the era of channel scarcity and mass audience. The second period coincides with the channel/network expansion, network branding strategies and quality television and it is possible to date it between 1980s and 1990s. The third era, dating from the 1990s to the present is the era of proliferating digital distribution platforms and audience fragmentation. A major factor in the shift from each era to the next is technology. So, the shifts from the first period to the second can be linked to the development of technologies like the VCR (Video Cassette Recording), cable system or satellite technologies. The third era is related to a shift towards the digital. The flexibility provided by Video Cassette recording makes it clear how the television became a technology that could easily be controlled by viewers.

According to John Ellis, television can be divided in the era of scarcity, the era of availability and the era of plenty in relation to the availability of an increasing amount of contents. Following this cataloguing, the first period is characterized by a few channels broadcasting for part of the day only and it goes from 1970s to 1980s. The era of availability was characterized by a more competition from cable and satellite services. The third era represent the period when television programmes is be accessible through a variety of technologies. (Jenner, 2018)

Newman divides the history of the term video into three different phases. The first era covers television’s early years and it is the era of broadcasting’s development and
penetration into the mass market. In the second era, TV was already established as a dominant mass medium. Videotape and related new technologies were marked as an alternative to TV’s problem. It was also distinguished from film, positioned as a medium of privilege access, with video functioning more as an extension of live broadcasting. In the third period, video as digital moving image media has grown to encompass television and firm to functions as the medium of moving image. These phases are defined in terms of their dominant technologies and by ideas about their uses and users. Also, in this case these eras coincide with the technology’s television is associated with. The first phase is associated to the remote control; the second phase is associated to VCR and cable, offering vast amount of choice, the ability to time-shift and autonomously schedule. The third stage describes the shift towards the digital. Other than technological innovations, this period is linked with changes in contents, industrial shifts, associated viewing habits and shifts in the social connotations of television.

Looking at these phases is necessary to introduce a new era, the fourth that contain the significant changes streaming providers like Netflix and Amazon make to television itself. It is understood as a process brings together discourse of industry, audience behaviour, technology, policy. Some firms managed to stand out for the way they reacted to the transformations of Online market. In the 2000s Internet reached a high level of development and a lot of firms decided to enter in this innovative market. Among the new services offered by the network we find the Over the top (OTT).

This era has not been fully realized yet but is provoking an evolution of the concept of television. The combination of large band and the reduction of price in order to utilize it has allowed a big growth of opportunities in this market with the born of new services of streaming.
1.3.2 The digital consumer

From The birth of TV until today the consumer has undergone many changes and has grown with the evolution of the TV. If at the beginning had a limited number of programmes available, he has now different possibility of choice with the plethora of programmes available.

Thanks to the born of VOD services the consumer has changed and can choose between a large amount of content to see when he wants.

The time is ripe to abandon the ideal of the viewer that awaits the beginning of a TV program and with it the problem related to the availability of a TV screen in a home environment. Digital TV allows consumer to see the contents from a multitude of devices and this has allowed the TV to permeate in completely different contexts. The multiplication of the screen allows a personalization of the consumption that does not translate into a solitary vision of the television. In fact, thanks to the circulation of the contents is born a new form of share: the audiences have returned to seek the pleasure of sharing their favourite content through the expansion of relationships beyond the home, using multi-screening and the online connection to interact and comment what is watching with other people.

The key factor in this new context is the circulation. The new devices thanks to internet favour the circulation of contents compared to a broadcasting system linked to scheduling. The contents are always available and accessible, and they shape themselves to the need of consumer. The new television’s audiences move at different speeds enhancing and exploiting the potential of the new TV. The richness of opportunities offered by innovation brought young people closer to the TV thus abandoning the common place of an average senior audience. The first common trait to all the generations is the acquisition of the multiplicity of screen as a new form of TV. The awareness that TV content is no longer just visible through the traditional screen and according to the logic of the schedule, but constantly accessible through different devices in place-shifting and time-shifting mode. The other common trait is the multi-screening: the use of other devices while watching tv contents. (TV)

Each generation possesses specificities that allow for change and it is possible to split into 5 different generations.
The category “maturists” includes people over 60 years old, they are respectful of the rules, they worked for a living and they married by tradition. They communicate orally and they still look at old media with dreamy eyes. They believed unconditionally what is show off by television and media in general. Some of them tried to keep up with the times using PCs and social programs. They perceive second screen a distraction device and make do tests of place-shifting.

“Baby boomers” are born between 1945 and 1960 in an era of demographic explosion, revolutions and hippie’s culture. Politically and civilly engaged, rebels who grew up in a period of transition and prosperity. They firmly believe in the struggle of their rights. Their favourite media is the television and they have an enhanced fidelity to it. Baby boomers use social media, but they do not master the language and Facebook is their privileged social platform, they are absent from Instagram instead. They are still the generation with the highest purchasing power.

“Generation X” includes people born between 1961 and 1980 in the era of consumerism, Pop art and collapse of the Berlin wall. The X comes from Generation X, a novel by Doug

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**TABLE 12 - GENERATIONS CHARTS**

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>21st World War</td>
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<td></td>
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<td></td>
<td>Economic downturn</td>
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<tr>
<td>Raising</td>
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<td></td>
<td></td>
<td></td>
<td>Global warming</td>
</tr>
<tr>
<td>Fixed gender roles</td>
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<td></td>
<td>Climate change</td>
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<td>Rock n Roll</td>
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<td></td>
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<td>Energy crisis</td>
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<td>Nuclear families</td>
<td></td>
<td></td>
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<td></td>
<td>Anti-war</td>
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<tr>
<td>Defined roles — particularly</td>
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<td>Activism</td>
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<td>media</td>
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<td>Media</td>
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<tr>
<td>Aspiration</td>
<td>Home ownership</td>
<td>Job security</td>
<td>Work-life balance</td>
<td>Freedom and flexibility</td>
<td>Security and stability</td>
</tr>
<tr>
<td>Attitude toward technology</td>
<td>Largely disengaged</td>
<td>Early information</td>
<td>Digital immigrants</td>
<td>Digital Natives</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>technology (IT)</td>
<td></td>
<td></td>
<td>“Technology” — constantly</td>
</tr>
<tr>
<td></td>
<td></td>
<td>adaptations</td>
<td></td>
<td></td>
<td>dependent on IT, limited</td>
</tr>
<tr>
<td>Attitude toward career</td>
<td>Jobs are for life</td>
<td>Organizational — careers</td>
<td>Early “portfolio”</td>
<td>Digital entrepreneurs —</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>are defined by employers</td>
<td>early to profession, not</td>
<td>work “with” others</td>
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</tr>
<tr>
<td>Signature product</td>
<td>Automobile</td>
<td>Television</td>
<td>Digital entrepreneurs —</td>
<td>Digital organizations</td>
<td></td>
</tr>
<tr>
<td>Communication media</td>
<td>Formal letter</td>
<td>Telephone</td>
<td>work “for” others</td>
<td>Media --</td>
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<td></td>
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<td>organisations</td>
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<tr>
<td>Communication preference</td>
<td>Face-to-face</td>
<td>Face-to-face ideally</td>
<td>E-mail and test message</td>
<td>E-mail and mobile</td>
<td></td>
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<td></td>
<td></td>
<td>but telephone or e-mail</td>
<td></td>
<td>(text messaging)</td>
<td></td>
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<tr>
<td>Preference when making</td>
<td>face-to-face meetings</td>
<td>Face-to-face ideally</td>
<td>Online and mobile</td>
<td>Face-to-face</td>
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<tr>
<td>financial decisions</td>
<td></td>
<td>but increasingly with</td>
<td>(text messaging)</td>
<td>face-to-face</td>
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<td></td>
<td></td>
<td>e-mail</td>
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</tbody>
</table>

**Source:** (Altieri, 2017)
Copland, the first to have ventured a portrait of the most undervalued generation ever, especially those baby boomers who had lived the American Dream to the full, leaving their children with what was left. They were pioneers of the first great technological revolutions in terms of communication: the media began to lighten, to become more and more personal (Walkman, PC, cell phone), they moved from a purely informative communication model to pure entertainment, made of videogames, rooms games and cartoons. Generation X has created Google, Yahoo and paved the way for their successors, the digital natives. They possess an expanse engagement and make use of multi TV. They are aware users, go in search of useful information, discounts and choose which products to buy only after consulting reviews and opinions of those who are already consumers. For Generation X, productivity and personalization come first. (Altieri, 2017)

“Millenials” are born between 1981 and 1995. They have experienced the terrorist attack of the twin towers and have witnessed the proliferation of social media and reality show. They are the “we, more, now generation”: characterized by a strong propensity for networking and interaction, ever more demanding and ambitious, they exercise their power of choice over everything, they want to be the ones to choose what to watch on TV (streaming Netflix), such as reading news, which music to listen to (Spotify), in which people to identify (influencer) and prefer storytelling to authority. Their favourite media are Smartphone and tablet. Millenials communicates through social network, sharing content of value, tagging other person, looking for likes, comments and reactions. They love doing zapping and are always connected, give opinions, leave reviews and experiment with new formats to communicate in an increasingly creative, innovative and visual way. The life of the Millennials takes place online, every day. They appreciate an irreverent humour, instant and dynamic: they love real time and are able to catch the trend of the moment before others and ride it in the most wow and unconventional way possible. Most of the Millennials connect with the smartphone, so they prefer lean, instant messages; they are multitasking and watch television while they are browsing through the posts in their Facebook news feed, or while they have conversations of various kinds in WhatsApp groups. They are attracted from the phenomenon of the multiscreening, so the second screen is fundamental and it is part of the user experience of TV. (Altieri, 2017)
“Generations Z” is the youngest and collects those born from 1995 onwards. They live in an era characterized by economic crisis and continuous technological innovation. They are hyperconnected and multimedia by birth, first generation mobile-first, totally immersed in a visual dimension. Generations Z constantly leave feedback and reviews, naturally devoted to e-commerce and impatient, they look for services that reduce waiting as much as possible (Amazon Prime). The key ingredients to reach this target are communication by images (visual impact), immediacy (they do not take prolix messages), feed their curiosity and allow full customization. They are the generation of TV without limits, always sharing and searching new things; more confident towards digital innovations. (Altieri, 2017)

Each of these generations has an approach to consumption of the different television products.

The GenZ is certainly the one that makes the most complete use of the potential of the new television consumption settings and the modalities of vision introduced by place shifting; they consider the use of the tablet for one personalized vision of the preferred content. If we then replace the tablet with the laptop, personalized consumption also becomes strategic for the Millennials, perhaps the most familiar generation with the use of this device as a TV screen to watch in particular international series and TV series and sitcoms.

The multiscreen allows television’s contents to occupy also interstices of time foreclosed on TV and the consumer is free to circumvent the rules of the palimpsest.
As it is possible to see in the graph for example the Smartphone allows television's contents to be watched between 2pm and 5pm when more people are away from home for the most varied reason.

Multiscreening is undoubtedly a component that cannot be eliminated of this new television centrality: used as companion devices for television consumption, mobile screens can enrich it, expand it, share it. If on the one hand, multiscreening can confine the TV stream in the background allowing attention to prevail on the personal screen (distraction device), on the other hand the relational dimension represent a potentiality for the television consumption. The places where these relations take place are prevalently private chats (WhatsApp, Messenger) and social media (Facebook, Twitter, Instagram). (TV)

Circulation is the other key element of television consumption; supports and partly replaces the television flow in the experience of the audience in terms of multiplication of the possibilities of access to the contents, expanding the boundaries of a program beyond its credits and releasing productive content from the audience. (TV)
The younger ones seem to be the target that most naturally incorporated the idea of a TV without borders (of screens) while continuing to enjoy content through the traditional screen. The experience of consumption accompanies them in any context, in and outdoor, on any screen (including the smartphone), at any time. At the same time, multiscreening allows them not to give up the connection and sharing with friends even when they lend themselves to more traditional collective family visions. In relation to the behaviour of this target it can be said that the OTT phenomenon has found fertile ground here. (TV)

Investigating consumer behaviour is also interesting to see that the cord-shaving phenomenon is taking place; the choose to subscribe more than one subscription on demand. This means that no service provider has currently such a valid offer to completely satisfy users. Using the UK as a sample, users have an increasingly consolidated habit of subscribing to two or more subscriptions (51% on the first trimester of 2018). The 29% is a subscriber to both Netflix and Prime video, the 12% has added also Now Tv. (Corti, 2019)

**Table 14 - Cord-shaving in UK**

![Venn Diagram showing cord-shaving in UK](image)

**Source:** (Corti, 2019)
Chapter 2. Business model design

2.1 Business model

It is important to deepen a key imperative for entrepreneurial success: the business model.

“For the real environment is altogether too big, too complex, and too fleeting for direct acquaintance. We are not equipped to deal with so much subtlety, so much variety, so many permutations and combinations. And although we have to act in that environment, we have to reconstruct it on a simpler model before we can manage it.” (Lippmann, 1922)

Netflix succeeded while the others faded away; it was one of several start-ups but thanks to how the entrepreneur design the business model it has reach the glories of today. Reed Hastings recognized the opportunity that video stream posed. He thought that, just as Netflix's DVD-by-mail service had displaced video rental stores, video streaming could supplant DVD's by mail. He used streaming to add VOD (video on demand) to Netflix's offer. So, executives designed a novel business model with an attractive value proposition, compared with alternatives.

Many new ventures, as well as established enterprises perished because too little thought was given in advance to the many factors had underlie success and failure.

The need to continuously rethink and create new business model has never been as important as it is now. Firms can no longer rely on sustainable business advantages, but they must search for temporary advantage and they must develop new products and new services. Traditional ways of doing business cannot be efficiently, especially in nascent markets. (Gudiksen, 2015)

Business model plays an important role in the positioning of a business idea; it helps organize effort throughout the organization, it helps to keep minds focused on the long-run or simply reveal misconceptions before they become costly. (E.K. Valentin, 2015)

Business model reflects on the “how” of your business idea, the mechanics of how it creates value for customers and shareholders and the conceptual architecture of an activity. This concept is theoretically and practically important because is central to
firm’s long-term survival and growth; without it a firm may flourish temporarily but will ultimately fail. (M.Eisenhardt, 2019)

It may be divided considered at 2 steps: generic business model and specific business model. The first one helps delimit the border of the firm, the second refine the understanding of whether and how value is created instead.

This step requires related activities like formulating a value proposition, defining the business and visualizing how you create value.

The value proposition answers the questions: “why coming to us?”, it reflects the buyer’s perspective and focus on distinctive perspectives benefits that targeted customers value highly or on benefits in relation to price. The business definition set the borders of the business by defining customer groups served (who is being satisfied), benefits provided (what is being satisfied) and technology employed (how are customer needs being satisfied).

Customer value proposition is about the benefits that a firm and its products offer customers and how much these customers perceive the benefits as valuable. So, the right customer value proposition can fulfil customers’ needs and provides them a reason to buy from you rather than you competitors. A firm’s customer value proposition depends not only on products/services features but also on its reputation and other assets that controls relationship with customers. (Afuah, 2014)

Another key element of a business model is the market segment, because a firm needs to know the customers, how many they are, what they want and their willingness to pay. So, the market segment is about the group of customers to whom the value proposition is being offered. The market segment involves also quality and quantity of the coopetitors (suppliers, complementors, competitors, customers...) with which the firm must cooperate and compete to create value.

Making money starts with revenues and revenues models is about how a firm can generate money. Different types of revenue models exist : subscription, freemium, advertising, asset sales, cash and carry, razor blade. Each of them has obviously advantages and disadvantages and it is important to choose the right revenue model for the product/service offered and the right revenue model for the right time. This is the example of Kodak that used the razor-blade model in its film-based photography
business. They sell products at very low prices but a complementary product at higher price. The model worked well initially but when they tried to apply the same model to digital photography they failed. Pricing is another important element in the revenue model because it sets how much a client gets to pay for the customer value proposition.

The growth model is about what a company has to do to increase the number of customers, the reputation and the willingness to pay while keeping cost low.

Cost structure is very important, because keeping costs low helps the company to remain competitive. It is about the costs that are incurred in offering customers the right value proposition. There are two types of costs: production and transactions cost. The first one is the costs that go into conceiving, designing and creating a product/service. They are made up of fixed, marginal, variable and sunk costs. The latter are the costs associated with the monitoring and administration of contracts, searching and acquiring information about inputs and the contracting associated with value creation and capture activities.

If the capabilities are missing it is difficult to reach the objectives prefixed, they are central to every business model. Capabilities consist of resources and activities. Resources or assets are what a firm owns or has access to. Activities are what it does, the instruments that a firm uses to build and transform resources into value created and captured. Resources include for example products, social capital, brands, patents.

It is possible to visualize the business model through Flow-charting or canvas.

Flow chart starts from net customer value that is the difference between price and the most the consumer will be willing to pay if acceptable substitutes were available and reflect then on the key buying criteria (price, convenience, availability, trust), key success factors (cost, service, loyalty) and performance drivers (operating efficiency).
TABLE 15 - FLOW CHART

This model of visualizing has some limits because it does not represent info on how the business is organized or which revenues and cost sources entails. It entails only a selective visualization of things that create value. However, it captures the dynamics. Canvas it is a template and it is more comprehensive. It allows to visually comprehend how a firm create and distribute value for his clients.

SOURCE: (E.K. VALENTIN, 2015)
An organization business model can be described with 9 basic building boxes:

1. Customer segments: it includes all the people for who the company create value.
2. Value proposition: it includes bundles of products or services that create value for your customers.
3. Channels: it shows how you can interact with your customer and deliver value.
4. Customer relationships: it outlines the type of relationship you establish with your customers.
5. Revenue streams: it shows how to capture value.
6. Key resources: it shows which assets are indispensable for your business.
7. Key activities: it represents which things you need to perform well.
8. Key partners: it represents who can help you leverage your business.
9. Cost structure: it shows info about the costs.

The business model canvas is a tool that helps you to design and invent new business model and you can do it all in only one image.
2.1.1 Business model innovation

Business model is a system with components and linkages between them. If it can be easy to imitate a single component of a business model, it can be difficult to replicate the entire model.

While a business model is a framework for creating and capturing value, innovation is about doing things differently from the norm. Therefore, a business model innovation is a model for creating and capturing value by doing things differently. For example, if you're a firm you can look at the public, rather than to its employees or a designated contractor, to solve your problem; in this way you have changed the rules of the game. Business model innovation does not have to involve leapfrogging competitors with products that have better product characteristics than competitors. In fact, some of the more interesting business model innovations are those in which firms cut back some product/service characteristics that have come to be considered sacred by some customers. Moreover, some of the most profitable business model innovations have little to do with a product. So, the firm that moved first to change the rules of the game or that came in later and pursued a better business model can be considered the winner in the face of business model innovation. (Afuah, 2014)

The changes can be manifested in one or more of the components of a business model. A new customer value proposition can attract customers from competitors’ products or from the side-lines. It can come from new ideas or a recombination of existing capabilities. For example, Apple’s iPod business model changed the rules of the game in the way people could now buy music and the relationship between MP3 player makers and music label companies as well as Netflix business model changed the way people could now watch film or series. The innovation can also be in the way a market is addressed. For example, you can decide to lease a product rather than sell in order to reach a bigger slice of consumers. In the 1990s Dell changed the rules of the game in the PC industry with its build-to-order and direct sales models. It is important to not only focus on one component of a business model and forget about the innovation’s potential impact on the other components. This is the case of Kodak that developed digital technology, but it did not know how to deal with the razor-and-blade revenue model that had worked so well with film-based photographs. They sold cameras at relatively low prices and made most of its money from film, chemicals, and paper. This old
business model did not work with the digitalization of the compact and led Kodak to bankruptcy. (Afuah, 2014)

A firm that pursues a business model innovation must choose which component change by design and must evaluate what changes are triggered by these designed changes. The elements to be taken into consideration are: Customer value proposition, market segments, revenue models, growth model, revenue models and capabilities. If you change even a single element in the chain, then you will need to evaluate the impact it will have on the other elements of the model.

Relying on the degree of change caused by the new business model it is possible to identify different types of business model innovations. One approach to understand the degree to which the rules of the game have changed in a business model innovation is to use 2 important strategy variables.

The first is the degree to which existing products/services are rendered non-competitive as a result of the innovation. The second variable is the degree to which existing capabilities are rendered obsolete by the new business model.

**Table 17 - Types of Business Model Innovations**

```
<table>
<thead>
<tr>
<th>Position-Building</th>
<th>Revolutionary</th>
</tr>
</thead>
</table>
| High              | Online auction versus offline auctions for many products
|                   | Refrigerators over harvested ice |

<table>
<thead>
<tr>
<th>Regular</th>
<th>Capabilities-Building</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Ethanol versus petrol</td>
</tr>
<tr>
<td></td>
<td>Synthetic rubber over natural rubber</td>
</tr>
<tr>
<td></td>
<td>Brick-and-mortar retail and online retail</td>
</tr>
</tbody>
</table>

Degree to which business model innovation renders existing products non-competitive

Degree to which business model innovation renders existing capabilities obsolete

Source: (Afuah, 2014)
The four quadrants of the two-by-two matrix represent different types of business model innovation. The degree to which the situation changes increases as one moves from the left of the graph to the top right corner. So, the biggest changes in the rules of the game are in a revolutionary business model innovation since it renders existing products non-competitive and existing capabilities obsolete.

In a regular business model innovation, a firm uses existing capabilities to build the new business model. The aim of this business model is that existing products in the market remain competitive. This is the example followed by Dell in the 1990s when he introduced his build-to-order direct model. Dell using with system sold directly to customers without the aim of distributors to sell its computers. So, customers could order their PC specifying also the characteristics that they prefer.

In a capabilities-building business model innovation the capabilities that are needed in the new model are totally different from those of the old model. Existing products are still competitive thanks to capability related innovations. This model is called capabilities-building because the competences needed to pursue the model need to be built or to be acquired in some other way. A perfect example of this model is the one related to renewable resources; a firm that pursue energy from this type of resources is pursuing a capabilities-business model innovation since it need to develop new capabilities that are very different from petroleum-based business models.

Let’s now analyse the strategies that render existing product/services non-competitive.

In a position-building model innovation the attention is focalized on the product/services, the new business model using capabilities almost the same that the old one render products rooted in old business models non-competitive. Wal-Mart’s in the United States used this type of model when it moved into small towns. The capabilities on which the company’s business model was rooted were largely the same as those that the other retailers. However, it rendered many small businesses in these small town non-competitive since the competitors could not offer customers the same cost savings offered by Wal-Mart.

In a revolutionary business model innovation, there is a radically change in the core capabilities and products that are rooted in the old business models are rendered obsolete. The rules of the game are changed both capabilities-wise and marketwise. An
example is that followed by online auctions firms such as eBay. Online auctions rendered offline auctions business models no competitive and their functioning requires radically different capabilities. (Afuah, 2014)

The classification in the table is at a point in time but it is not said that if a business model innovation is regular it remains regular. In fact, disruptive technologies usually start out as regular or capabilities-building innovations before becoming position-building or revolutionary. So, there is a continuous changing in the business model to remain competitive.

Creating and capturing value during innovation remain a central point in business model innovation. One person buys a product from a company because it perceives the product as providing it with benefits (B). To provide the benefits, a firm has to perform value-adding activities such as R&D, purchasing of equipment, marketing these products and services to customers and distributing it.

**Table 18 - Value creation and capture**

<table>
<thead>
<tr>
<th>Key</th>
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</thead>
<tbody>
<tr>
<td><strong>B</strong></td>
<td>Benefits perceived by customer</td>
<td><strong>C</strong></td>
</tr>
<tr>
<td><strong>P</strong></td>
<td>Price paid by customer</td>
<td><strong>V</strong></td>
</tr>
<tr>
<td><strong>V</strong></td>
<td>Value captured by firm = Firm’s profit = Producer surplus</td>
<td><strong>P</strong></td>
</tr>
<tr>
<td><strong>C</strong></td>
<td>Cost</td>
<td><strong>G</strong></td>
</tr>
</tbody>
</table>

**Source:** (Afuah, 2014)

These activities cost C. The economic value created (V) is the difference between benefits (B) that a client perceives in the product and how much it costs the company.

\[ V = B - C \]
The customer pays a price (P) for the benefits and so the profit for the firm is equal to: P - C. This is the value captured by the company from the value created. This profit is sometimes called the consumer’s surplus. Suppose a carmaker markets a new car that customers would be willing to pay $40,000 for the benefits that they perceive. Suppose that it costs the company $20,000 to produce the car whose price the firm sets at $25,000. The value created is $20,000 (40,000 – 20,000), the carmaker’s profit is $5,000 (25,000 -20,000). The customer’s consumer surplus is $15,000 (40,000 – 25,000).

Although the value created by the firm is B - C, the firm only captures a fraction of it in the form of profits (P - C). (Afuah, 2014)

The value created is the difference between the advantage that clients perceive and the cost of providing the benefits. It is all about benefits and costs (that does not exceed the benefits). The benefits that clients derive from a product/service can come from the brand, the product's features, the services that comes with the product. So, all the techniques which have as their purpose improve customer’s perception of the product adds value. A firm can create benefits for customers while keep its costs down by for example innovate by using new knowledge, using economies of scale, using economies of scope, taking advantage of the unique location it may have.

Instead, value capture is about who gets to profit from the value created and the company only keeps a fraction of the value created, while customers and suppliers keep the rest.

Another important concept to analyse in the business model innovation is “the long tail” that may offer profitable results. Chris Anderson in 2006 used the term long tail to explain why, by taking advantage of the internet properties, a company could make money by selling small quantities of very many one-o-a-kind products rather than selling many units each of a small number of hits. Usually only some products become hits while other end up failing. There are three reasons why a few products become bestsellers forming the short head of the tail and many products lie in the long tail.
The high cost and scarcity of distribution channels and shelf space; customers’ cognitive limitations and difficulties in making choices and the difficulties in meeting the individual unique needs of all customers.

But with the advent of internet products in short tail are able to do much better than those in the long tail and this alters the long tail distributions. Internet has eliminated the scarcity of shelf space and through search engines and online communities helps consumers choosing from the many available choices. Moreover, it gives producers the opportunity to work with customers to offer products that match more closely individual needs. Effectively, it has mitigated some of the reasons why some products were relegated to the long tail. (Afuah, 2014)
The internet not only extends the tail, but also thickens it. A striking example is that of Blockbuster with the exploitation of home videotape recorder. Before home VHS, people had to go to theatres to watch movies or wait that would appear on TV. Blockbuster was founded in 1985 to rent out videocassettes, and so each person with videotape recorder can watch what he wants comfortably on the sofa in his living room. In this way also the choices for each customer increased a lot thanks to the thousands of movies that were available in the store. The result was that sales of both the hits in the short head and non-hits in the long tail increased. (Afuah, 2014)

The same thing happens with the born of Netflix, eliminating a further step in accessing multi-media contents. If before you had to go to a physical store to buy a videotape and enjoy it at home, now with Netflix you simply need to have an internet connection to be able to access a myriad of content directly from your couch.

If initially the long tail has been read in this key, over the years the strategy has changed. Previously this business models enabled niche offerings as mass-market products, instead now the long tail strategy adopted by Netflix suppressed creative freedom and user choices, directing customers less to their personal choices and more to
advertisements (which for example promote Netflix-produced entertainment), evidence of how the strategy has been transformed by corporate interests. This is clearly demonstrated through Netflix re-definition of genre, a core element of Netflix business model. Platform of distribution and exhibition exert a deterministic power over how audiences perceive genres. Netflix features a Complete genre listing of 19 umbrella categories, 400 subcategories and about 73000 micro-genres. Netflix asserts a sort of capitalist-driven postmodernism, in that studios can, to a limited extent, pay to have films/shows pop up where they should not be. Netflix in effect privileges some films and shows and types of viewership, and to some degree re-constitutes what Netflix’s users think, when they think of film and TV. It offers some of exactly what you want, and a little more than you might like if you tried. (Afuah, 2014)

Netflix maintains an algorithm of what its customer prefers, but then intentionally offers content that both follows and subverts that algorithm. Netflix well represents the latest in internet based postmodern capitalism, extensibility tailored to users but actually designed with an intentional instability that keeps users partly satisfied and partly redirected to corporate interests. (Afuah, 2014)

2.1.2 Business model design

Entrepreneurs pioneering in nascent markets often begin with vague ideas about how to create value and this raises the question of how they effectively design business model in nascent market. The term is used because a business model originates from a creative process rather than from a search for an existing element. The aim is to elaborate a theoretical framework of “parallel play”, a process in which cognition, action, and timing intersect to enable entrepreneurs to effectively design a business model. Like that of young children, parallel play by entrepreneurs is a self-focused process. Those who engaged on it take little interest in whether their activities do or do not look like those of their peers. The only aim is to learn something about a new market just like a baby try to learn new things about the world around him (M.Eisenhardt, 2019)

One approach said that Nascent market is a domain where constituent firms seek audience support (from different stakeholders) and entrepreneurs deal opposing pressures to conform to enhance legitimacy and be unique to create competitive
advantage. The locus of optimal distinctiveness may shift over time and across stakeholders. It is important to follow a sequential path of cooperative similarity followed by competitive difference to achieve optimal distinctiveness. A second approach emphasizes learning and evolutionary adjustment in contexts characterized by uncertainty, ambiguity and rapid change. In this case trial and error is the key element of organization adaptation models. The search will be more apt to result in a high-value solution when it seeded with map and proceeds with incremental adjustments. Entrepreneurs use processes like bricolage in order to invent new uses and novel combinations of their existing resources. Reached the level of distinctiveness does not guarantee that an emergent business model will be effective because it is necessary to have an attractive value proposition. (M.Eisenhardt, 2019)

Successful entrepreneurs engaged in a process called “parallel play”. In the child development literature, it occurs at an early development stage when pre-schoolers play close to each other but not together. Although they mostly play on their own, pre-schoolers engaged in a parallel play take an interest in what their peers are doing, often mimic them and sometimes grab their toys. Precocious children may even pause and consider their progress before continuing. It is characterized by self-focus and disinterest in comparison with peers. And this process emerged as a conceptualization of effective business-model design in nascent markets. (M.Eisenhardt, 2019)

Firms engaged in parallel play took little interest in resembling or differentiating themselves from peers. Rather, they treated peers as sources of ideas and resources that they could borrow to design their own business models quickly and cheaply, just as children readily imitate other kids and sometimes take their toys. They saw peers not as rivals but as sources of promising ideas and resources that might accelerate its progress rather than as competitive threats. This style of work is very effective in a nascent market because accelerates the progress toward prototypes. It can be considered as a form of bricolage. It also preserves more resources to devote to other aspects of the business model and to testing assumptions. Moreover, helps entrepreneurs resist the temptation to find an unrealistic aim in a nascent market and make them more astute in their choice. The high-performing ventures explored different types of business models before committing one. It is important to test the assumptions underlying a business model because testing can reduce the uncertainty about which business model template
choose and can quickly and well provide useful insights for designing business models. Pausing with a deliberately underdetermined business model is effective because it allows to learn information that was not easily anticipate and help entrepreneur co-evolve with a changing market, because users’ preferences often shifts in nascent markets. Pausing enable passive learning (learning by waiting and observing). (M.Eisenhardt, 2019)

2.1.3 Parallel play framework

Entrepreneurs design business models in nascent market following the dynamic process of parallel play. The process consists of:

1. Self-focus
2. Hands-on learning
3. Pause and reflect

**Table 21- Parallel play**

![Diagram of Parallel Play Process]

**Source:** (M.Eisenhardt, 2019)
In the first step entrepreneurs borrow from their peers like children who play alongside peers, copy them and sometimes grab their toys. Entrepreneur can quickly build rough business-model prototypes, thus accomplishing hands-on learning quickly. They treat established substitutes as ultimate rivals while borrowing concepts and vocabulary from them. They furnish their rough prototypes with "legitimate" features borrowed from peers while continuing to concentrate on creating a value proposition that will be superior for at least some customers.

In the second step entrepreneurs test their central assumptions about business-model templates before committing to one. Like pre-schoolers who try many toys before choosing the favourites, they test major assumptions to reduce uncertainty about which template choose. Committing to a single business-model template in turn improves learning by focusing attention and resource on a single task.

Lastly entrepreneurs pause before completing their activity systems. This activity system remains open to serendipitous insights and readily adaptive.

Parallel play differs from strategy in established markets, which emphasizes competition with peers and differentiation from them; it focuses on timing in terms of first-mover advantage and uses commitment as a deterrent to entry. By contrast parallel play emphasizes self-focus, uses commitment like a design choice and focuses on pacing.

Parallel play is closer to design in its emergent quality and in elements like templates, rapid prototyping and borrowing.

### 2.2 Business model of traditional TV and OTT

Television industry is suffering from a large clutter of definitions and concepts that obstruct the development of new business models for it.

The main distinction between linear television and OTT refers to the distribution of audio-visual content and the scheduling. OTT refers to the distribution of audio-visual content without an information provider being in control of the signals and it is possible to choose when to see it, instead linear TV refers to broadcasts of scheduled programs,
conventionally over the air or through satellite or cable, not streamed to a specific user. (MUVI, s.d.)

<table>
<thead>
<tr>
<th>ELEMENT</th>
<th>LINEAR TV</th>
<th>OTT</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCHEDULING</td>
<td>• Broadcast or scheduled</td>
<td>• No scheduled</td>
</tr>
<tr>
<td>DEVICE</td>
<td>• Tv set</td>
<td>• Multiple devices</td>
</tr>
<tr>
<td>CONSUMPTION</td>
<td>• Home</td>
<td>• Everywhere</td>
</tr>
<tr>
<td></td>
<td>• Closed space</td>
<td></td>
</tr>
<tr>
<td>TRANSMISSION</td>
<td>• Satellite, cable</td>
<td>• Internet</td>
</tr>
<tr>
<td>TYPE OF CONTENT</td>
<td>• High quality</td>
<td>• Low to high quality service</td>
</tr>
<tr>
<td></td>
<td>• Professionals</td>
<td>• Usage driven by professionals’ content but also UGC</td>
</tr>
<tr>
<td></td>
<td>• Managed service</td>
<td></td>
</tr>
<tr>
<td>BUSINESS MODEL</td>
<td>• FTA (Free to air)</td>
<td>• Subscription networks</td>
</tr>
<tr>
<td></td>
<td>• Pay TV</td>
<td>• Ad-supported networks</td>
</tr>
<tr>
<td></td>
<td>• Fee</td>
<td>• Transactional networks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Independent network</td>
</tr>
</tbody>
</table>

Linear TV adopts mainly 2 types of business model: pay tv and FTA (free to air). The former sets advertising to zero in order to maximize viewers surplus and charges them with a fee, the latter sets the subscription fee to zero to maximize the size of clients and charges advertisers. Broadcaster find their primarily source of financing in selling advertising time or if it is public can count also on public funds. It is possible to add another type of business model followed by public television that offers a generalist and thematic programming with an annual public fee. The programming of the traditional public enterprise is aimed on reaching the greatest number of viewers through a service television accessible to all and able to satisfy social needs.

Hence, production and purchase in the linear television are generally financed by personal resources coming from advertising, fees or from government transfers. Television broadcaster own a primary role in the industry thanks to the economic availability recorded in the phases of economic growth. In FTA business model,
television channel broadcasts the programmes, the public follows them, and the audience is the merchandise which advertising agencies negotiate with. More is the audience of a programme and more is the attraction for advertising agencies and therefore higher is the budget for the programme to be produced or purchased. Therefore, the main financier of the television products is the firm which buys advertising. At this point it is important to understand the potential value of a television product analysing the programme schedule, that is the tool through which television programming has the aim to place the programmes in a specific temporal space for broadcasting. This is of fundamental importance in the value of a programme because the viewing time during which the programme is broadcasted conditions the number of potential viewers and could make the product more or less attractive to advertising agencies. (Torre, 2014)

Considering scheduling, the year is divided in 2 seasons, the week is divided in working days and holiday days and the day in three main time bands: daytime, prime-time and night-time. Each band contains different types of audience and the aim of the television firm is to maximize the viewing figures on all time-bands, and in particular on prime-time. Advertisers pay for advertising space in relation to the type of programme and the time-band of the programme itself and the price paid is valued according to the viewers foreseen. The value of a television product in terms of production costs is influenced from: the availability of financial resources coming from advertising, the necessity to satisfy the needs of advertising agents, the necessity to answer the programming of competitors, the uncertainty related to the mood of the audience.
Pay TV is the only one that has the schedule as the object of economic transaction. The television operator acting through subscriptions must pay attention to the programming of schedule in order to best satisfy subscribers needs.

OTTs aimed at market innovation offering services that derive from the maximum exploitation of the new paradigms of communication (interconnection, bandwidth, interactivity) developed from technological innovations that have revolutionized the architecture of telecommunications networks.

The peculiar nature of OTTs consists in having innovatively used the global sharing space created from the Internet: the network has therefore become the vital foundation of their existence. They separate the duty of the service and they offer from transport / access of data packets while this management remains completely entrusted to the Telco operators’ networks. With this setting the OTTs are able to generate a great economic value relying on existing network infrastructures as, at the edge of the network, they are strict in maintaining complete control of their servers and of the user.
interface with the consequent possibility of a very "profiling" of users for more than limited to a geographical area but on a global scale.

So, OTT presuppose the existence of infrastructure and base services of a Telco operator to be able to provide his services. The OTTs separate the responsibility for the provision of their service from that of the transport of data packets on the network, which remains entrusted to the Telcos. Their business model has so far been based essentially on the principle of "best effort" by Telco in transport and connectivity, while the OTT has kept the responsibility on the extreme points of the service process, that is the user interface on the one hand and the application services of its servers placed in the "cloud" on the other. (Patuano, 2012)

The delinearisation of TV is also growing thanks to changing viewing habits as it has been said in the first chapter of the thesis, therefore, TV broadcaster need to be aware of Online Tv developments, when exploring new business models.

Following the success of Netflix, most new OTT services have modelled themselves after it taking part of a parallel play. While the concept behind these services is the same, the business models used to monetize content are very distinctive. The dominant model is the subscription-based model that Netflix and Prime video use, which present itself to customers through its enormous content library and low contract free price. The second model is an ad-based model like Youtube and Hulu. The last major model is pay-per-view or transactional model; this model has the highest revenue-to-content ratio but will only work if the content provided is something that consumers are truly willing to pay for. (OTT Business Models – Not Everyone Should be like Netflix)
Subscription business model is not a new type of business, but new is the field where it is getting applied. What makes subscription model different from the other models is the usage in contrast with the ownership and about how things get consumed. Indeed, in a subscription model the interaction between consumer and provider is totally different compared to an ownership model. In the first one is important to create a relationship with the client; it requires an ongoing relationship with continuous feedback from member to company. With this type of model, it is possible to have a constant stream of revenues making it easier to plan projects. (Cuofano, FourWeekMBA, 2019)

Based on the content you offered there will be a suitable business model, but the key point is that you need content that consumer want to see in order to be successful, without valuable content even the cheapest service is destined to fail. If you have high quality and high watched content the model that maximizes your revenue would be the subscription model. If you have the rights of a large one-time event such as the Super Bowl, the model would be pay per view because people are willing to pay the price of the single event because it is popular. Instead in an ad-based model, the service provider will only be paid based on the viewers of the video. (OTT Business Models – Not Everyone Should be like Netflix).
It is interesting to see that some Cinemas are approaching this method because they have recognized the potential of the subscription model. This is the case of The Space Cinema with the introduction in the market of a new subscription-based card: “The Space pass”. The card with a monthly cost of €15.90 allows you to watch unlimited movies just like an online streaming service.

In the near future the three models will continue to exist, but subscription plans will continue to dominate the entire scene.

The assumption behind the different business models is that audiovisual products can generate revenues in relation to copyright exploitation.

2.2.1 Business of OTT in Italy

Between services on subscription, transactional and free, in Italy are present about 30 realities on demand as recorded by “Database Mavise”. The majority of services offered are oriented towards film and TV fiction.

Leaving out Netflix because it will be appropriated later in the thesis, the main players in Italy are analysed below:

SUBSCRIPTION:

- NETFLIX
  
  It includes 3 monthly subscription fees: 7,99, 11,99, 15,99. With the possibility of immediate cancellation and ultra-HD. Depending on the type of subscription it is possible to watch the contents up to four devices simultaneously.

- PRIME VIDEO

  We will go in detail of this platform in the next chapter but focusing on the notions that interest us now it is reserved for free to customers of Amazon Prime or subscribed independently for 4,99 euro monthly. It allows use up to 3 devices simultaneously. Not all series are available immediately dubbed, the global launch takes place in the original language.
**INFINITY**

Mediaset in 2013 has launched his first service of streaming in Italy that offers a very rich catalogue of films, cartoons, TV series to watch without advertising breaks, where and when you want and from any enabled device that has an internet connection. The contents offered by this platform were initially targeted to an Italian public, in fact there are a multitude of their own series. These are the principles around which the entire Infinity commercial proposition was built: thousands of contents always available; a simple, clear and unconstrained commercial offer; availability on a wide range of connected devices; reaching the most technologically advanced customers through value-added features. About this last feature, on infinity are available a series of characteristics aimed to enrich the customer experience. For example the contents are available in high definition, 4K UHD and HDR, with subtitles and with audio both in Italian and in the original language and it is also equipped with a recommendation engine for content that, analysing consumption habits, offers each customer new content that is always in line with their preferences.

The on-demand of Mediaset includes 2 subscriptions fees: 7,99 or 13,99 with the addition of Dazn (after the trial period).4k options are also available, download and previews of infinity premiere. It allows up to 4 devices. (Mediaset, s.d.)

**NOW TV**

2015 was the year of the new service of OTT streaming offered by Sky, NOW TV. The executive director of sky Jeremy Darroch said that this service is complementary to the other services offered by Sky rejecting the hypothesis of a possible cannibalism towards the other platforms. In fact, the majority of subscriber of now tv had never considered the idea of concluding a contract with sky, maybe for the long contractual obligations. The Murdoch company was the first to enter in the Italian market, and it makes possible to conclude important purchase of rights to successful content like “Game of thrones”. Now Tv allows you to view the entire package of Sky in live streaming or on demand and it has any bond with the pay-tv of Sky, so you do not need a subscription to the cable tv of Sky and you do not need any devices to access the service. In fact, it is available from a wide range of devices: smartphone, PC,
Tablet, videogame console and even devices dedicated (Tv box, Smart Stick). The latter devices allow you to comfortably view your favourite film or Tv fiction from your couch even if you do not have a Smart TV. The offer of Sky is divided on tickets which include both on demand content and live access to a selection of Sky’s channels. The ticket is available in daily version (7,99), weekly version (14,99) and monthly version (29,99). The simultaneously vision on 2 devices is available with the option + (2,99).

- **TIM VISION**

Tim vision was born in 2009 as “Cubovision” managed by the telecommunication operator Tim. Over the years it has undergone several rebranding operations and in 2014 changed his name from “Cubovision” to “Tim Vision”.

<table>
<thead>
<tr>
<th>TABLE 24 - REBRANDING OPERATIONS OF TIM</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1.png" alt="cubovision" /></td>
</tr>
</tbody>
</table>

2009 - 2012  
2012 - 2014  
2014 - 2016  
Dal 2016

It is the cheapest streaming service available in Italy, and with 5 euros you can access about 8,000 contents. Maybe it is lacking regarding Tv series and its own productions but compensate this lack with a vast film catalogue and content for children. Finally, there is another aspect that makes TIMvision very interesting, namely the fact that those who use a SIM card do not pay for data traffic. (Pezzali, 2106)

The offer is already included in the Tim connect subscriptions, for the others cost 5 euros monthly. The offer includes also the possibility to rent and buy films.

- **VODAFONE TV**

Vodafone TV is a streaming platform born in 2016, owned by the operator, designed for landline customers who, in addition to traditional TV, can also enjoy on demand content and Internet TV. It includes 3 different packages: 10 euros (Vodafone TV
TRANSACTIONAL:

- **CHILI**

  Chili TV is the online video service that allows the rental and purchase of contents. It is the evolution of the IPTV platform of Fastweb from which it dropped for a faster growth. In March 2014 Chili bought the share of Fastweb and in July they made a capital increase of around 8 million euros to launch the service in other countries of Europe. Chili TV is compatible with any device: it works on Smart TV, PC, Chromecast and it is possible to choose the video quality.

  The key point on which this platform is making its mark is on making the film available to the customer in advance compared to its competitors. The film is released in cinemas and after 105 days it is available on home videos (DVD, Blu-Ray, etc.) and in transactional VOD. Then after 6 months, maximum one year, there is the possibility of renting. Therefore, it is all bonded to the windows of distribution and some majors like Fox have started making films available 15 days in advance. (D’Elia, 2014)

  The offer includes the rental and purchase of digital films and series (from 0,90 euros to 13,99 euros) and also the acquisition of DVD, Blu-ray and merchandising of some titles. It is available on streaming up to 5 devices simultaneously. It is also applicable the pre-order of contents not yet available.

- **RAKUTEN TV**

  Rakuten as Chili TV is a video rental platform without subscription, with film, series and documentaries in HD. The service is accessible from smartphones, tablets, computers, consoles, Smart TVs, Chromecasts, and for lovers of high definition offers a rich library of productions in 4K quality. Rakuten with over 70 and more businesses ranging from e-commerce, to digital content, from communication to financial technology, is able to reach almost 1.3 billion users worldwide.
The main feature of the service is the wide availability of 4K HDR titles. Contents can be rent for 48 hours or buy. There is also a list of free films. This year the operator has launched Rakuten Cinema, for the production of original contents.

FREE

• **RAY PLAY**

Rai.tv was born on 2007 and after a rebranding take the name Rai Play in 2016. RaiPlay’s technology does not need a decoder or a special remote control and this enables the Public Service to talk to everyone on an increasing scale, paying attention to each individual user and showing the public the way to many different types of content which satisfy the most diverse requirements. The platform allows 3 different viewing mode: streaming, replay TV and on demand.

It offers to its customers ad hoc content designed for the web, series previews broadcast on RAi 1 and complete fiction box sets.

The platform’s key element is the fully central role attributed to users, which may also benefit from additional services for the personalisation of offers and contents based on their specific interests, preferences and taste because the access is allowed through site registration. (pianificazione, 2016)

• **MEDIASET PLAY**

Mediaset play is born in 2018 as substitute of Mediaset on demand and it allows to watch Tv contents without be bound to the schedule. The platform is visible from PC and Mac, smartphone and tablet on the website through an updated browser, or thanks to the installation of the Mediaset Play app. The platform allows two viewing mode: live and on demand without the possibility to change the video quality.

The Mediaset portal focuses mainly on the live of its channels. The registered user has access to all productions, from movies to TV series.

Together with his sister “Infinity”, it allows Mediaset to have total market penetration
**• DPLAY**

Dplay was born in 2015 and it is a video streaming service that allows you to watch your favourite TV programs (Real Time, Dmax, Food Network…) for free and on demand wherever and whenever you want.

This platform has had an exponential increase in subscribers compared to 2017. On the discovery portal the discovery universe programs are available, divided by genres.

Almost four years after its launch Dplay launches, alongside the free streaming service, the premium pay offer Dplay plus that allows you to watch the contents of Discovery channel, discovery science, animal planet and much more with a monthly fee of 3,99 euro.

Taking in consideration only the players with paid offers it was possible to form a positioning map of the service offered. On the vertical axis we find the quality of the service intended as the vastness and originality of the catalogue and additional services offered. On the horizontal axis, on the other hand, the offer is divided according to the price, starting from the left with the cheapest offer.

**Table 25 - Positioning map of OTT services**

*Source: Personal elaboration*
In the complex it is possible to view how the major players are focusing on the quality of the service offered, focusing on the production of original contents and on the expansion of their catalogue available to viewers.

The offer of Sky is the more expensive and that one with the prestigious catalogue thanks to the agreements with the major that allows it to have always recent films, and it is the only one that contains sports in the package. Slightly lowering the price, we find two offers based on the transactional business model, Chili Tv and Rakuten TV.

Netflix occupies an intermediate position thanks to the price, the services offered to the client (the simultaneously use on 4 devices and the high-quality video) and the continuous investment in original contents. Infinity has about the same monthly price but the catalogue is restricted.

Tim Vision and Prime video have about the same price, but the service offered is totally different. While Tim has a limited catalogue of content, Netflix is increasingly focus on the production of original content and agreements with the majors.

2.2.2 Amazon Prime Video

Started in 1994 as a bookstore, Amazon is now the largest marketplace on earth and became the everything store. Amazon Prime Video occupies the second position of the growing video-on-demand industry and it is considered the first competitor of Netflix but they differ from each other in several areas. The platform contains a large selection of movies, tv series, cartoons and has recently begun to insert self-produced contents. It is available from any compatible device including PC, mobile phones, smart TVs etc.

Prime video expected only one type of subscription making no difference between different options as Netflix. After the free play it costs 36 euros per years or 3.99 per month and it is free for who already has an Amazon prime account. So, with this annual fee it is possible to watch all catalogue of Prime video in 4K ultra HD as well Dolby Atmos if you have devices available with them and it is possible to watch simultaneously contents on 3 devices. Furthermore, at the time of registration you will also be offered the advantage of receiving many purchases with free delivery and within 48 hours.
Amazon has a larger library of contents and has also been making investments in its own original contents, but most films now tend to be older. Their imperative is quality: finding content that are able to create a niche of loyal spectators as opposed to a wider but less loyal audience. For the purposes of the company this solution serves to convey more customers to the main site, having the advantage of obtaining information on purchases and customer habits.

Regarding the user experience, the interface of Prime Video can be a bit cumbersome and it varies on usability and style from one device to another; its video recommendation engine it is nothing special and the web interface is presented with a space for the search bar of Amazon prime demonstrating the interest of Amazon to use prime Video in function of Prime.

An interesting feature of the platform is “X-ray amazon”, a service that let you access to all the information of the film while you’re watching it, like cast, bios, soundtracks. Every scene, every music is correlated by a button that makes us jump at the exact moment when the highlighted information is present. An interactive feature that allows us to enjoy the movie even better.

The 2nd of October 2018 in London, Amazon presented the plan of its streaming service: Amazon prime video. It launched its project in style with an event in London to which have participated journalists from all Europe. A big number of VIPs and English and American actors take part: Jennifer Salke (head of Amazon Studios), Georgia Brown (Chief of Europe originals of Prime Video), Orlando Bloom, Cara Delevigne, Julia Roberts.

Brown during the conference said: “we want work groups that are aligned with the local culture and operate as independently as possible, in order to obtain characteristic and non-artificial voices”

The thing that remained imprinted among the statements said by Salke and Brown is the strategic nature of the European market, not just in term of acquisitions but in terms of development of “Originals”, that is, contents thought and realized by creative and productive teams within the narrow national realities. Very few spaces about numbers (investments in the production of contents) were discussed throughout the conference, merely mentioning the continuous efforts for the technological development of the prime video platform with a new development hub in the London district Shoredict.
Among the main announcements we found the serialization of “The Lord of the rings” and many productions taken by successful books like: “Coraline”, “Stardust”, some novels by Robert Jordan. The last acquisition concerns a different genre, linked to the old linear TV, slave to the schedules: the reality and in the specific a sub-category of it, the endurance game. The program will be called “Eco-challenge” and it is a multi-sport game officiated by Bear Grylls. As for the film side instead, there will be the debut on the small screen of Julia Roberts with Homecoming. (Viaro, 2018)

All these statements released in the presentation testify how Amazon is aiming for the quality of the content produced and purchased. The vice president of studies amazon, Roy Price, was born into a totally Hollywoodian family. His father was president of the Columbia pictures and Universal pictures, his grandfather had created successful TV series and himself worked in Disney before joining Amazon. Roy has hired a large number of Hollywood and TV executives to train on the team. Perhaps thanks also to this experience at the heads of the Amazon studios pyramid and thanks to the information collected on uses and habits of their customers their offer tends to be more calm and relaxed than many other studios or TV platform, releasing little information on projects in courses and on advertising them. If Netflix has the power on the TV subscription, Amazon has the power in everything else. Thanks to their corporate austerity regime and the risky and unpredictable moves the studios want to send a message to the entertainment industry, they produce for Hollywood (they also win a golden globe for a series TV on streaming) but they have their roots in Silicon Valley (Landau, 2017)

Back to the business model, Amazon’s first sources of revenue is its core retail business, so it can worry less about its margin with respect to prime video because it is not the core source of revenue for the firm. The business model of Amazon is quite different than that of Netflix or other OTT. If prime video is only one of the most businesses of Amazon, Jeff Bezos has a huge incentive to build interest in the streaming platform, because it makes people more likely to pay for Amazon Prime and to renew their Amazon prime membership. Amazon prime members spend more than non-subscribers and offering a great selection of video contents is able to sell more clothes, household items, books and much more inherent in the main business. (Farber, 2016)

In summary Prime Video is a way to add value to the overall Amazon business model.
Amazon has a diversified business model as can we see from the graph below. In 2018 almost 52% of revenues came from Online stores, the beating heart of the business, followed by Third-party seller services, AWS, Physical stores, Subscription services and Advertising.

**TABLE 26 - AMAZON SOURCES OF REVENUE OF 2018**

Rather than relying on a single business model, Amazon it is dependent from a mixture of business models that interact between them and create value in the long-term period. According to the numbers it is possible to see that the company makes most of its revenues from the sales of items. However, the margins Amazon makes on products sales is thin. Instead the operating income is fuelled by services which comprise seller services, AWS and subscription services. Without the cooperation of services Amazon would not have all this success.
Amazon business model revolves around 4 main players: Consumers, Sellers, developers and enterprises, content creators. Without consumers there would not be profit and Amazon knows well this concept, in fact it puts customers at the centre serving them through their retail websites and services focus on selection, price and convenience. In this context is important the Prime service that with an annual membership includes unlimited free shipping on millions of products and Prime Video that includes unlimited streaming of video contents is able to create loyalty in the customer. It offers programs that enable sellers to grow their businesses. Through AWS (Amazon Web Services) Amazon reach developers and enterprises offering a set of global compute, database, storage and other services. It serves authors with Prime Video and independent publishers with Kindle direct Publishing in the creation of contents. (Cuofano, FourWeekMBA, 2018)

Amazon Value proposition is focused on 4 key elements: Price, convenience, selection and fast fulfilment. First of all price and convenience, Amazon have created his empire on these 2 elements. It has a huge selection of products and services; you can find all you want in Amazon. Last but not least the fast fulfilment by quick deliveries.
Amazon online stores are the foundation for the other business that make the overall company more profitable in the long run, indeed while online stores run at thick margins the other services like Prime and AWS run with much higher margins.

**Table 28 - Global Net Revenue of Amazon from 2014 to 2018**

<table>
<thead>
<tr>
<th></th>
<th>Online stores</th>
<th>Physical stores</th>
<th>Retail third-party seller services</th>
<th>Subscription services</th>
<th>AWS</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>68.51</td>
<td>-</td>
<td>11.75</td>
<td>2.76</td>
<td>4.64</td>
<td>1.32</td>
</tr>
<tr>
<td>2015</td>
<td>76.86</td>
<td>-</td>
<td>16.09</td>
<td>4.47</td>
<td>7.88</td>
<td>1.71</td>
</tr>
<tr>
<td>2016</td>
<td>91.43</td>
<td>-</td>
<td>22.99</td>
<td>6.39</td>
<td>12.22</td>
<td>2.95</td>
</tr>
<tr>
<td>2017</td>
<td>108.35</td>
<td>5.8</td>
<td>31.88</td>
<td>9.72</td>
<td>17.46</td>
<td>4.65</td>
</tr>
<tr>
<td>2018</td>
<td>122.99</td>
<td>17.22</td>
<td>42.75</td>
<td>14.17</td>
<td>25.66</td>
<td>10.11</td>
</tr>
</tbody>
</table>

**Source:** (Statista, 2019)

Looking the table, it is possible to see that net revenue from subscription services in 2018 segment amounted to 14.17 billion U.S. dollar versus 2.76 billion U.S. dollars in 2014 with a growth of 413 % and with a growth of 45.8 % compared to 2017. Net revenue from AWS in 2017 amount 17.46 billion U.S. versus 25.66 billion U.S. in 2018 with a growth of 47%. Net revenue from Online stores in 2017 amount to 108.35 billion U.S. dollar versus 122.99 billion U.S. dollars in 2018 with a growth of 13.5%, more restricted growth compared to subscription services and AWS.
One of the key elements of the Amazon business model that allows to enter in new markets and disrupt other industries is the cash machine business strategy. Although the company has operated with low margins on its online store giving the impression that it does not generate enough cash flow to its business, it is actually the opposite. Indeed, Amazon quickly collects payments from its customers and then it pays vendors with relatively longer payment terms giving short term liquidity that can invest back to speed up growth.
Now let’s go back to the business model adopted by Amazon prime video, which has a very clear concept as its cornerstone that is well enclosed in a Jeff Bezos’ quotes:

“When we win a Golden Globe, it helps us sell more shoes.” (Bezos, 2016)

The logic is simple, because more people join the Prime subscription, the more products they purchase on the online stores and this subscription model offers a more predictable and stable income.
To understand better the revenue model of Amazon prime video we need to introduce the concept of “cost per first stream” that is a metric used by the colossus to assess how much it cost to the firm to hook a customer on Prime video. That is given by the show’s production and marketing expenses divided up to the number of people who stream that program. (Gennaro, 2019)

Apparently buying products on an online platform has no connection with a streaming service. But entertainment is an effective method in driving merchandise sales and in 2010 Amazon launched its studios to develop original contents with the aim to grab Hollywood buzz to sell more merchandise. The effect is the same as the positioning of a new product into a store, which can bring new customers into the store; in this way Amazon can improve its customers’ base. The cost per first impression is a metric that allows the company to see what shows are driving up subscriptions. The other video streaming platforms are bidding against Amazon for the same contents and chasing the same customers, but with his Business model Amazon have minor margins and can charge less for the premium content than they would otherwise have to charge.
Chapter 3. The world of Netflix

3.1 History

In 2007 Reed Hastings, the founder and CEO of Netflix prepared the entry into the online video market of the society.

The way Netflix was devised was funny; Hastings after he discovered a copy of a movie in his wardrobe he had rented and not returned on time had to pay 40$ for the delay. After this episode he began considering alternative ways to offer a home movie service that would better satisfy clients. In this way Netflix is born, a service that used the United States postal service to deliver DVDs to its subscribers. The main subscription plan offered unlimited monthly rental for a monthly fee of 17.99$. Already in 2006, they could count on a large amount of different titles and not only on the best sellers, thanks to the potentiality of the website instead of the limited space of the store.

In the first years the home video market was a fragmented sector largely populated by family-owned retail stores. Usually customers rented movies in VHS, to a retail location for a specific period of time between two and four days and paid a fee of 3 $ to 4 $ for each rented movie. The market leader was Blockbuster Inc. and his growth strategy revolved around the opening of new stores, chosen based on a review of local data like customer concentration or proximity to the competition. In 2006 Blockbuster had about 5200 stores in the United States, of which 4200 belonged to the company and the rest where franchises. The key point at the base of the rental sector is that movie rental is a momentum decision; customers can change at the last minute their night transforming it into a movie night. The shelf space in each store was mainly dedicated to successful films that received the most prominent position and obviously they were reluctant to store a large number of lesser known films. Any movie not returned at time was subject to charges for extended use and served a critical asset utilization function for Blockbuster. They encouraged the return of each rented movie on time, allowing the company not to lose potential customers.

Coming back to Netflix, it was founded in 1997 and focused on a type of consumer that privileged innovation and technology. Indeed, while most of the movies available for
rent in video stores used the VHS cassette format, Netflix concentrated its effort on DVDs and so on customers who like to be the first to adopt the technology and so more likely to change their rental habits.

The Netflix website included a search engine that allowed its customers to easily sort the films by some characteristics. Instead of copying the business model of other video company, Netflix relied on the United States Postal Service to deliver the DVDs to its subscribers. They focused on DVDs because they are lighter and smaller than a VHS, so allowed cheap delivery and easy reception. Initially Netflix used a pricing model similar to that offered by traditional video stores; clients paid 4 $ per rented movie plus 2 $ per shipping and like blockbuster’s model they were expected to return the movies on a specific expiration date or be charged for extended rent. In the initial strategy in 2000 Netflix offered its recommendation system to any user creating a web portal instead of a subscription service.

Between 1999 and 2000 the penetration into US homes, thanks to the rapid adoption of DVDs system increased by 8 %. The rapid adoption of DVD readers in USA became one of the fastest technology adoptions in the history of the state. In these years the transition from VHS cassettes and DVDs was taking place and in the major retail chains DVDs began replacing VHS on the shelves.

But during this transition when the stores managed to update their shelves, Hastings began to think about changing the business model. Customers revealed frustration with the fact that Netflix charged the same rental prices of the competitive rental stores but with a slower delivery service. The first step was to eliminate the late fees switching to a subscription model in the late 1999. This change of course turned out to be a good idea, indeed moving to a prepaid subscription service provided more value to Netflix customers and also make their longer delivery times an advantage.

The first subscription model allowed customer to have 4 movies at a time and receive up to 4 new movies each month. So, they turned the disadvantage into an advantage, the disadvantage of delivery time turned into the advantage of having a movie in the house all the time. Soon after they adjusted its model again, offering unlimited rentals. They were the first to adopt this strategy allowing them to market an attractive value
proposition. The word “unlimited” is excellent in all the marketing plans like the word “free”.

With this change the company added a new slice of customers dissatisfied by the traditional rent in the stores. But with the growth of the customers, the cost for the company also increased because the most requested DVDs were the main premiers, the most expensive. At this point a new challenge for Netflix was generated, to stimulate the demand for the oldest and least known films; in this way they could reduce the price of creating their catalogue.

Initially different films were highlighted on the website’s entry page each week, providing the same recommendations to all subscribers. Realizing the inadequacy of the traditional marketing system, Netflix engineers developed their own recommendation system. After registering for the first time, customers filled out a quick survey to identify their favourite genres and rate specific movie titles. In this way Netflix can recommend movies to their subscribers. The recommendation page contains not only the list of films recommended but also a synopsis. As customers rated each movie they watched, Netflix software perfected their understanding of customer’s preferences recommended always better movies. The system increased the use of the Netflix film library by satisfying clients with films already purchased and in existence, instead of requiring the purchase of more copies of the newer films like the rental shop did.

Premieres on Netflix accounted for less than 30% of total rental in 2006 versus more than 70% of traditional movie rental locations. Although the investment in software engineering was modest, this change marked a cultural battle within the firms who remained loyal to the traditional marketing system.

The key point is that internet can offer a personalized experience that is difficult to reach in a physical store and Netflix have established a relationship with customers that was not easily replaceable switching to competitor’s service. Because the company has the largest collection of movie ratings, customers relied on the best with regards to their preferences.

Initially one of the problems of the company was the inability for the customers to rent premieres in a timely manner due to the small part covered in video rental market. For this reasons Netflix had no direct relationship with the main studios and made
relationships with a small number of movie distributors. The company solved this problem by hiring Ted Sarandos as content director to manage content acquisition. Ted who came from a major movie rental chain led Netflix’s transition to revenue sharing agreements with major studios. Thanks to his relationships from the previous company and to his ability Ted has led the company to negotiate direct revenue sharing agreements with almost all major studies. Instead of paying a high price per DVD, the studies would reduce their unit price in exchange for a fee based on the total number of title rents for a given period.

But the real key point where to leverage was the expansion of the catalogue. Indeed, many video stores dedicated half the shelf space to successful films left unsatisfied customers interested in exploring a much wider range of movie titles. The objective was to follow a business model that promoted lesser-known movies. With an intelligent use of data (the use of subscriber’s rows) Netflix could meet the various demand of movie users, serving more customers with much less copies of a given movie title.

Very soon Netflix started to increase the distribution centers in order to be able to serve all the customers with the same speed, leaving nobody dissatisfied and the number of subscribers continued to respond to this improved delivery service. The centers were cheap investments, it cost less than 70 000 $ to adapt an existing warehouse into a distribution center. With about 50 centers by the beginning of 2007, more than 90 % of subscribers could be reached with a fast delivery.

As Netflix created its catalogue, it increased in importance as a distribution channel for many small and independent film studios and as the firm became known as the best source of unpopular films, the studios began to think more and more favourably about partnering with the company. They also supplied the studios with large markets for their films that they had trouble reaching and on Netflix a less known film can really succeed on its own merits.

In 2006 Netflix began acquiring the distribution rights of certain independent films through its subsidiary “Red Envelope Entertainment”. With this initiative there was a change in strategy, through his subsidiary they were able to bring more excellent movies to DVD. So, by helping to bring potential films to market, Netflix was able to enhance its reputation as the best quality source of independent films.
Customer subscription cancellation was a critical issue for all the company that adopt this revenue model, but Netflix managed to turn this into an opportunity too. Initially, customer show wanted to cancel their subscription had to talk with a seller on the phone with the only aim to convince him to keep his account. Then the company decided that customers could cancel their subscription online more easily and the only requirement was to complete a brief survey explaining why they were leaving. This strategy was more productive than forcing a customer to stay, perhaps making it difficult to cancel the account. Customer profile was maintained if he left Netflix, in this way if the customer returned, everything was already in place.

3.2 Business model evolution of Netflix

In the evolution process of Netflix, we can identify 3 different phases because what is Netflix as we see now is the result of constant development in the company's business model.

The first phase began in 1997 with the birth of the company and Netflix is only a video rental service that relied on the United States Postal Service to deliver the DVDs to its subscribers. The second phase take place in 2007 year in which Netflix became a streaming platform. The last phase take place in 2013, year in which Netflix understood the potentiality of content creation and become an original content creator.

3.2.1 First phase

The first video rental store born in 1977 in Los Angeles and was named “The video Station” and within a few years thousands of other video rental stores opened, including Blockbuster Video. The dynamics of the industry shifted in 1997 with the introduction of the DVD-video format. In the same year Netflix was founded by Marc Randolph and Reed Hastings. The initial business model was based on offering DVD rentals over the internet and delivered through the mail. The initial revenue model charged a fee per rental, as was typical for the other rental stores at the time. The key partners were obviously the
U.S. post, the distributors of DVDs, the producers and the key activities were in marketing promotion and product innovation. The customers segment of Netflix was that of “Early adopter”, a segment of population that privileged innovation and technology and obviously interested in films, TV shows or series. Finally, the cost that the company had to bear came prevalently from distribution, licensing and then from marketing, R & D and general administration.

<table>
<thead>
<tr>
<th>TABLE 32 - INITIAL BUSINESS MODEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key Partners</td>
</tr>
<tr>
<td>U.S. post</td>
</tr>
<tr>
<td>Distributor of DVD</td>
</tr>
<tr>
<td>Producers</td>
</tr>
</tbody>
</table>

| Key Activities                   |
| Marketing                        |
| Product Innovation               |

| Value Proposition                |
| Price                            |
| Innovation                       |
| Fast and simple delivery system of DVD |

| Customer Relationships            |
| Self - service                   |
| Movie lovers that privileged innovation and technology |

| Customer Segments                |
| Movie lovers that privileged innovation and technology |

| Key Resources                    |
| Mail and distribution service    |

| Cost Structure                   |
| Marketing                        |
| Licensing                        |
| Distribution                      |

| Revenue Streams                  |
| File rental                      |
| Fee for extended rent            |
| Shipping                         |

Source: Personal elaboration

A few years later the company had changed to a subscription fee that allowed users to rent as many films as they wanted on a monthly basis to further differentiate itself from the competition. With this new model aggravation related to due dates and late fees was eliminated. This is one of the most important change in the revenue streams of Netflix because it changed radically how the company makes money.

Netflix started the subscription business model as the standard for many tech companies today, from Spotify to Amazon prime. The subscription revenue model allows companies to build a more stable turnover. This type of business it is not new, but new it is where it is getting applied. (Cuofano, FourWeekMBA, 2018)
It also increased its marketing expenses every year and its number of subscribers increased. The value proposition in this phase is enriched thanks to the variety of contents offered and in the key activities it is possible to notice the addition of the data analysis. The data analysis allows Netflix to better understand the need of the consumer and satisfy him. There was a modest investment in software engineering to improve the Netflix algorithm and the cost structure increased also to buy new distribution centers in order to be able to serve all the customers with the same speed, leaving nobody dissatisfied. The new value proposition was to follow a business model that promoted lesser-known movies.

### 3.2.2 Second phase

In 2007 Netflix began offering subscribers the option to stream Movies, series and TV shows over the internet. Although in that years the speed of the connection was not the best, subscribers very soon thanks to the evolution of the connections could take
advantage of this features. Streaming movies was essentially similar to renting DVDs because streaming negotiations with the movie studios were like those between the companies for DVD rental.

In 2009 Netflix awarded a conspicuous amount of money to a team for devising the best way to improve the company's movie recommendation engine. This act shows how much they considered movie recommendation a key feature. Netflix announced the contest in 2006 and put the deadline in 2009. (Afuah, 2014)

In this year there was an intense collaboration with electronic companies; many of the large electronics companies like Microsoft and Nintendo made possible to view Netflix on their gaming devices allowing to see shows onto TV sets. In 2010 Apple entered in collaboration with the Ipad tablet that allowed streaming of Netflix shows. Few times later the company based in Cupertino released Apple TV but also this device allowed streaming of Netflix creating a situation of co-operation. (Afuah, 2014)

The years 2010 and 2011 were the first of legendary success for Netflix and rewarded the work made in business model design without which it would not have had that success. After beginning 2010 at a price of 53 $ per share, Netflix stock price ended the year with a price of 179 $ and closed the 2011 to nearly 300 $ per share. Hastings was also named from CNN businessperson of the year.
So, the principal differences from the previous structure were primarily on the level of key partners, Content producers became very important to be able to increase the catalogue, then Telecom providers became essential as to US Post to be able to transmit online the contents and were stipulated agreements with electronic companies to widen the possibility of vision.

The segment of subscribers grew with the enter in the European market and also the cost structure change with an increased licensing costs and the cost for the resources for the streaming.

In this period a strategy began to emerge that will prove to be successful in the future, the concentration on the contents, initially with the promotion of last known films distributed by independent movie studios and then with the production of their own contents.
3.2.3 Third Phase

By 2012 the battle for video content became impetuous. Netflix, Hulu and Amazon were fighting on two sides: one for “unoriginal content” and one for original content (content available only on the companies’ website). The three Giants (Netflix, Hulu and Amazon) stipulated contracts with the “big five” networks: NBC, CBS, ABC, FOX and CW. Having all three the same contacts with the majors, they were fighting for more or less the same contents. More or less because they focused on different types of contents.

In the first years of 2012 Netflix failed to renew many contracts with the Networks, among these, in one of the most important with “Starz” as a result they lost Disney and Sony contents that count about 8 percent of its library. In the next year the company failed to renew contracts with Warner Bros, NBC and Viacom causing a loss of over 3000 titles. Many of these contracts were concluded by Amazon thanks to the greater economic availability of the giant. Despite the string of losses, it signed an exclusive agreement with Disney marking the first instance that a major film studio and not a TV network sold first-run rights to a streaming company. This agreement will become effective in 2016 but it didn’t last long due to Disney’s willingness to launch its own platform: Disney +.

Regarding the original content, an unprecedented battle was developed in the media industry. Netflix and the competitors were only media distributors and didn’t have content creation capabilities but understood that the real added value from then to the future would have been the content creation. Netflix hired renowned writers to produce their contents, while Amazon hired unknown producers. Hulu was the first of the companies to show own contents, Netflix came soon after premiere the entire season of “Lillyhammer”. In 2013 premiered an entire season of a government drama, “House of Cards”.
## Table 35 - Third Phase Business Model

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Proposition</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecom providers</td>
<td>Marketing</td>
<td>Price</td>
<td>Self-service</td>
<td>Global movie lovers</td>
</tr>
<tr>
<td>Content producers</td>
<td>Data analysis</td>
<td>Innovation</td>
<td></td>
<td>Brands</td>
</tr>
<tr>
<td>Electronic companies</td>
<td>Production</td>
<td>Variety of original contents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broadcasters</td>
<td>Licensing</td>
<td>Accessibility</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Resources</th>
<th>Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algorithm</td>
<td>Website</td>
</tr>
<tr>
<td>Streaming activities</td>
<td>Any device</td>
</tr>
<tr>
<td>Contents</td>
<td></td>
</tr>
<tr>
<td>Brand</td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Cost Structure</th>
<th>Revenue Streams</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>Subscription</td>
</tr>
<tr>
<td>Licensing</td>
<td>Advertising fees</td>
</tr>
<tr>
<td>Servers and technology</td>
<td></td>
</tr>
<tr>
<td>R &amp; D</td>
<td></td>
</tr>
<tr>
<td>General and administration</td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Personal Elaboration

Regarding the last business model, we can see a lot of differences from the previous one. There is a shift in the importance of providers; if before the content producers were central between the key partners, now the relationships with telecom providers are stronger, because Netflix became a content producer itself.

The customer segment grew exponentially with the enter in the global market reaching a considerable number of subscribers, thank also to the possibility to see Netflix from any device. Analysing the path of the company growth, the key trends that have collaborated to the exponential growth of Netflix are technology, comfort, subscription model and data driven. The possibility to see anywhere and on any time what you want paying a small monthly fee with the security of always find something to watch (because contents are create to fits personal preferences) have contributed to Netflix's overseas expansion. Moreover, the importance acquired over the year attracted the attention of important brand in search of collaboration. So, now between revenue streams it is possible to find advertising. (Oomen, s.d.)
The cost structure changes again with a general increment due to the addition of the production costs. In 2013 the investment made for the creation of original content was of 2.38 billion dollars, in 2015 4.91 billion dollars and in 2018 even 8 billion dollars.

But the focus key of this new phase was the creation of original content that became a very important key resource and represent the value proposition of the company. They not only developed basic series, films or shows but they based the production on the analysis of their own customer’s data. Netflix understood better than others what their customers would have liked, and House of cards was the first example.

Innovation is a word present in all the phases crossed by the company, they continuously improved their algorithm to gain more insight into their customers’ preferences and in the last months of 2017 they rolled out a new recommendation algorithm that knows which image will make you click play. (Oomen, s.d.)

### 3.3 The expansion of Netflix

Netflix in just 7 years has managed to expand in 190 countries. And in 2018 as it is possible to see from the table, 68 million of its some 126 million subscribers are outside the U.S., about half. The gain from international streaming now accounts for half of Netflix’s revenue, overcoming in the second quarter of 2018 domestic streaming revenues for the first time.
Netflix’s globalization strategy encountered many difficulties. First, the company had to secure content country by country and it also had to face national regulatory restrictions that limit what contents can be made available in local markets. International subscribers prefer local-language programming instead of an English one. Furthermore, competition in streaming already exist in many countries depriving Netflix of first mover advantage. Nevertheless, the company that was only in the U.S. market before 2010 reached brilliant results. (Brennan, 2018)

Netflix’s success can be attributed to two important actions. First, the company did not try to enter all markets in one time, but it selected initial adjacent markets similar to its home market. For this reason, its earliest international expansion was to Canada, which
shares many similarities with the United states. Then in January 2012 they entered in the UK parallel to the closing of important agreements with the big British content companies. Other low-competition markets followed, such as Brazil, Mexico and the Netherlands in order to be able to stand comparison with the great powers of the American entertainer and with the competitors of his own sector. Doing this, Netflix was able to learn how to expand its capabilities beyond its home market. The first phase of the process was consistent with the traditional model of expansion, but the company developed the capabilities to expand faster within a few years. In the second phase of expansion Netflix extends its footprint to around 50 countries. The choice of the market was influenced by different factors like the degree of attractiveness, the availability of internet and the presence of affluent consumers. This phase was supported by investment in content addressed to the single market (based therefore on the preferences of the local consumer). (Brennan, Harvard business review, 2018)

The choice of expanding around the globe initially have had a significant financial outlay to acquire new rights for series and films. One of the most difficult markets for Netflix was Europe, as it was characterized by a strong fragmentation between the different markets. For this reason, the strategy of penetration of the company in this scenario has been well calculated, starting from privileged European countries and then expanding also in the rest of the union. The Scandinavian areas have had the greatest degree of penetration of the platform followed by the UK, while the countries reached in the second and third bars will continue to show a penetration below 30 percentage points (probably due to lower market margins). (Marrazzo, 2016)

The last phase sees Netflix expand even faster than before reaching the number of 190 countries. In this step the firm focused on adding more languages to its content, expanding its support for device, operation and payment partnership. The winning aspect, in addition to the initial slow expansion of the first phase to learn the best techniques, was to create partnerships with local key companies. For example, on many smart TVs it is include a dedicated Netflix button on its remote controls.
In 2015 appeared for the first time in Europe the dedicated Netflix shortcut button thanks to the collaboration with important productors like Panasonic, Sony, Philips and others. This move made watching Netflix as easy as changing the channel on traditional TV, getting closer to viewers.

“The new Netflix button on remotes in Europe makes watching Netflix as easy as changing the channel on traditional TV, allowing viewers to enjoy our great programming much quicker” said the head of business development for Netflix. (Griffin, 2015)

It was the first time for Europe, while this technology was common on American remotes.

The core of the value proposition for the company is the creation of video contents, indispensable element for not losing and increasing subscribers.

Content creation remains once again a very important point in the business expansion policy and currently it is producing original content in a myriad of different markets. Hastings see such content production as not just local for local, but local for global, using the wealth of knowledge learned over the years and acquiring local knowledge
demonstrating sensitivity and responsiveness. (Brennan, Harvard business review, 2018)

3.4 Original contents

The only imperative of Netflix is to gain new subscribers without ceasing to satisfy its first subscribers. As previously mentioned, the original Netflix series are produced based on patented algorithmic formulas and in this way the platform is able to commission several seasons of a series without waiting for the feedback of the spectators; this is the example of "House of Cards" or "Orange is the new black". The biggest lesson Netflix has learned from media companies, namely that the possession of a content has a tremendously higher value than just distribution and for this reason the company is focusing so much on producing original proprietary contents.

Analysing the catalogue of Netflix, it is possible to see that series are privileged compared to films due to the fact that compared to films where the story always comes to a conclusion, the series with their open endings had an extra gear. Moreover, compared to the pioneering model of linear television the idea that pilot is only the first episode of the season was abandoned and the pilot is considered the entire season. In this way viewers are sure that the series will not be cancelled after a few episodes for low audience ratings and subscribers are more willing to follow the show.
TABLE 37 - ESTIMATED ANNUAL VIDEO CONTENT BUDGETS

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netflix</td>
<td>$2.4B</td>
<td>$4.9B</td>
<td>$6B</td>
</tr>
<tr>
<td>Amazon</td>
<td>$2.7B</td>
<td>$4.5B</td>
<td></td>
</tr>
</tbody>
</table>

NOTES: Includes original and licensed content

SOURCE: (Dunn, 2017)

How it is possible to see in the graph the investment made in contents by Netflix have been growing over the years. In 2013 the investment was 2.4 billion dollars, in 2015 they doubled and in 2017 they reached 6 billion dollars. Obviously, the principal competitor did not watch, and it followed the strategy of investment of Netflix but with a smaller outlay.

What most impresses of the Los Gatos’ company is that they are outpacing not only Amazon in the investments in content but also many of the content providers and for 2018 it has planned an investment of 8 billion dollars in contents. Ted Sarandos said also that 85% of its $8 billion content investment in 2018 will go to original content.
In 2017 its investments are just below those of Disney and they are getting closer to the investments made by traditional media.

The need to oversee more links in the value chain has also led OTTs to focus on production, in order to gain the advantage of directly managing the content, its exploitation, the period of exclusivity and so on, without forgetting the enrichment of the personal catalogue and the possibility to attract new customers.

For the first series of Netflix, House of Cards a hundred million dollars were invested for the exploitation of the novel of Michael Dobbs subtracting it from television networks. Important names were hired to produce the series, from the actor Kevin Spacey to the movie director David Fincher (the creator of “Fight club”) stimulating the want-to-see effect. “House of Cards” and “Arrested development” picked up 14 Emmy nominations in 2013 and became the first series distributed digitally to obtain this award.

In that years the company strengthened more and more on the film and series production and distribution market, achieving important results and could afford to look at the over the top TV market differently than Prime video and Hulu. This choice led Netflix to clash with the premium cable networks, first of all HBO, which now saw it as a
direct competitor. With this strategy Netflix closed 2013 with results exceeding expectations, seeing its subscribers rise to 40 million.

As regards alliances, Netflix had already closed a strategic alliance with Disney in 2012 to close the films in the premium-cable window, that is, after only 7-9 months after their release in theatres. Witness of how already in those years the attention of the investments went towards the on demand.

Between 2014 and 2015, Amazon responded by copying the investment strategy for original productions with the amazon studios division.

**Table 39 - Netflix Content Investment vs. Subscriber Growth**

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Content Spend (in billions)</th>
<th>Net Subscriber Additions (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$2.0</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>$11.08</td>
<td>29.4%</td>
</tr>
<tr>
<td>2015</td>
<td>$13.04</td>
<td>30.3%</td>
</tr>
<tr>
<td>2016</td>
<td>$17.37</td>
<td>25.5%</td>
</tr>
<tr>
<td>2017</td>
<td>$19.03</td>
<td>25.4%</td>
</tr>
<tr>
<td>2018E</td>
<td>$23.79</td>
<td>29.4%</td>
</tr>
<tr>
<td></td>
<td>$29.4E</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** (Schomer, 2018)

In this battle that now goes beyond the confines of the network and now sees OTT competing not only with each other but also with traditional cable operators, this strategy seems to be the best as evidenced by the increase in Netflix subscribers in correlation with the increase in investment in original content.
3.4.1 The interaction with the world of the Cinema

The investments made from 2015 onwards no longer concerned only the series but began to look with ambition at the world of cinema, thus widening even more the competitive landscape of the company. The film “Beats of the nation” was showed in preview at the Venice cinema exhibition and then released simultaneously with streaming in some rooms to hope for the disappearance of distribution windows.

The 75th edition of the Venice International Film Festival will most likely remain in history: it is the watershed of a new period relating to cinema and its distribution. Because it is Netflix who gets his hands on the most coveted prize, the one for Best Film that went straight into the hands of Alfonso Cuarón, who received the Golden Lion for his “Roma”.

Another case that created a sensation was that of the film of Andy Serkis, “Mowgli”. The film indeed, distributed by Warner bros, had to be released in October 2018, but with a sudden move Netflix acquired the rights to the film, thus gaining exclusivity. With this move, preceded by other less important acquisitions on paper (The “Cloverfield paradox” and “Annientamento”), Netflix’s desire to revolutionize the world of cinema is affirmed. Now, Mowgli represents the most important acquisition from external study concluded by Hastings, also because in this case Warner Bros has renounced to the distribution to American level selling the global rights of the film. This operation, unique for now, could mark a significant change in the distribution model, which could see other majors create high-cost productions for digital platforms.

With the arrival of Disney + as a new competitor, streaming platforms, and Netflix in particular, do not want to be caught unprepared and are constantly looking for new ways to expand their user base. Netflix has reached an important agreement with the major American cinema chains for the preview distribution of some of its exclusive productions. The company is planning for the autumn 2019 the release of 10 new films in American theatres. The list includes "The Laundromat" by Steven Soderbergh, which will debut at the Venice Biennale on September 1st and will be in theatres on September 7th before arriving at the streaming service on October 18th, and "Marriage Story" by Noah Baumbach, in preview in Venice on August 29th, and which will be exclusively in theatres for a month, before reaching Netflix. (Donato, 2109)
The major interest in the world of cinema is witnessed by the continuous increasing with which Netflix is being granted, indeed we have gone from 4 films launched in theatres in 2018 to 10 in anticipation for the current year.

One of the new goals the online platform was aiming for was the Oscar, but the road to the golden statuette was not the simplest as it would directly clash with the giants of world cinema. The fulfilment of this aim would bring Netflix free advertising and prestige.

With the appearance of streaming platforms, the rules for participation in the Oscars have been put into question several times and the greats of the world of cinema often criticized it. First among all Steven Spielberg said that the Television films have to compete at prize for the Tv like the “Emmy”. But the accusations made by the director were taken in charge by the US Department of Justice defining the requests advanced as anti-competitive. The exclusion of the films distributed through online streaming services could reduce the value in economic terms of the productions, violating Article 1 of the “Sherman Act” which establishes the prohibition of establishing anticompetitive agreements between several actors operating in the same sector. (Mero, 2019)

After a few months, the Academy voted and decided that the existing rules for winning an Oscar wouldn’t change. So, to take home a gold figurine, the only necessary requirement remains that the candidate film was broadcast at least seven days in one of the Los Angeles cinemas. (Danzo, 2019)

According to the main cinemas of the United States and beyond, this decision will discourage customers from leaving their homes to go to the cinema causing damage to the entire chain.
After these accusations Netflix posted a tweet via social media where he said he loves cinema but at the same time wants to make it accessible to everyone.

To be active in the world of cinema, Netflix is therefore working incessantly to increase its presence in movie theatres, but negotiations with chains are not easy because they insist on time windows of 90 days because the longer the exclusive in theatres will be, the greater the earnings will be for cinemas.

The main problem between Netflix and cinemas is this exclusive viewing window. People began to talk about windows of exploitation in the 80s for the first time. The commercial television bought the libraries of the main movie houses and the halls began to empty. The second and third visions of cinema disappeared, and TV began to push for ever shorter windows of exploitation. Then in the 90s the internet and web pirates came to undermine the market. Today the new "enemy" has a new name and is called Reed Hasting, but the key point always remains the exclusive windows. (Piersanti, 2018)

Netflix wants to bring new subscribers to its platform but obviously the cinemas need people who come into the room, buy popcorn, Coca cola and the ticket to carry on their business and cinemas typically have a window of 90 days of exclusivity where they can project this film; then after this period can be distributed through other means.
For Los Gatos company this time frame is too long and wants to shorten it to be able to take advantage of the exclusive view (in the case of “Rome” the window was restricted to 26 days, but Netflix would like to shorten it more and more). The big movie chains don’t like this thing and have often given up a certain profit so as not to create a precedent that can then lead to the subsequent disappearance of the window of exclusively. Netflix is interested in the world of cinema because well-known directors and actors want to be able to participate in the Oscars, and in order to participate with the rules that are now the film must pass through the cinemas.

A vicious circle is therefore created for which, in order to have famous actors and directors, in addition to covering them with gold, it is necessary to offer them the possibility of participating in the Oscars and from here the company must be able to offer this possibility by appearing in the cinemas.

In the end Netflix has shown that it is able to play in the most important league, and to know how to win, winning three Oscars with the film “Roma”.

Another example of the well-established formula of Netflix, which however does not cease to be discussed is represent by “The Irishman”, Martin Scorsese's new film starring Robert De Niro, Al Pacino, Harvey Keitel and Joe Pesci, that will be released at the cinema three weeks earlier than the Netflix release; the same dynamic already seen for Roma.

The world of the use of audio-visual content is changing and the market will have to adapt to these changes, the platforms are the novelty and represent an important role for audio-visual production.

A further change in the Netflix business model is therefore taking place, with a focus always on the creation of original content but with a change in competitors and business partners.
Conclusions

The aim of the work was to investigate the development of the business model in the television sector, with particular attention to the field of Video on demand.

Before focusing on the business model design, the research was conducted on consumer behaviour and on technological process that led to the development of this new market.

The evolutionary process of one of the giants of video streaming, Netflix, was analysed to witness the importance of business model innovation in an emerging field such as digital television. Partnerships, agreements, data analysis, investments in innovation and continuous changing in the structure of business model have led the streaming company to be the leader of sector.

Finally, with the aim of completing the analysis and making the topic in question more current, an in-depth study was carried out on the links between Netflix and the world of cinema.

The television sector has undergone many changes during its existence. The most profound is represented by the entry of digital TVs that have revolutionized the concept of television. This phenomenon was favoured by technological innovations and a change in consumer consumption habits. We moved from a passive consumer to an active one thanks to the Web and to the modern era that prepares more and more demanding people. The time is ripe to abandon the ideal of the viewer that awaits the beginning of a TV program and with it the problem related to the availability of a TV screen in a home environment because with the online services it is possible to see everything whenever and wherever you want.

According to the report of “Trends of the EU SVOD market – 2017” it appears that revenues and number of subscribers in Europe have grown year after year with upward bets, so the future of the television sector seems to be increasingly aimed online.

Digitalization has led to the birth of a new type of television characterized by an interactive screen connected to the internet, from the number of qualities on demand content and the presence of a new generation of viewers.
Regarding the central part of the thesis that talks about the business model, we can see as it plays an essential role for entrepreneurial success especially in emergent market which, unlike a consolidated market are subject to sudden changes. The need to continuously rethink and create new business model in the OTT’s market has become essential to face the increasingly fierce competition. Innovation in this field means doing something different from someone else. Business model is composed by various blocks and it is possible to change one or more component of it but without forgetting the potential impact on other components because all is linked.

The prevalent revenue models adopted by linear television are FTA and pay-tv, instead OTTs adopt Subscription based model, ad-supported model and transactional model but the dominant model of this market is the subscription-based model. In the near future the three models will continue to exist, but subscription plans will continue to dominate the scene.

One of the main elements that contributed to the development of OTTs is related to the concept of long tail. They, could make money by selling small quantities of many products rather than selling many units of a small number of hits (that is what happened in a traditional market), taking advantage of the internet properties. The internet not only extends the tail, but also thickens it. Streaming companies like Netflix, extending the customer’s choice by offering a vast catalogue of contents have used this strategy to increase more and more their market.

Successful companies in the field of on demand engaged in a process called “parallel play”. From the analysis of the main companies operating in Italy it is emerged that they took little interest in resembling or differentiating themselves from peers. Rather, they treated peers as sources of ideas and resources that they could borrow to design their own business models quickly and cheaply, just as children readily imitate other kids and sometimes take their toys. They saw peers not as rivals but as sources of promising ideas and resources that might accelerate its progress rather than as competitive threats. Indeed, the revenue models, the style of the websites, the contents offered by the companies result very similar with some small differentiation. This style of work is very effective in a nascent market because accelerates progress toward prototypes. The high-performing companies explored different types of business models before
committing one. The perfect example is Netflix that during his life has changed continuously his business model to better meet market needs.

During the period of activity of the platform it was possible to identify 4 different phases inherent to 4 different business models. In the first phase the business model was based on offering DVD rentals over the internet and delivered them through the mail and the initial revenue model charged a fee per rental, as was typical for the other rental stores at the time, then move on to a subscription model. In the second phase Netflix began offering subscribers the option to stream Movies, series and TV shows over the internet with an increasing attention to the contents offered. In the third phase when the battle for video content became impetuous the company became also creator of original contents that represent now the value proposition of the company. The investment made in contents by Netflix, Prime video and the other platforms have been growing over the years, certifying the key role of the creation of content in this new phase of business. The last phase of Netflix is the one we are living in today, still evolving and perhaps destined to change again in a few years to be able to excel in a market in constant change. With the arrival of Disney + as a new competitor, streaming platforms, and in particular Netflix, do not want to be caught unprepared and are constantly looking for new ways to expand their user base. Netflix has reach important agreements with the major American cinema chains for the preview distribution of some of its exclusive productions. The company is interested in the world of cinema because well-known directors and actors want to be able to participate in the Oscars, and in order to participate, with the current rules the film must pass through the cinemas. In this way a change of commercial partners and competitors has been created, shifting the balance of the world of cinema.

Currently the largest competitor of Netflix is Prime Video and many people will think that the business model adopted by Bezos is the same as Hastings. But Amazon has a diversified business model and prime is only one business lying inside. Amazon’s first sources of revenue is its core retail business and Prime video is a way to add value to the overall business model as can be seen from the words of the founder:

“When we win a Golden Globe, it helps us sell more shoes.” (Bezos, 2016)
Rather than relying on a single business model, Amazon is dependent from a mixture of business models that interact each other and create value in a long-term period.

Regarding the most feared rival that is about to enter the market, Disney +, it is important to analyse some elements. First of all, the features and the entire Netflix experience are difficult to emulate and have an importance almost equal to the contents. Moving customers from one platform to another it is not easy. If you have more than one channel in social media and you try to move your followers from Facebook to Instagram it seems easy but only few will move due to laziness in creating a new account, rootedness in the process, brand loyalty. The other important element is the frustration of the previous business model. When Netflix arrived, it destroyed the previous business model of television. Disney does not go into disruption of the business model but goes to fight in a field where Netflix is the leader. Furthermore, as far as contents are concerned, Disney has a position mainly oriented to children and families so it is easier that instead of having a client transfer from one platform to another, there will be a coexistence between the two and two subscriptions will be activated to compensate for the lack of a platform that collects everything.

The cord-shaving phenomenon will take place; the choice to subscribe more than one subscription on demand, because no service provider currently has such a valid offer to completely satisfy users.

As was happened also for other media (for example the radio), television will survive, it will not abandon the entertainment sector and will not be replaced by Netflix or other new forms television, there will simply be a total integration between the two worlds.
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