Chapter 15
Strategic Moves Related to Broadband Diffusion on the French VoD and TV Market

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ABSTRACT

The launch of triple-play services, including IPTV can be considered as a “critical event” having a strong structural impact on the market. In this paper, we analyse the evolution of the VoD supply in France, and in particular the effect of the launch of IPTV systems. Firstly, the launch of attractive triple-play offers has induced a strong development of the French broadband Internet access market, which in turn has resulted in the entry of numerous players in the VoD market. Secondly, the adoption of IPTV system has changed the competitive and strategic positioning of main players in the VoD value-chain, thus inducing or amplifying strategic moves along this value-chain. In particular, we show how the diffusion of IPTV systems has induced a switch from complementary convergence to competitive convergence.

INTRODUCTION

The emergence of the so-called multimedia industry, based on the expected merging of three vertical industries (telecommunications, computing and the media) into a new horizontally layered one, raised tremendous interest at the end of the 1990s. There was a great deal of conjecture about how this new industry would be structured and what types of players would be successful in positioning themselves in this emerging value chain (Collis et al., 1997; Vialle, 1998). In fact, it is only recently that the actual patterns of convergence can be observed and analysed (i.e. Vialle, 2007). According to Greenstein & Khanna (1997), convergence may include competitive as well as complementary dimensions. Different views on this issue have been expressed. For example, while Collis et al. (1997) have evoked a competition scenario based on substitution between actors and services, Chan-Olmsted & Khanna (1997) have focused on a complementary convergence scenario based on differentiated services and infrastructures.

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Video on Demand (VoD) probably one of the best publicised examples of a multimedia service, as VoD can be considered as exhibiting a symbolic significance for convergence. The supply of VoD services requires the combination of resources initially possessed by players from telecommunications, computing and audiovisual industry. It also exemplifies the disrupting character of convergence, as this is a substitute for more traditional distribution channels, such as movie theatres, broadcasting TV, or DVDs. In this paper, we identify a “critical event” which strongly impacts VoD business as well as other services: the launch of “triple-play” services in France and in particular of IPTV.

In order to analyse the effect of the launch of IPTV systems, we draw from the competences and resources approach (i.e. Barney, 1991; Prahalad & Hamel, 1990; Teece et al., 1997), combined with an overall evolutionist perspective (i.e. Nelson & Winter, 1982). Therefore, we put the emphasis on the critical resources and competences which are at the heart of actors’ competitive position. We also consider the learning processes and trajectories, as well as the changing amount and value of resources, which allow them to operate strategic moves.

This critical event also allows us to broadly distinguish between two phases of convergence. During the first phase, major players are strongly constrained by their past trajectories and their current stock of resources and competence. They are subject to strong information asymmetries as they have a low level of understanding of other industries’ business and tend to remain on their core resources and capabilities. Moreover, the business prospects of services such as VoD remain uncertain, so that they adopt a rather cautious approach in their strategic moves. This is a phase of rather complementary convergence. After the launch of triple-play services, VoD also exemplifies a second stage of convergence in which players do not remain on their initial resources and competences bundle, move along the value chain, and eventually enter each other’s business. It is a more competitive convergence. Players from the various industries have become more familiar with other companies’ business by interacting with them for the production and marketing of new services. The more sizeable business prospects also contribute to reduce the perceived risk of more adventurous strategies. This is particularly true of telecom operators which benefit from an increased market power. In the case of Orange, the learning accumulated with VoD business, the extension of a critical resource (the installed base of ADSL subscribers), as well as the blurring of service borders have induced a strategic move into the TV business.

In this paper, after presenting the VoD business and context, we first analyse the initial situation of the French broadband Internet and VoD market in the pre-IPTV complementary convergence period, and introduce the “critical event” represented by the launch of triple-play services. Then we analyse the entries of different companies and the inter-organisational arrangements used. Finally, we show how the change in the balance of power induced by IPTV has amplified the strategic moves of major market players, inducing the emergence of a competitive convergence dimension. We conclude by outlining competitive and regulatory implications.

**BACKGROUND: VIDEO ON DEMAND BUSINESS AND CONTEXT**

VoD is a service providing video programs (typically movies, but other programs as well) as requested by the customer in a catalogue and delivered at a time chosen by the customer.

Movies are distributed through multiple channels in sequential release windows in a specific order. The majority of the revenues generated by a film are received within 18 months of a film’s distribution cycle (Table 1). This cycle is based on potential revenue along the different market