

Ballon, Pieter; Bleyen, Valérie-Anne; Donders, Karen; Lindmark, Sven

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The double "layered" platform structure of the audiovisual media industry: A case study of Flanders

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The Double ‘Layered’ Platform Structure of the Audiovisual Media Industry: A Case Study of Flanders

Pieter Ballon

Valérie-Anne Bleyen

Karen Donders

Sven Lindmark

IBBT-SMIT, Vrije Universiteit Brussel
Pleinlaan 9
B-1050 Brussels

TEL +32-2-629.16.65
Pieter.Ballon@vub.ac.be

TEL +32-484.15.52.04
vbleyen@vub.ac.be

TEL +32-498.19.80.64
kdonders@vub.ac.be

TEL+32-476.21.85.71
Sven.Lindmark@ibbt.be

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Abstract

In this paper, the principles of multi-sided platform theory and value network analysis are used in order to give a detailed picture of the financing and revenue sharing models present in the audiovisual media industry in Flanders. By means of expert interviews, we verify whether the counter-logics of platform ecosystems and the double marginalisation effect of double platform markets pertain to the Flemish audiovisual media industry. We also discuss the impact of new entrants such as over-the-top players on the audiovisual ecosystem in general.

Keywords

Digital television, multi-sided platform theory, value network analysis, revenue sharing models, double marginalisation, over-the-top players.

1. Introduction

The audiovisual media market is in flux. Both the market structure and the associated revenue models in the TV industry were rather straightforward during the lengthy monopoly era of public broadcasters up to the 1970s and the initial ‘comfortable’ public-private duopolies in many European markets in the 1980s and 1990s (Donders and Evens, 2010). Public broadcasters were financed through subsidies (be it a licence fee or direct government grant) and, occasionally, advertising income. Private broadcasters, for their part, mostly relied on advertising and sponsoring revenues. Since the beginning of the 21st century, however, a number of trends associated with digitisation have fundamentally changed the media industry, affecting both its structure and the associated revenue flows.

Firstly, in the analogue world, there was a direct relationship between broadcasters and consumers, distributors being mere transporters of electronic signals. The ‘industry structure’ was routinely characterised as a typical two-sided market, in which broadcasters operate as platforms that intermediate between advertisers and consumers, and that control the revenue flows between the different stakeholders within the limits of the European regulatory framework on advertising (e.g., with rules on the maximum amounts of advertising in television schedules) (Doyle, 2002; Pauwels and Donders, 2011). In the digital era, telecommunication companies enter broadcasting markets, Internet companies enter telecommunication markets, cable companies enter both broadcasting and telecommunication markets, and so on. While these companies need to work together in order to create and capture value, and are thus part of the same ‘value network’, they at the same time (threaten to) disconnect broadcasters from consumers and advertisers. This leads to the inter-firm dynamic of ‘co-opetition’, i.e. the collaboration between firms with incomplete congruence of interests, and often in the presence of (market) power asymmetries (Brandenburger and

Nalebuff, 1996; Dagnino and Padula, 2002). To exemplify, whereas free-to-air and even pay-television broadcasters used to acquire most sports broadcasting rights for football, they are now often out-competed by cable or telecommunications providers (Van Rompuy and Donders, forthcoming). On top of that, companies like Google, Apple, Facebook and YouTube are increasingly developing business models based on the exploitation of audiovisual content, often without an adequate remuneration for creators, and not captured by European rules that apply to the broadcasting sector. While the outcome of the reconfiguration of the value network is not yet clear, it is evident that established audiovisual media provision models are under pressure, which leads to great uncertainty and causes clashes and conflicts between all sorts of companies that are repositioning themselves and are trying to reshape the value network according to their interests.

Secondly, the 21st century reveals a dramatic shift in consumer habits: user generated content, social media, interactivity, asynchronous service provision and mobile technologies are phenomena that force broadcasters to look beyond linear activities to connect with the audience in non-linear ways. At the same time, they offer opportunities for always-on service provisioning, a range of interactive and on-demand services, social TV offerings and so on. The question thus arises which actors in the value network are able to strengthen their customer relationship and take advantage of such new revenue streams.

A third trend affecting the broadcasting industry is that the TV advertising market is in relative decline (albeit that revenues from pay-TV are still increasing) (Lange, 2011; Michalis, forthcoming). The digitisation of TV, which makes it possible for consumers to watch content in more flexible ways, e.g. in terms of recording TV content very easily, consuming ‘micro-snacks’ of content and/or skipping advertisements, has a negative impact on broadcasters’ revenues from traditional ads. Accordingly, linear TV advertising suffered slow growth in the last decade. As a result, revenues from consumers¹ have started to outgrow advertising as the main form of funding for TV in several developed markets (Knapp, 2011).² Whereas the yearly average growth rate of consumers’ TV spend in the EU between 2005 and 2009 was 6.8%, the yearly average growth rate of TV ad spend amounted to -2.1% (Lange, 2011). In Belgium, consumers’ TV expenditure grew from € 614.5 million in 2005 to € 948.1 million in 2009 (i.e. a 54% rise, unadjusted for inflation), while TV advertising (in terms of gross value, and not taking into account any discounts) grew from € 980 million to around € 1,240 over the same period (i.e. a 26% rise, unadjusted for inflation).

Finally, besides TV, online advertising is also rapidly gaining ground vis-à-vis TV advertising, especially in the most advanced media markets (Létang, 2011). Unfortunately, online advertising still fails to fully compensate for the losses in ‘traditional’ broadcast and print advertising (especially in print). Indeed, Pew Research finds that the shift to replace losses in print ad revenue with new digital revenue is taking longer and proving more difficult than expected; for every \$1 gained in new digital ad revenue, there is \$7 lost in print ad revenue.³ Furthermore, recent alerts on the limited impact of online advertising on consumers might further slow down the transfer of advertising revenues from broadcasting and newspaper publishing industries to the Internet.

A quick round-up of the recent market trends reveals that the media landscape faces a range of uncertainties as well as conflicts, brought about by the increasing complexity of the industry’s structure, and its corresponding financing model. A prior research report by Donders and Evens (2010, p. 11) confirms this: *“At present, it is not clear at all where certain money flows go to or which revenue sharing models are applied. This creates suspicion [...] Moreover, for consumers, it seems not more than fair that they know what they are paying distributors and broadcasters for”*. Hence, the authors conclude that one of the

¹ These include expenses by consumers for any kind of subscription to TV (basic, premium), as well as on-demand services provided by the distribution platform (cable, satellite, IPTV, DTT, telephone). Expenses related to the purchase or renting of the Set-Top-Box (STB) are excluded in these figures (Lange, A., personal e-mail request).

² Note that this is not (yet) the case in Flanders.

³ Vinter, H., “Pew study: many US media companies still struggling to adapt to digital”, *Sfnblog.com*, March 5, 2012, available at <<http://www.sfnblog.com/2012/03/05/pew-study-many-us-media-companies-still-struggling-to-adapt-to-digital>>, consulted on June 7, 2012.

most crucial challenges for the audiovisual media industry is to achieve more transparency about the market structure and the breakdown and allocation of different revenue streams in the value network. This paper aims to respond precisely to that challenge. To explore the new configuration of the traditional two-sided audiovisual media industry that results from the trends discussed above (new patterns of co-opetition, changes in the customer relationship and the search for new revenues), this paper focuses on the region of Flanders, Belgium.

The ensuing questions include:

- Which structural tensions arise between the stakeholders as a result of the reconfiguration of the audiovisual media value network; i.e. an overview and brief discussion of current conflicts;
- Which are the new structure and associated revenue flows that currently shape the Flemish market; i.e. value network and revenue flow analysis.

This study draws on document analysis, a literature study and interviews. In order to validate all the revenue flows between actors, we conducted expert interviews with managers from 16 Flemish broadcasters, distributors, production houses and collective rights agencies, taking place from October to December 2011.⁴ The interviews were semi-structured and open-ended, to allow for in-depth exploration and prioritisation of topics and issues by the experts. First, a list of topics was defined, which we further adapted and refined in line with the field of expertise of the interviewee.

The rest of the paper is structured as follows. In the next section (Section 2), we first frame the developments in the media industry within a theoretical overview of two-sided markets, and characterise digital media as a double multi-sided platform market. We then proceed by a detailed exploration of the value network of the audiovisual media industry in Flanders in Section 3.⁵ At the end of Section 3, we devote specific attention to conflicts and bottlenecks that arise as a result of the counter-logics of platform ecosystems and the double marginalisation effect in the audiovisual value network. Section 4 concludes, making explicit also the relevance of this contribution for further theoretisation of broadcasting as a double multi-sided platform market and challenges ahead for broadcasting markets throughout Europe.

2. The audiovisual media industry: from a single two-sided to a double multi-sided platform market

In this section, we address the theoretical concepts of two- and multi-sided platform markets. These will provide the framework for our value network analysis of the Flemish audiovisual media industry.

Two-sided network literature refers to platforms as mediating entities between agents that operate on different sides of the market, and whose utility is affected by participation and usage on the opposite side(s) (see e.g. Armstrong (2004); Jullien (2004); Rochet and Tirole (2003)). Much of this literature offers a rather ‘static’ analysis in the sense that it concentrates on price equilibrium and allocative efficiency for a single platform or in relation to competition between two platforms. Recently, more ‘dynamic’ analyses have been conducted, that focus on two-sided platform strategies and business models, the evolution of platform boundaries, and cross-layer inter-platform interactions (see e.g. Ballon (2009); Eisenmann et al. (2009); Hagiu (2009)).

As pointed out by Schmalensee and Evans (2007), two-sided platforms arise in situations in which there are externalities and in which transaction costs prevent the two sides from solving this externality directly. In fact, the platform thus serves as a way of solving the externality in a way that minimises transaction costs. Well-known characteristics of two-sided markets

⁴ A detailed list of the interviewees is available from the authors upon request.

⁵ It has to be noted that we excluded over-the-top players from our analysis, as this lies outside the scope of the study. Over-the-top players such as Netflix and Hulu are engaged in online delivery of video and audio without the Internet Service Provider being involved in the control of the content itself. In the conclusion, the authors consider the relevant impact of market entry of these players, which is in most European countries (including Belgium) not a widespread practice.

include in first place the indirect network effects between the two sides of the platform, which in turn affect pricing and other strategies. Indeed, many two-sided platforms charge prices at one side below marginal cost (in some cases even negative) to maximise profits. This leads to the following formal definition of two-sided markets (Rochet and Tirole, 2006): *“A market is two-sided if the platform can affect the volume of transactions by charging more to one side of the market and reducing the price paid by the other side by an equal amount; in other words, the price structure matters, and platforms must design it so as to bring both sides on board”*.

Both in traditional media industries (e.g. advertising-supported media) and new media industries (e.g. software platforms and web portals), two-sided platforms prevail. The audiovisual media, especially private media, typically operate as a two-sided market, in which broadcasters function as platforms intermediating between advertisers on the one hand, and consumers of content on the other hand. The specificity in this market lies in the fact that advertisers derive a positive utility from the participation of as many consumers as possible to the broadcaster’s platform, while for consumers mostly negative effects are associated with being exposed to advertising messages. This is one of the reasons why broadcasters usually let one side of the market (i.e. advertisers) cross-subsidise the participation of the other side of the market (i.e. consumers). This persistent cross-subsidisation, combined with the cross-platform (indirect) network effects described above, lead to the fact that broadcasters cannot maximise profits in each single market, but need to carefully consider the effect of pricing decisions at one side of the platform on the other side.⁶ It may explain why slower growth in advertising revenues leads to pressures to increase income from consumers. Also, it implies that broadcasters need to treat complementary businesses (such as advertisers) as clients rather than as traditional supply chain partners, and are thus incentivised to ensure healthy margins and sustainable ecosystems for these businesses. The fact that private broadcasters are in fact ‘selling the audience’ to advertisers (comparable to Facebook selling consumer data to other companies) has been criticised widely in political economy of communications research. Often authors have argued for the superiority of public service broadcasting, providing programmes to all people regardless their appeal for advertisers (Garnham, 1990; Hackett, 2001; Harvey, 2010).

Because of the trends mentioned in the introduction to this paper, the basic structural and financial model of operation of the audiovisual media industry is now changing and becoming increasingly complex. First of all, the introduction of digital TV resulted in an explosion of the number of TV channels, provided the digital TV distributors (such as Telenet and Belgacom) with a direct consumer interface in the form of the Electronic Programme Guide (EPG), and made a range of interactive and on-demand services and new revenue streams possible. This has enabled TV distributors, whose business models up to that point had resembled that of utility providers, to start playing a two-sided platform role themselves, i.e. between 3rd party service providers (broadcasters) and consumers. As a result, there are now two platforms that interact with each other and serve as customer/supplier for each other, namely distributors and broadcasters. The actors who manage these two platforms can be named ‘first’ and ‘second’ layer platform providers, indicating how close they are to the end-users, or at which side they serve end-users. In case of the digital TV industry, the first layer platform provider is the distributor. Second layer platform providers, i.e. broadcasters, deal with first layer counterparts on one side and sell ads to advertisers on the other side. In some sense, they utilise first layer platform providers as a kind of distribution channel. They also monetise attention and information of end-users by selling ad space (Hanbo, 2008).

It is clear that such ‘double platformisation’ or ‘layered platformisation’ unavoidably leads to strong tensions between both types of platform ‘wannabes’, i.e. the distributors and the broadcasters, even if they are at the same time collaborators within the media value chain. This leads to a new set of strategic incentives, which are directly at odds with the platform logic explained above (Weyl, 2008). First of all, in this constellation, the distributor – and not

⁶ Note that not only pricing decisions, but also decisions related to e.g. programme scheduling have an impact across the platforms.

the TV channels – sets viewer prices. This may be problematic since the distributor does not take into account the fact that high end-user prices have a negative impact on advertising revenue for the TV channels through reducing the size of the audiences. In other words, price coordination in this double two-sided market is difficult, as control over end-user prices for consumers is with the distributor (Kind et al., 2010).

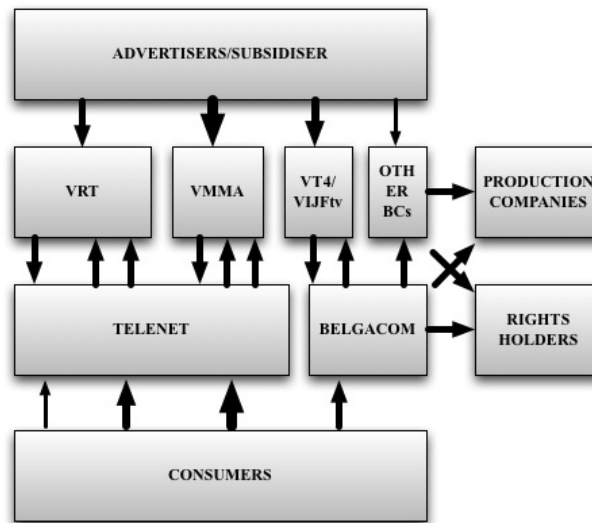
To be more precise, in case of double ‘layered’ platforms, the ‘double marginalisation’ effect is prominent, i.e. the fact that any price increase by one platform constitutes a tax on the other platform, leads to price increases by the adjoining platform and thus to less consumption, and diminishes total welfare. It is well-known from economic literature that under these circumstances, the individual platforms will have strong incentives to vertically control prices of the adjoining platform, i.e. by vertically integrating activities (and thereby entering the other platform’s territory), by commoditising or even destroying the adjoining platform’s business, or by other means of influencing and coordinating prices. To illustrate, in Belgium, distributor Telenet has entered the broadcasting market by setting up its own thematic channels Studio 100 TV (kids) and Sporting Telenet (sports). This is a clear example of vertically integrating activities, whereby the distributor is poaching on broadcasters’ territory. This paper argues that many of the conflicts about roles and revenue streams between distributors and broadcasters in the audiovisual industry today can be explained by the counter-logics of platform ecosystems versus double marginalisation, and will analyse whether such an interpretation of current developments is in line with the empirical evidence. Furthermore, the audiovisual media industry is evolving from a two-sided towards a multi-sided market, with amongst others the introduction of independent production houses that produce content for various broadcasters’ and distributors’ platforms. These, then, in a sense may become a third side of the (double) platform market, and need to be included in new roles in the value network. The reconfiguration of revenue streams, and the associated conflicts, will thus also extend to the independent producers and rights holders. The end result is a set of highly complex and dynamic interdependencies that are very hard, if not impossible, to model formally.

Figure 1 gives a high-level image of the double multi-sided platforms structure in the Flemish audiovisual media industry. Concerning the stakeholders in Figure 1, VRT, VMMa and group VT4/VIJFtv are the three major broadcasters (BCs) in Flanders, who together account for more than 80% of the viewers market. Telenet (DVB-C) and Belgacom (DVB-IPTV), for their part, are the two major distributors in Flanders, with a market share of 80%, resp. 15%.⁷ Note that the black arrows in Figure 1 represent the money and value streams that flow between the respective stakeholders.

What this paper will aspire to, is to provide an empirical study of the new structures and interdependencies as depicted in Figure 1, which can further our theoretical understanding of double multi-sided platform markets and the power asymmetries in these markets in particular. In this exploration, the level of control executed by the platform beyond its own borders will thus be of crucial importance.

⁷ The remainder of the distributors’ market is split between Mobistar, TV Vlaanderen (both DVB-S) and Norkring (DVB-T).

Figure 1. The audiovisual media industry in Flanders: a double multi-sided platform market



While an in-depth treatment of such models and their consequences for the Flemish audiovisual industry will undoubtedly require more analysis in the future, the following section presents some present evidence on the structure and revenue flows that arise in this double multi-sided platform set-up. As the firms operating in audiovisual markets usually treat such information as strictly confidential (operating under contract with strict confidentiality clauses), and since these markets have a long and complex history in which public and private stakeholders, regulation and private contracts, and various contextual factors are intertwined, this is not a straightforward exercise. This is to the authors' knowledge the first academic paper that has attempted to provide a full overview of the roles and revenue flows in such an audiovisual double platform market in Europe, and to analyse the current conflicts and bottlenecks in such a market in the light of the double marginalisation effect.

We will use the method of value network analysis to visualise and analyse the data on the Flemish audiovisual media industry's structure and finances. Value network analysis is a generally accepted technique from organisation science, of which the roots go back to Porter's value chains (1985), in combination with other schools of Industrial Organisation and Resource Based Management (e.g. Normann and Ramírez (1993); Stabell and Fjeldstad (1998)). Essentially, a value network illustrates how companies, within the boundaries of their industrial activities, mobilise their resources in relation to surrounding actors. Typically, three building blocks can be discerned in a value network, namely business actors, business roles and business relationships (Ballon, 2005):

1. Business actors are physical persons or corporations that create economic value through the mobilisation of resources (being financial, intellectual or social capital) within a business value network.
2. Business roles are logical groups of business activities that are fulfilled by one or more actors. Concretely, business actors provide value to and/or derive value from the business roles they play.⁸
3. Business relationships can be the contractually defined exchange of products or services, financial payments or other resources.

⁸ In case two roles are performed by the same actor, the money streams will flow internally between these two roles within this company, and these will be only visible to internal accounting. Conversely, when two roles are performed by different actors, the money streams will flow externally between two actors (SMIT, 2010).

The level of industrial concentration in a value network is determined by the extent to which certain actors perform more or less roles. Vertical integration implies the ownership by one actor of different vertical roles within the same industrial field. Horizontal integration, for its part, implies the ownership of multiple roles that are situated in parallel industrial environments. A high degree of vertical integration of one actor will have a direct impact on the feasible cooperation for all other actors involved in the value network. As integration becomes stronger, the interactions with other actors will lower in intensity. When very few roles are integrated in one and the same actor (i.e. modularisation of the ecosystem), more cooperation will be required between different actors (SMIT, 2010).

Summing up, this section hypothesised that many of the current conflicts on roles and revenue streams between distributors, broadcasters, production houses and rights holders in the audiovisual industry (in Flanders) today can be explained by the counter-logics of multi-sided platform ecosystems versus double marginalisation. The conflicts are reinforced, moreover, by the high levels of concentration in the audiovisual sector – as discussed elaborately by e.g. Doyle (2002b). The following section will provide a first empirical exploration of such new structures and the associated revenue flows that currently shape the Flemish audiovisual media market.

3. Value network analysis: Relations and financing models in the Flemish audiovisual media industry

Over the past decade, there has been a dramatic shift in the production, distribution and consumption of media content. The model in which content is linked to a single platform and a specific revenue stream no longer stands. As a result, boundaries between sectors are increasingly becoming blurred. In subsection 3.1, we investigate the intertwining of business relations in the sector by presenting and explaining our value network.⁹ In subsection 3.2, we give a qualitative discussion of the bottlenecks in the sector that transpired from the interviews with the stakeholders and are a result of the ‘double marginalisation’ effect that the shifting media ecosystem brings about. Subsection 3.3 concludes and highlights where the double layered platform model that we observed earlier may cause a double marginalisation effect. To repeat, this section focuses on the region of Flanders, Belgium.

3.1 The value network: A double multi-sided platform market

As was already mentioned in Section 2, there are now two platforms operators that interact with each other and serve as customer/supplier for each other in the audiovisual market, namely distributors and broadcasters (Figure 2). **Broadcasters**, aggregate the content that they produce internally and acquire externally. Subsequently, they transfer the content to the distributor, and receive a retransmission fee for this. Conversely, many broadcasters have to pay a carriage fee to the distributor for transportation and distribution of their signal. Broadcasters also receive income from the distributor for Video-On-Demand (VOD) transactions¹⁰ and for ‘red button’ interactive applications, games, SMS votes and so-called astro services (i.e. ‘late night’ services related to astrology and so on)¹¹. Another revenue stream related to the broadcaster comes from ad brokers that pay for advertising space and/or

⁹ Note that the government is also an actor, as its business roles include regulation and subsidies. However, studying government policy is outside the scope of this study, which is why we excluded this stakeholder from our value network analysis.

¹⁰ The supply of Video-On-Demand (VOD) encompasses movies and series for which the operators have entered into agreements both with local and international producers and distributors. On top of this, an interactive library of catch-up TV and archival programmes has been developed in cooperation with almost each Flemish broadcaster. In this paper, VOD is defined as all on-demand transactions related to TV series and movies, via subscription or pay-per-view.

¹¹ Note that Flemish Minister of Media Lieten is planning to forbid all types of quiz channels and astro games on TV within short notice. This said, the adjusted Media Decree still has to be approved by the Flemish Parliament.

teleshopping. On the topic of rights clearing, broadcasters pay collective rights agencies for the authors represented by them (primary rights)¹² and for advertising.

The second platform operator in Figure 2, the **distributor**, delivers a TV bundle to the end-user on a subscription basis. In this subscription, possibly, a provision for author rights is included.¹³ This author rights fee is paid partly to collective rights agencies for cable/satellite rights (CISAC¹⁴-members). The remainder of the author rights fee that the distributor passes on to the end-user – goes to the broadcasters (‘retransmission fee’) and AGICOA¹⁵ (Non-CISAC).¹⁶ In addition, the distributor also pays a sum to the collective rights agency for VOD and for home copy.¹⁷ Additional income for the distributor comes from the carriage fee it charges the broadcaster for transportation and distribution of their signal.

On the end-users’ side, the distributor generates income from VOD transactions (on a pay-per-view or subscription base), from the rental/sale of the Set-Top-Box (STB) and from red button, games, SMS votes and astro services.

As was already mentioned in the previous section, independent production houses, as well as rights holders and collective rights agencies, constitute in a way the third side of the (double) platform market, and are being included in new roles in the value network.

Starting with the creation of content at the top right corner of Figure 2, an **author** always enters into contract with a producer, with the usual reservation for collective rights. This means, in general, an ‘All Rights Included’ contract with a provision for collective rights. Authors receive money for their performances from the production house and they receive money from the collective rights agency for the reproduction and for the public performance of their works, for home copy and for cable rights.¹⁸ Essentially, the principle is that each exploitation of an original work comes with a remuneration of those parties that hold the creative and exploitation rights. However, this principle is difficult to enforce in a complex media ecology, which does no longer resemble the structure of a neatly structured linear value chain.

¹² Alternatively, broadcasters may also pay the rights owners directly.

¹³ In Flanders, only Telenet charges this author rights fee. The amount varies per postal code but comes down to on average of € 2.6 (excl. VAT) per month per subscriber.

¹⁴ The International Confederation of Authors and Composers Societies’ (CISAC) main activities include – amongst others – the strengthening and development of the international network of copyright societies. As of June 2011, CISAC numbers 232 authors’ societies from 121 countries. For more information, please consult <www.cisac.org>.

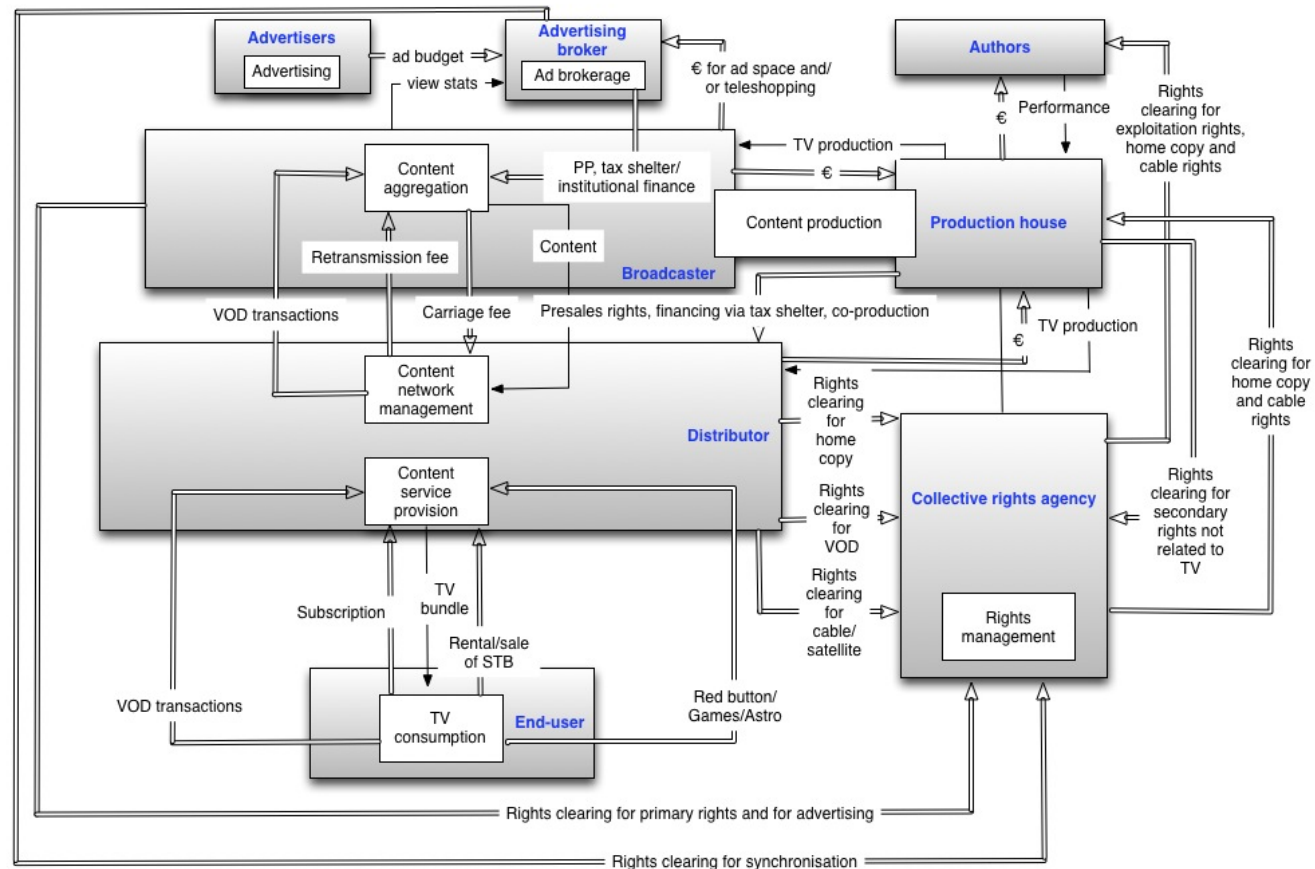
¹⁵ The Association of International Collective Management of Audiovisual Works (AGICOA) is a collective rights agency that represents Belgian and international producers for the collection of author and related rights.

¹⁶ An important remark should be made concerning the cable rights the distributor pays to the collective rights agencies. In 2006, Telenet filed a lawsuit against all Belgian collective rights agencies at the court of first instance of Mechelen. Basically, Telenet claims that, unlike for public broadcasters, it is not obliged to pay an author rights fee to the collective rights agencies for the retransmission of channels via direct injection (e.g. for VTM or RTL, channels that cannot be watched via the ether or satellite). However, the collective rights agencies oppose and say that, in case of direct injection, besides the primary rights collected from the broadcasters, distributors have to pay secondary rights. On April 12, 2011, Telenet won the lawsuit. The collective rights agencies entered an appeal but there has not yet been a decision. However, should the court decide in favour of the collective rights agencies, then Telenet will be obliged to pay cable rights to the collective rights agencies for private broadcasters, possibly also with retroactive effect.

¹⁷ Depending on the STB’s storage capacity, Auvibel collects home copyrights from the distributor amounting to € 3.30 and € 10.75 per STB.

¹⁸ Note that the collective rights agency does not always intervene for the collection of exploitation rights. This depends on the stipulations in the contract; it is possible that primary rights are settled directly between the rights holder and the licensee.

Figure 2. The value network for production and distribution of TV in Flanders
 (Note: double arrows indicate money streams, single arrows indicate value streams)



The **producer** then proceeds along the value network with the contract and the content produced. Albeit not visible in Figure 2, broadcasters as well as distributors can have content that is produced internally. For instance, public broadcaster VRT produces a lot of local programmes internally. Note furthermore that, on many occasions, broadcasters or distributors finance a production via a presales right, via tax shelter or via co-production. Besides, ad brokers can also finance a production via product placement, via tax shelter or via institutional finance. Depending on the individual contracts with respect to financing, the production house will deliver the content to the broadcaster (only for broadcasting purposes) or distributor (e.g. VOD). Concerning VOD, it is the distributor who refunds the broadcaster (for broadcast related programs produced by the broadcaster) or the production house for income received from VOD. On the topic of rights clearing, production houses have to pay collective rights agencies for secondary rights not related to TV. To illustrate, say newspaper X sells a collection of DVDs of the TV serial Y at discounted rate. In that case, the production company has to pay the collective rights agency for synchronisation and duplication. On the other hand, production companies receive a copyright fee for home copy and cable rights from the collective rights agency (that has been collected upfront from the importers/manufacturers of private copy devices and the cable operator respectively).

Our final two actors in Figure 2 are the advertisers and the ad broker. **Advertisers** pay an advertising budget to the ad broker. The **ad broker** subsequently develops a campaign and buys ad space with the broadcaster. On the topic of rights clearing, note that the ad broker pays the collective rights agency for rights clearing for synchronisation.

Summing up, Figure 2 provides a full overview of the actors, roles and revenue flows in the audiovisual market in Flanders. Its additional complexity compared to the ‘simple’ two-sided model in the analogue world reveals that the transition from a single two-sided to a double multi-sided market platform brings about structural shifts in the media ecosystem. This relates to some extent to the roles the stakeholders play, and to a large extent to the revenue streams in-between each other. Naturally, such a shift to a double multi-sided platform market brings about various conflicts between the stakeholders involved.

The following subsection provides a discussion of the main bottlenecks in the sector that transpired from the interviews with the stakeholders, which all point directly to the tension between the need to cooperate and foster each other’s growth (referring to the platform ecosystem logic) and the attempt to gain control over the major revenue streams and diminish competing platforms’ revenues (referring to the double marginalisation effect).

3.2 Structural conflicts between stakeholders

In this section we discuss the sharing of revenues between stakeholders, as well as the associated conflicts and tensions, per revenue stream, starting with retransmission and carriage fees (3.2.1), Video-On-Demand (3.2.2), advertising (3.2.3), delayed viewing and its impact on the two previous revenue streams (3.2.4), revenue streams related to the production sector (3.2.5), author and related rights (3.2.6) and red button/SMS/games/astro services (3.2.7), respectively.

3.2.1 *Retransmission and carriage fees*

One of the main disputes between broadcasters and distributors relates to the payment of retransmission fees from distributors to broadcasters for the distribution of their content on the one hand, and the payment of transport and distribution costs by broadcasters to distributors in exchange for carriage on their networks on the other hand. These two transactions can take many forms, depending on the broadcaster and distributor involved in the commercial agreement. Indeed, as pointed out by the Flemish regulator for Media (VRM, 2010), the contractual agreements between the different broadcasters and distributors are complex to such an extent that no univocal logic can be distilled from it. For instance, the public broadcaster VRT, which enjoys a must-carry status, does not pay a carriage fee while

receiving (albeit not *strictu sensu*) a retransmission fee.¹⁹ The latter is subject of an agreement to exploit the rights of the VRT through retransmission.

Next to the VRT, there are a number of foreign channels (including the Dutch public broadcasting channels, which also enjoy must-carry status) that receive compensation from distributors in exchange for the distribution of their content and do not have to pay a carriage fee either. This also applies to the Flemish regional channels (must-carry status) and to a number of foreign private broadcasters. The latter have no interest in being retransmitted by distributors in Belgium and, hence, they do not see the point of paying transport and distribution costs. Private broadcasters targeting the Flemish market pay a carriage fee and receive a retransmission fee, which is the subject of a major conflict between main Flemish private broadcaster VMMA (claiming this is evidentiary of discriminatory treatment) and cable provider Telenet. Both have failed to renew their distribution contract and are captured in a seemingly enduring conflict for over 2 years now.

For broadcasters operating niche channels, there are two options; (i) they pay transport and distribution costs without receiving a retransmission fee; or (ii) they receive a fee per subscriber. These categories apply to the retransmission through cable. For xDSL, other arrangements have been made by the respective distributor that does not charge consumers for author rights; neither does it charge transport and distribution costs (Donders and Evens, 2010). The latter is mainly caused by the telecommunications provider's (Belgacom) 'weaker' position in the market. Whereas cable provider Telenet takes approximately 80% of market share in television distribution, Belgacom is runner-up with approximately 15%. A more flexible negotiation approach is, therefore, justified and explained, moreover (according to interviewees), also by the fact that Belgacom is, albeit a private, still a Belgian company. Telenet – even though many Flemish consumers do not know this – is owned by American media conglomerate Liberty. Note finally that, in some contractual agreements between broadcasters and distributors, commitments are included to spend high advertising budgets on certain channels (VRM, 2010).

Many broadcasters increasingly object the current agreements concerning retransmission and carriage fees – especially with the cable operator. First of all, the level of retransmission fees paid is disputed. Concretely, the broadcasters offering generalist channels feel that the current compensation for the exploitation of their content is too low given the traffic their content generates. Related to this, they also complain that the current compensations paid by the cable operator are in fact paid by the consumer who is directly charged for author rights contributions by Telenet. Consecutively, these are redistributed to broadcasters. Allegedly, the cable operator is thus not paying any compensation for transmission itself. A second point of discussion relates to the imbalance in collection of transport and distribution costs. Some broadcasters argue that it is unfair that they are paying while other broadcasters in the same market are not compelled to do so. A third problem is that it is unclear on the basis of which criteria the transport and distribution costs and retransmission fee are determined. This creates the perception among broadcasters that criteria are discriminatory in nature. The distributors counter by arguing broadcasters' compensation is already well above the European average. In the absence of data on this issue, however, this claim cannot be (in)validated. In any case, the balance between the transport and distribution costs and retransmission fee for most broadcasters in Flanders being carried by the cable operator is positive.

In order to resolve tensions, Telenet has proposed a new matrix model in which retransmission fees would be calculated on the basis of the CIM²⁰ audience market shares (age 4+/all day) of all the channels of a given broadcaster. Some broadcasters argue that,

¹⁹ In contrast with the commercial channels in Flanders, the VRT does not engage in commercial exploitation contracts. Its contracts with Telenet and other distributors are based on IPR law and aim at compensating VRT for the use of its author rights. This said, throughout the paper, for reasons of analytical straightforwardness, we use the term 'retransmission fee' for all broadcasters.

²⁰ The Centre for Information on the Media (CIM) collects two types of data on media, namely (i) data concerning media distribution (e.g. figures on copy sales, the measurement of page views, ...) and (ii) data concerning the reach of media in TV, radio, press, billboards, cinema and on the Internet. For more information, please consult <www.cim.be>.

although they might have preferred a different model, it is at least based on objective criteria that are applied in a non-discriminatory fashion (i.e. the same model for all players in the market). However, most broadcasters are highly sceptical about the matrix model, stating it is still not adequately compensating them for the distribution of their content. Another point of criticism is that it makes no sense to base retransmission fees on one criterion only, being the CIM audience market shares (age 4+/all day). Other criteria such as the reach of target groups (i.e. audience market shares in a given age or demographic group), local employment, investments in domestic content, etc. could be taken into account in order to come to a more balanced assessment of what a broadcaster's channels are worth. The biggest broadcasters were not particularly in favour of the model, arguing that they negotiate under which conditions their signal is retransmitted referring – among others – to Article 1, §1 of the Belgian Auteurswet. Telenet, for its part, has stressed the first point being the implementation of a matrix model that is objective and non-discriminatory. In addition, the cable operator also asserted that under the matrix model all local broadcasters would receive more money than they did in previous contracts. The starting idea of the cable operator is to rebalance current payments (generated on the basis of their consumers' author rights provisions) from foreign to local broadcasters in favour of the latter (Donders and Evens, 2010). However, several broadcasters are convinced (obviously discussing these with foreign broadcasters) that the foreign broadcasters will take their current retransmission fee as the starting point of new negotiations with the cable operator. In this respect, it remains to be seen whether this rebalancing of retransmission fees will work out in practice. Niche channel Acht's (mainly broadcasting HBO series) general manager foresees another risk related to the matrix model:

“If retransmission fees will be based on market share in the future, all channels will broaden their product offer in order to attract a wide audience as to increase their market share. This in turn will lead to boring uniformity, and hampers the cultural diversity of the media ecosystem” (Interview Acht).

Finally, in spite of the matrix model, several Flemish broadcasters have still not agreed on the terms of a new contract with the cable operator (*cf. supra*). This does not imply that their signal is not carried by the cable operator. Indeed, as cable penetration in Belgium is at 95%, broadcasters need to reach audiences through cable to generate advertising revenues (Donders and Evens, 2010). For that reason, asking to remove your signal from the cable is not an option – especially in a cable-dominated market with few alternative distributors.

3.2.2 Video-On-Demand

Over the years, platform operators have invested in the development of several non-linear services including the supply of VOD. As already mentioned, the supply encompasses movies and series for which Telenet and Belgacom have entered into agreements both with local and international producers and distributors, as well as an interactive library of catch-up TV and archival programmes in cooperation with Flemish broadcasters. Subscribers can then pay to (pre)view this content during forty-eight hours. A first type of conflict concerning VOD relates to distributors' offer of on-demand films. To be precise, broadcasters argue it is interesting for them to offer films of which they have acquired the linear rights in a non-linear way as well, but are bound by the exclusive offerings of the operators.²¹

A second conflict arises concerning VOD's revenue split. After deduction of VAT and the provision for author rights, the remainder of VOD income is split between the distributor and

²¹ A linear TV service can be defined as a broadcasting service offered by the broadcaster to watch audiovisual programmes simultaneously, based on a programme scheme ('classical' TV watching). A non-linear TV service (or audiovisual broadcasting service on demand) can be defined as a broadcasting service offered by the broadcaster that enables the consumer to watch audiovisual programmes on individual request whenever he wants, based on the broadcasters' selected programme catalogue. Examples of non-linear TV services are VOD, pausing and rewinding live programmes (via Telenet's flexview and Belgacom's Comfortview), and interactivity services such as photos, games and digitext (VRM, 2010).

the broadcaster. The ratio is usually 60 for the distributor and 40% for the broadcaster, or 50-50%, and varies per broadcaster. According to one Flemish broadcaster, compared to other countries, broadcasters' revenue share from VOD is extremely low. Again, it is nearly impossible to check such a claim. At first sight, the revenue split – even if distributors earn 'easy' money – does not seem exceptional, considering platforms like Apple also take a margin of 40% on apps and other services offered in the iStore.

The interview with the Flemish public broadcaster revealed another conflict related to VOD:

“The Electronic Programme Guide (EPG) function that enables to record a complete serial at once, is a real killer for VOD on a pay-per-view base. Which is why broadcasters now focus on real-time TV, the ‘live format experience’ including red button voting applications” (Interview VRT).

In other words: the comfort of taping entire series with one 'click' undermines the potential of VOD, which offers an additional revenue stream for broadcasters, whereas the EPG does not (with revenues from it flowing exclusively to the distributors). In Section 3.2.4 we further elaborate on the impact of the EPG on VOD.

3.2.3 Advertising

Starting with the advertisers' perspective, a first concern for advertisers in Flanders relates to the audience they can reach. Due to the success of the public broadcaster, a lot of advertisers feel it is hard to reach a large part of the population. Furthermore, advertisements on the public broadcaster's channels may only last 5 seconds, and therefore a separate commercial has to be produced (next to the regular 30 second commercial). This obviously entails additional costs. Secondly, due to distributors' flexview services, a lot of consumers skip advertisements during a programme. The CIM estimates that approximately 5 to 7% of consumers in Belgium watch programmes delayed (with interviewees indicating that for domestic and acquired fiction these figures can go up to 20% easily). Apparently, especially young people avoid advertisements. In a recent study by Dear Media and Ehsal, 1,500 respondents between 18 and 25 years were questioned about their media behaviour. Strikingly, no less than 90% said they systematically avoid advertising on TV. More in detail, 70% of the respondents watch digital TV and hereof, one quarter skips advertisements every day (Droeve and Deckmyn, 2012). Obviously, ad skipping has a baleful influence on advertisers' Return On Communication Investment (ROCI).

The issues mentioned above compel advertisers to find other ways to reach the audience, for instance through product placement.²² However, it is difficult to measure the ROCI for product placement. Another alternative, namely advertising within the content, raises issues for advertisers as well. Specifically, it may cause friction with the programme producers since commercial aspects are hard to integrate into a programme's content. Another possibility, namely advertising via iDTV (the red button) has not taken off either and expired in the experimental stage. The Union of Belgian Advertisers (UBA) sees a number of reasons for this. Firstly, the pricing was too expensive. Also, in terms of campaign management, interactive advertising is rather difficult because it is only suitable for the final advertisement in a commercial break. If the consumer then clicks the red button, he obviously misses the beginning of the programme he is watching. Thirdly, the expected results were not met in terms of ROCI and, by consequence, advertisers ceased their efforts.

²² Articles 78-101 of the Media Decree stipulate how advertising, teleshopping and product placement may be integrated in programmes.

As a final remark, the UBA sees much potential in the EPG as a medium to exploit advertisements. Unfortunately, advertising with the distributor is still in its infancy. As pointed out by the UBA's CEO during the interview:

"For now, the 30-second spot still remains advertisers' main form of communication because it is measurable and efficient in the short-term. Besides, the advertising business is evolving more and more to an 'and-and' story, instead of an 'or-or' one. To be more specific, advertisers look for various channels to promote their products, for instance both online and on TV" (Interview UBA).

Continuing with private broadcasters' perspective, approximately 80% of their income still comes from advertising. However, this percentage is decreasing year-on-year, and income from consumers is becoming increasingly important. To counterfeit the flexview problem, many broadcasters resort to live programmes, possibly with the integration of second screen/social media applications (*cf. infra*).

3.2.4 Delayed viewing and its impact on VOD and advertising

Until ten years ago, operators solely engaged in distribution. Nowadays, they also exploit broadcasters' content in another way offering so-called 'comfort services'. These allow consumers to, for example, store content and to watch it delayed. Given technological evolutions, it is possible for consumers to record programmes while watching another programme, to record a programme while not watching anything, to resume a programme after a break – and if desired – skip advertisements, etc. Some operators also enable customers to record programmes from their computer or smartphone while being at work. These new services pose a threat to broadcasters' current business models that mainly rely on advertisement revenues. After all, if advertisers feel that they can no longer reach the audience they are paying for, it seems inevitable for advertising revenues to drop.

Calculations of broadcasters indeed indicate that they miss out on considerable advertising revenues due to delayed viewing by consumers. Moreover, broadcasters argue that the offer of comfort services deviates from the simultaneous, unaltered and unabridged transmission of their signal. In their opinion, retransmission fees only compensate for the exploitation of their content in so far as it is retransmitted simultaneously, unaltered and unabridged. Until now, contracts between broadcasters and distributors also stipulate this. Comfort services go *beyond* such a retransmission and, hence, a remuneration for the exploitation of broadcasters' content is in place. Distributors largely disagree with this view. As a first argument, they say that broadcasters want to slow down technological evolutions. Comfort services merely meet consumer demands as they are a logical extension of VHS and other home taping technologies (allowing for a private copy). Use of taping devices, however, comes with a revenue stream to creative parties and rights holders, whereas comfort services do not. As a second argument, it was also claimed that the more flexible product placement rules of the Audiovisual Media Services Directive would enable broadcasters to recuperate a part of the alleged losses of advertising revenues. For now, the dispute on comfort services seems to be the most problematic and complicated one (see also Donders and Evens (2010)). The interviews with the broadcasters and some recent press releases confirm this.

One broadcaster pointed out during the interview that paid-for reviews of its programmes are declining strongly, whereas the number of STBs keeps growing. For free reviews and previews, the figures are more optimistic. Besides VOD, the respective broadcaster's income from advertising also suffers from flexview. For these reasons, the broadcaster is dissatisfied with the current remuneration it receives from the distributors.

In a recent news article, media group De Persgroep's CEO Christian Van Thillo – 50% owner of VMMA (with TV channels VTM, 2BE, Vitaya, Kzoom and Jim) – goes even further by stating that:

“... the current model of watching TV is no longer sustainable. The fact that digital viewers can record programmes and fast forward advertisements so easily, is a threat that touches the fibres of our business model. What is happening right now, can be best compared to a newspaper kiosk decomposing a newspaper, ripping out all the advertisements, and subsequently selling it in pieces. In the end keeping all the money to itself.”²³

In another press release, he states:

“Fantastic device, the digicorder, but the system is not right, broadcasters do not reap the benefits of it”.²⁴

Marc Fauconnier, co-founder and CEO of advertising bureau Famous, agrees with Van Thillo:

“Nobody can question the intellectual property of the – often expensive – programmes that TV channels produce or order externally. With the money from their clients, the advertisers. Without government subsidies. To watch for free in exchange for advertising. [...] If telcos allow the possibility of ‘delayed viewing’ and even promote it, it is not more than normal that the lost revenue (less viewers for the advertisement blocks) is compensated in one way or another. Paradoxically, those ‘distributors’ are also the largest advertisers on TV, therefore, it is also of importance to them that the viewers keep watching. The way programme makers need to be compensated is something I leave up to the experts. But just as with iTunes or Spotify, it seems only logical that also the consumer who does not want to watch ads, pays for the content served. Without author rights – in one form or the other – no more television programmes will be created in the long run.”²⁵

Communication strategist Pieter Baert adds in the same article:

The people who today produce expensive content do not earn enough with it. And the distributors piggyback on it. The audience disregards the paid-for ‘on-demand’ services. A suppressing situation that not only is unfair, but paradoxically leads to less budget for local productions. We all suffer from it. And the TV distributors do not stand up, but laugh on the inside with each new direct debit [they take in].²⁶

The ‘ad skipping’ is an old sore point in the TV sector. But now there is a clear type of battlefield against the distributors, Belgacom and Telenet. It is rumoured that especially the latter plays it rough. Therefore, De Persgroep wants to organise a round-table urgently with all involved partners in order to reach a solution. Telenet's spokesman Stefan Coenjaerts replies on the statements above as follows:

“It is correct that certain business models have to change. But according to us, it is predominantly up to the media groups to find new ways of advertising.”²⁷

²³ Serrure, B., “Uitgesteld TV-kijken grote bedreiging”, De Tijd, April 25, 2012.

²⁴ “Doodt de digicorder de TV?”, De Morgen, April 27, 2012.

²⁵ Ibidem.

²⁶ Ibidem.

²⁷ See footnote 23.

In another press release, Telenet's CEO Duco Sickinghe advises the Flemish broadcasters to join 'surfing the waves of the Internet', instead of pointing their finger at Telenet. He also states that:

"Doubling the remuneration to the broadcasters will not solve the problem of advertising revenue".²⁸

According to Sickinghe, broadcasters need to find new ways of advertising. In doing so, the Internet may help them:

"Look at YouTube.be. It offers very nice TV. And it offers nice opportunities to advertisers. Well, I advise TV groups to devote a load of their workforce to YouTube.be and to attack their own business model. Attack yourselves and look where new opportunities lie".²⁹

Indeed, Telenet's CEO strongly believes that broadcasters have all opportunities to surf along on the waves of the Internet. It remains to be seen, however, how that would work out in practice (cf. infra).

The broadcasters proposed four possible solutions for the future during the interviews, namely (i) the retransmission fee remains equal and there will be an additional remuneration from the distributors' income received from the rental prices of the STBs, (ii) the distributor makes sure that – if a consumer fast forwards an advertising block – he/she is obliged to watch at least one commercial, (iii) the distributor pays the broadcaster a compensation for the loss of advertising due to delayed viewing, or (iv) the distributor makes it impossible for consumers to record premium content (e.g. fiction series that are very expensive), in such a way that the viewer *has* to see the advertisements and *has* to buy the episode in VOD in case he missed it. Niche channel Acht's general manager further stated during the interview:

"The distributor should not adopt the same 'everything for free' mentality the consumer has. If he does, broadcasters will be forced to invest less in local content. And, if so, local affinity with the consumer disappears, as more and more foreign content will be available. Obviously, competition from alternative players such as Apple TV and Google TV will only increase by this" (Interview Acht).

Hence, broadcasters and distributors should preserve each other, certainly if they want to fight off OTT players. If not, all other stakeholders will suffer from it, starting with the production sector. Indeed, although some claim the YouTubes of this world (seeking deals with broadcasters) are a potential solution to broadcasters' problems, this for now is not the case. Yes, Disney might close a good deal with YouTube, but for local broadcasters YouTube foresees in a revenue split of advertising revenues 40-60% (40% for Youtube), without any transmission or retransmission fee – much less than what broadcasters and producers get from distributors.

The interviews with the distributors, for their part, revealed the following information. Regarding income from the rental of STBs, one distributor noticed that STBs are in fact pre-financed, and that profit margins are small. He also mentioned that the STBs' rental model carries a risk, since there is a guarantee in case of product failure. Another distributor asserted that the maintenance of STBs is a very expensive undertaking. According to this distributor, it takes approximately 5 to 6 years to recover the costs on a STB and run break-even. He further noticed that the back-office procedures related to developments, applications, programming and updates of the STB are not only time-consuming, but also very expensive. Practically all distributors that were interviewed further argued they would be in favour of outsourcing the production, distribution, programming and maintenance of their STBs to an external organisation.

²⁸ SMART, "Ik verwacht toch eerder een dankjewel", De Tijd, May 3, 2012.

²⁹ Ibidem.

In a recent press release, Telenet's CEO further states:

*"[...] Telenet also has lost business due to the Internet. And now we have to compete with over-the-top players such as Netflix (companies that broadcast or rent movies via the Internet)."*³⁰

Via its own broadband, Telenet brings these players with competing content in the living room of its TV customers. On top of that, the company claims it is confronted with higher Internet costs, since the use of Netflix and co increase the Internet traffic.³¹

Summing up, the debate on delayed viewing and comfort services is a hot one, and it remains to be seen how broadcasters and distributors will solve their issues. Taking into account the empirical evidence above, this will not be a straightforward exercise, since both stakeholders clearly have opposite views.

3.2.5 Revenue streams related to the production sector

There appears to be a trend away from shared revenue models between broadcasters and production houses. Nowadays, broadcasters increasingly claim all the rights on a production, while the production companies say they (continue to) bear most of the risk. Hence, a point of conflict that often arises with broadcasters, concerns the income that production houses receive (on average a 15% margin on year basis). Several production houses appear to be in favour of regulation, such as in France, where broadcasters are obliged to invest a percentage quatum in production companies, based on their turnover.

3.2.6 Author and related rights

As pointed out by Donders and Evens (2010), the current practices of dealing with author rights seem ill adapted to the new media environment and are highly untransparent. First, the current system of clearing rights is not up to date. Concretely, many legislative instruments date back from the 1990s and were in fact developed in response to evolutions of the 1970s and 1980s. As a result, the current ill-adapted legislation causes fairly high transaction costs. Despite the collective rights management, there is no 'one-stop-shop' for rights clearance. This fragmentation in turn hampers efficient dealings with author rights. A second problem is the lack of transparency with regard to author rights. Consumers pay distributors for author rights, distributors pay broadcasters and collecting societies for exploitation, broadcasters pay production houses for exploitation, etc. All these financial flows (or the 'author rights value chain') are – to the least – complicated.

More in detail, the current author rights mechanisms installed by the cable operator might be questioned. First, why is there a separate charge for author rights on consumers (with Telenet and VOO – the latter active in the Southern part of Belgium), while other operators do not have such a separate charge in place? Second, it is unclear whether author rights contributions are identical for all consumers and how increases are justified. Third, how the VAT-level on author rights contributions from consumers is dealt with, is uncertain. Without doubt, solving these questions is a prerequisite in order to make the system more transparent in the future.

It became clear from the interviews with the stakeholders, that they are dissatisfied with collective rights agencies' current practices. One production company complained that the way in which AGICOA collects and divides cable rights is highly untransparent:

"Considerable sums of money are involved, and more clarity concerning the breakdown of these collections is necessary" (Interview Eyeworks).

³⁰ Ibidem.

³¹ Ibidem.

Concerning the collection of author rights for satellite transmission, one distributor at this stage has no agreement with the collective rights agencies. The company currently does pay a provision of 3.6% of the subscription price. However, collective rights agencies claim 10 to 15% of the distributor's content revenues, whereas in other countries, this provision is maximum 6%. The distributor argues that the price should be equal for all distributors and aligned with Europe.

Thirdly, all broadcasters agreed they would prefer a standardised system with one payment to all collective rights agencies. Nowadays, broadcasters often feel they are paying double, as everyone claims copyrights for the same repertoire. Moreover, collective rights agencies are not exactly 'communicating vessels'; there is a lot of tension, especially between SABAM³² and SACD³³. One specific concern for private broadcasters relates to the lawsuit Telenet filed against the collective rights agencies claiming it is not obliged to pay cable rights for the private broadcasters (See footnote 16 for more details). In case Telenet loses the case, it will most certainly recoup the damage from the private broadcasters, as this was stipulated in the contracts. Specifically, according to these contracts, broadcasters should indemnify Telenet for claims from collective rights agencies.

This said, from the collective rights agencies' perspective, three types of possible conflicts may arise in the sector. For one, there is the opposition in interests between collective rights agencies and the rights licensees: collective rights agencies want to collect as many contributions as possible, whereas the licensees want to minimise their costs as much as possible. A second problem relates to the fact that the different categories of right owners feel that additional rights will in turn lead to a bigger pie, whereas distributors, broadcasters and producers take the view that the pie should remain unchanged and divided amongst all right owners. All licensees alike have a budget they reserve to pay right claimants. The question then remains who should get the most out of it, the artist, the producer or the authors. Related to this, there is the question of how much should be paid for the different types of repertoire. Finally, internationally, there is a lot of competition between collective rights agencies, which on occasions creates a field of tension.

3.2.7 *Red button/SMS/games/astro services*

To get a grasp of revenue streams related to interactive services such as SMS votes, we interviewed Paratel, a 100% subsidiary company of private broadcaster VMMA. Besides Interactive Voice Response (IVR)³⁴ and SMS³⁵ applications, Paratel offers mobile applications,³⁶ iDTV,³⁷ Viewer Funded Programmes³⁸ and analogue teletext direction.

On the topic of TV voting, the interview with Paratel revealed that nowadays, there are increasingly more ways to vote, e.g. via 0900 numbers, via SMS, via the red button (via distributors Telenet *or* Belgacom), via mobile apps, etc. As a result, the administrative burden and costs involved in the voting process increase. Furthermore, Paratel claims that the glory days with programmes such as 'Idool 2004' generating over 1 million votes during the final, are over.

³² SABAM represents music authors, composers and publishers but also film directors, scriptwriters, poets, choreographers, painters, sculptors, photographers, architects, etc.

³³ SACD represents authors within the categories television and radio fiction, motion picture, theatre, dance, scene music and multimedia fiction.

³⁴ Paratel manages approximately 600 fixed telephone lines (0900- and 070-numbers).

³⁵ For its SMS operations, Paratel has leased "high performance" lines, e.g. for voting shows on television, for balance checking of one's bank account, for SMS flight checking and so on.

³⁶ To illustrate, Paratel has created an app for Kanaal Z that allows consumers to watch videos and consult real-time stock market reports on their iPad. Another example is the iPhone app 'Jureer zelf', which is based on the television programme 'Mijn Restaurant' and enables consumers to assess the quality of Belgian restaurants.

³⁷ Paratel develops digital teletext for channels VMMA and RTL.

³⁸ Concerning Viewer Funded Programmes (VFP), Paratel acts as a production house for VTM and RTL. More specifically, it has around 20 astrologers that work as 'consultants' on television. Paratel also has VFP in the erotic atmosphere but these are of less importance in economic terms.

As pointed out by Paratel's CEO during the interview:

"Nowadays, a programme's final generating 100,000 votes, is a good result."

Furthermore, Paratel mentioned that there used to be considerable market potential for advertising via digital teletext and the red button, but due to friction with the distributor who demands a large share of the pie, no advertisers have marketed any products interactively in 2010 or 2011. To be more precise, whereas in 2006 there were 10 campaigns of advertisers via the red button, this number decreased to 1 in 2009 and 0 in 2010 and 2011. Specifically, distributors demand part of the advertising income the broadcasters receive from the advertising companies. The distributors also claim they are entitled to the leads generated by these interactive advertisements. The tariffs the distributors charge the advertisers for these leads are very high and by consequence, no advertisers have marketed any products interactively the past two years.

Furthermore, the sector appears to be in turmoil due to problems with government regulation. According to Paratel's general director, what started out as a good thing – namely protecting the consumer (e.g. against undesired SMS services) – turned into tight government control:

"For SMS services, a double confirmation from the consumer is necessary, and, as a result, around 70% of the population bails out. Moreover, for SMS games, a maximum of three SMS can be sent back and forth, for a maximum of € 6. In fact, only 40% of the SMS marketing business survived due to this tight regulation" (Interview Paratel).

Another concern for Paratel is related to VFP. To be precise, Flemish Minister for Media Ingrid Lieten plans to forbid all astrology and erotic programmes on television, as well as erotic advertisements on teletext. Paratel proclaims that the only division that is not under fire is iDTV.

To end this subsection, we highlight the revenue split for a € 1 SMS vote (see Figure 3). First a VAT rate of 21% is deducted. The remaining € 0.82 is split as follows. Depending on the volume, around 45 – 50 % of the yield goes to the telecom operator (€ 0.41). The remaining € 0.41 is apportioned to the broadcaster who further pays an amount to the production house, the format owner, the bailiff as well as a commission to Paratel. Finally, he is left with around € 0.20 (20% of what the end-user pays).

Concerning the revenue breakdown for distributors, Mobistar does not engage in these types of interactive services yet and Belgacom did not release a figure. Telenet, for its part, states that revenue generated from red button/SMS/games constitutes approximately 10% to total turnover from its television operations (Interview Telenet). Since Telenet's income from TV in 2010 was € 475,784, it is estimated that for Telenet, in 2010, approximately € 47,578 came from interactive services such as SMS votes (Telenet, 2011).

Figure 3: The breakdown of income from a € 1 SMS vote

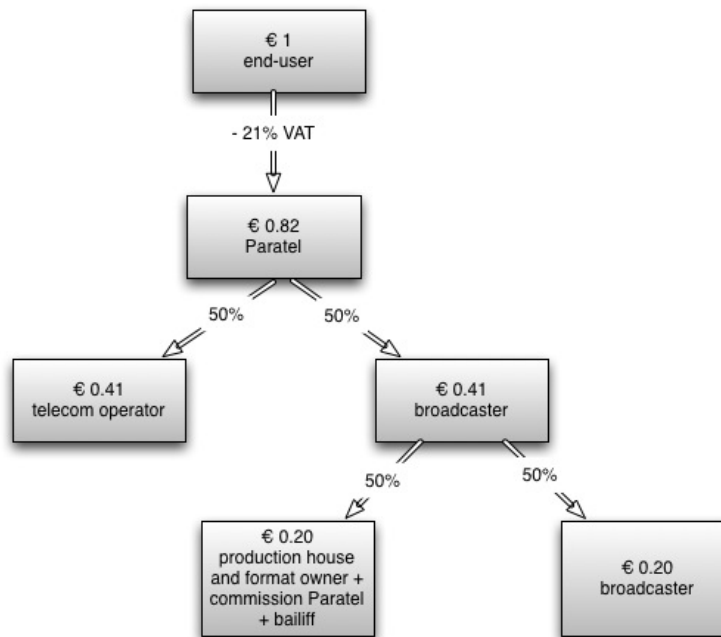


Figure 3 reveals that a large part of the money generated from a € 1 SMS vote remains with the telecom operator. Since most telecom operators nowadays also engage in TV distribution, this may cause additional frictions with broadcasters on top of the ones discussed in the previous subsections.

3.3 Conclusion: Stakeholders at cross-purposes?

Our value network analysis (3.1) and the interviews with the stakeholders (3.2) revealed that the audiovisual media industry in Flanders indeed is a typical example of a double ‘layered’ platform market. Furthermore, it became clear that the ‘double marginalisation’ effect is prominent; price setting in one platform market directly affects (the) adjoining platform market(s), and the major stakeholders are engaged in fierce conflicts to control and minimise ‘taxes’ levied by other platform players.

To start with, there is the interplay between broadcasters and distributors concerning the payment of carriage and retransmission fees. As a second example of double marginalisation, distributors’ exclusive offer of on-demand films hampers broadcasters to offer films of which they have acquired the linear rights in a non-linear way. Thirdly, the EPG cannibalises broadcasters’ income from VOD and advertising. Distributors’ offer of flexview services has repercussions in other veins of the value chain as well. For one, due to less advertising income, income from consumers is becoming increasingly important for broadcasters. Furthermore, in case distributors do not adequately compensate broadcasters for their loss in advertising income due to flexview, broadcasters threaten to invest less in local content, which in turn would harm the production sector. At the same time, competition from new entrants such as Apple TV and Google TV would increase. As this is harmful for distributors, this would in effect close the vicious ‘double marginalisation’ circle.

As already mentioned in Section 2, it is well-known from economic literature that individual platforms have strong incentives to vertically control prices of the adjoining platform, for example by entering the other platform’s territory. Indeed, distributors do not only take care of network management and content transmission, they also engage in service provision and content aggregation offering company-owned broadcast channels or specific premium packages. In that sense, they play a triple role; they operate their network, distribute content

and offer their own channels. As also pointed out by Donders and Evens (2010), premium content is a unique selling proposition that makes it possible for operators to differentiate themselves from competing platforms. Indeed, the bundling of electronic communication services (Internet, fixed/mobile telephone and digital TV) makes it difficult to discriminate on price, as there is no transparency regarding the cost of digital TV in the market. Also on the topic of premium content, both Telenet and Belgacom have started to launch thematic channels that focus on specific target groups. Telenet, for example, launched Studio 100 TV (kids) and, from June 2010 onwards, supports Disney (kids) (Telenet, 2011). This may cause friction since both channels directly compete for market share with the other kids channels (namely, VRT's Ketnet and vtmKzoom). The distributor with the weakest position on the Flemish market, Belgacom, owns only one niche channel (ANNE), which steers clear of competition with a particular established TV channel.

Another possible conflict may arise due to distributors' combined role of gatekeeper and content aggregator. As the operators select and package the channels, it is possible that platform operators are reluctant to offer good distribution conditions to stations that are a direct competitor of their own channels. This in turn may lead to conflicts of interest and an abuse of market power. To exemplify, say a new sports channel wants to enter the market. It obviously needs a distribution agreement with distributors to get its programmes to the viewers. But the possibility exists that the new channel will cannibalise the distributor's own channel, persuading the distributor not to take up the rivalling sports channel. As a consequence, media diversity and consumer choice may be harmed.

Summing up, this section revealed that many of the conflicts about roles and revenue streams between distributors and broadcasters in the audiovisual industry in Flanders today can be explained, and are even typical cases in point, by the counter-logics of platform ecosystems versus double marginalisation.

4. Conclusion

This paper attempted to partly lift the veil of secrecy that covers the business arrangements and set-ups in the Flemish audiovisual industry. It offered a detailed picture of its structure and provided a number of heretofore unreported insights concerning the allocation of different revenue streams among relevant stakeholders in the sector.

While doing so, it became clear that the ecosystem of the TV industry in Flanders is tightly knit, though fragile, in the sense that shifts in the relationships between the players may cause the ecosystem to malfunction or even to collapse. It became clear that the relationships between broadcasters and distributors are fraught with tensions that relate directly to the new double platform structure of the industry. In the light of a range of potential over-the-top entrants, Flemish broadcasters and distributors nevertheless have a strategic incentive to preserve each others' economic sustainability.

As a suggestion for further research, studying the media value chain and revenue sharing mechanisms in other countries would be very interesting. In the Netherlands, Germany, the United Kingdom, France, etc. challenges concerning broadcasting and distribution arise as well. A comparison of cases and analysis of 'best practices' across Europe would further enhance our understanding of the Flemish situation.

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