THE DIGITAL REVOLUTION OF TV

An Analysis of the Italian TV industry Through the Lenses of Disruptive Innovation Theory

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SUPERVISOR Ravi Vatrapu

STUDENT Silvia Ancora

The Thesis accounts for 176.359 keystrokes, equivalent to 77 strandard pages of 2.275 keystrokes.

Abstract

The world of media has gone through many radical transformations over the decades. From the music business to publishing, innovation has continuously modified the market trends and has started to blur traditional roles and definitions. In this realm of transformations, the Television (TV) industry was left relatively unchanged for a long time. However, the development of new technologies and in particular the birth of the Web 2.0 more recently, have enabled a deep transformation among those who make and deliver TV content and among those who watch. This Thesis explores the digital revolution of the TV industry, focusing on the case study of the Italian market. Data and trends are analysed from the perspective of the Italian players and from that of the Italian consumers, in comparison with other international markets and through the lenses of the disruptive innovation theoretical framework. After having been dominated by a public-private TV duopoly, for most of its history, the Italian TV industry, over the last ten years, has registered the first signs of change, particularly on an economic and technological level. The digitalisation and the development of new distribution platforms, increased the variety and availability of TV content, free and pay, allowing to overtake the problem of spectrum scarcity that had characterised the previous audio-visual analog offer. The processes also enhanced the technical potentialities of broadcasting, contributing to the evolution of the economic activities related to the TV industry and of the business models of incumbents and new players operating in various segments of the value chain. As an effect of the employment of new business models, the audio-visual communication underwent a deep transformation, evolving from a generalist and linear model, to a non-linear and personalised one, in which is the end consumer that decide where and when to access content. Although data show that TV still remains today the most accessed media of all, the rules of the game are changing at an unprecedented velocity and all the industry operators are required, more than ever before, a deep understanding of consumers most important needs, in order to be able to design strategies that can be disruptive to established players, but also to effectively respond to disruption before it is too late to reap the rewards of participation in new, high-growth markets.

SUMMARY

List of Abbreviations

4G: Fourth-Generation Mobile Telecommunications

ADSL: Asymmetric Digital Subscriber Line

AGCOM: Autorità per le Garanzie nelle Comunicazioni (Italian Communications Regulatory Authority)

AMR: Average Minute Rating

B: Billion

DBS: Direct Broadcasting Satellite

DSL: Digital Subscriber Line

DTT: Digital Terrestrial Television

DVR: Digital Video Recorder

CAB: Cabletelevision Advertising Bureau

EU: European Union

FCC: Federal Communications Commission

FTA: Free-to-air

IPTV: Internet Protocol Television

ISTAT: Istituto Nazionale di Statistica (Italian National Institute of Statistics)

K: Thousands

M: Million

NCTA: National Cable and Telecommunications Association

OTT: Over-the-top

PPV: Pay-per-view

RAI: Radiotelevisione Italiana

SIC: Sistema Integrato delle Comunicazioni (Integrated Communications System)

TV: Television

US: United States (of America)

SVOD: Subscription Video On-demand

VOD: Video On-demand

1. INTRODUCTION

1.1. The Birth of TV

Since its commercial introduction, TV has proven to be one of the most revolutionary technologies in history: it introduced a new form of communication, it became an integral part of people's daily routines and it managed to dethrone those means and products to which had been assigned, until then, the task to inform, educate and entertain.

The main two characteristics introduced by the TV medium were the format of the message broadcast, which was video unlike that of print and radio, and the fact that it could be assimilated exactly at the same moment in time by large and diverse sections of public, in the comfortable and private space of the family home, as opposed to the public space of movie theatres. By virtue of its penetration capability and the powerful impact of its message, TV soon became the most influent of all media and one of the most sought-after appliance for sale. To have a better idea, it is interesting to look at the first TV sets sales data in the United States: between 1948 and 1955, nearly two-thirds of the American homes had installed a TV set, and by 1960, almost 90% of American households had at least one receiver, with the average person watching approximately 5 hours of TV every day (Steinberg, 1980). It is not less interesting to notice that, albeit the first TV sets were launched around the world in the 1930s, the boom in sales took place in a specific period in time, that is the years following the end of World War II. TV assumed an important social role during those years: it portrayed the rediscovered peace and wealth even before its material arrival to the families that were watching (Menduni, 2006), it was depicted as the cure for the broken homes and hearts of wartime life, as a catalyst for renewed domestic values, and not only it shown to restore faith in family togetherness (watching TV was a social, collective experience), but it also renewed faith in the splendours of consumer capitalism (Spigel, 1992).

Over time, the TV set has become a staple fixture of nearly every house in the developed countries and has changed completely the relationship between the audience and the external reality. On one hand in fact, it redesigned the awareness of space: the entire world could now be inside anyone's home, with its known and unknown, private and public places, but also with everything that, by its nature, is not normally visible, like for instance what is inside the human body or the deepest abyss of the oceans. On the other

hand, TV made time spectacular: the entire history of humanity could be portrayed on screen through archival video footage and/or re-enactments. TV became something in the nature of a transportation medium which provided the means for direct participation without the need of physical movement (Lang and Lang, 2002).

TV has profoundly changed people's leisure time consumption and habits, it took the place, in all or in part, of reading, conversing, playing, studying and of many other common pastimes. Since the installation of the TV set into the domestic space, marginalisation has become the destiny of activities such as writing, collective listening to the radio and book reading. Today, Internet is intervening in strengthening this trend, but it is also calling into question the leadership achieved by TV, applying a sort of "retaliation law". Everything is changing inside and around the TV set.

1.2. The Digital Revolution in the TV Industry

The world of media has gone through many radical transformations over the decades. From the music business to publishing, the introduction of a variety of disruptive innovations has continuously modified the market trends and has started to blur traditional roles and definitions. In this realm of transformations, the TV industry was left relatively unchanged for a long time. However, the development of new technologies and in particular the birth of the Web 2.0 more recently, have enabled an out-and-out revolution of the competitive scenario of the industry. The content offer, once controlled by an oligopoly of broadcasters, grew at an unprecedented velocity in terms of quantity and accessibility. The viewers can now choose among an extremely wide range of programs, shows and films, and they can do it on a variety of devices other than the TV set, on their demand and with no restrictions of time and space.

Statistics show that the linear TV consumption (intended as the service where the viewer has to watch a scheduled TV program at the particular time it is offered, and on the particular channel it is presented on) is decreasing in favour of other forms of viewing experiences like for instance time-shifted viewing and video streaming through Internet connected devices. But does this mean that the TV era is coming to an end? According to Nielsen's 2014 Digital Consumer Report, despite the wide range of alternatives, TV still remains at the centre of consumers media consumption. TV also

continue to globally lead the charge in the ranking of ad spend by media type. In fact, while display Internet ads grew by more than 30% in the first three quarters of 2013 compared to the same time period for the year prior, TV proved itself once again to be the advertisers' most favoured means on communicating with customers with a 57,6% share of ad spend (Nielsen, 2014b). Despite the slightly negative trends registered over the years, the TV industry in its entirety appears as rather healthy. Nevertheless, the rules of the game have deeply changed and are changing at an unprecedented velocity for the industry incumbents as well as for the new entrants. The pivotal point, that remained unaltered over time, is the vital importance of attracting and retaining the audience, whose viewing habits have changed and are changing in turn, in order to secure a market share to the detriment of the increased number of competitors, and make profits.

1.3. Research Question

The revolution that is taking place today in the TV industry can be analysed by looking at two different but complementary perspectives: the one of the players of the industry and the one of the consumers.

On one side in fact, the development of new technologies and the birth of the Web 2.0 have enabled, in combination with other factors, the reduction of the market entry barriers and thus the entrance of new players introducing disruptive innovations, in the form of new business models, revenue models and products. Cable and Digital Broadcasting Satellite (DBS) networks, digital video recording (DVR), over-the-top (OTT) subscription services like Netflix and Hulu, and peer-to-peer file sharing are just a few examples. The new rapidly growing competitive scenario resulted in the multiplication of the content offer, which became extremely richer but also progressively more integrated with and flanked by other devices, capable of conveying the TV content in different forms. It also brought into question the positions achieved by the traditional players, imposing them to rethink their way of doing business in order to vie over an audience, never as contended as today, and to attract its attention and loyalty with technique and means that were unthinkable up to just a few years ago. Consumers become the very centre of the players' value proposition and, if it is true that the new competitive scenario poses many threats and challenges to the players of the

industry, the Internet and new technologies offer also countless opportunities (TV content consumption as a whole is increased in the last decade regardless to how this content is accessed) that can be leveraged with the right strategic business choices and marketing techniques.

On the other side, the development of new technologies and the birth of the Web 2.0 have triggered a revolution in the way people spend their leisure time, can access content (once only available on the TV screen) and interact, propelling a new, multiscreen, always connected lifestyle. Statistics show how in the United States for instance, American consumers' everyday lives and digital lives are now wholly intertwined: a majority of US households own high-definition TVs (87%), internet connected computers (80%) and smartphones (65%), and they spend an average of 60 hours a week consuming content across multiple screens (Nielsen, 2014a). In this light, the consumers are not passive viewers anymore, they can choose what to watch and they can do it where and when they want. Also, the ownership of mobile devices and their rapid adoption as second screens is inevitably transforming the traditional consumer TV viewing experience: consumers use smartphones and tablets in ways that are natural extensions of the programming they watch, like looking up information about the characters and plot lines, or researching and purchasing products and services advertised just minutes before. No less so, using social media to engage with other viewers is transforming the live viewing experience. TV networks and content providers around the world are increasingly pursuing to exploit the social media boosting potential by combining social networks with the more passive experience of traditional TV viewing. The goal is to make watching TV a social experience, something that viewers in different places can share ad discuss by seeking to recapture the early days of TV, when families gathered in their homes to share the experience of watching television together (Dumenco, 2011). Also, this interaction offer TV networks and providers an unprecedented opportunity to glean valuable insights on their target audience, to improve their offer with and to present to advertisers.

The analysis of these two perspective is going to be conducted by focusing on a specific context and market: the Italian TV industry. With the proper considerations and comparisons to the global trends and markets, the following research question and sub

questions are going to be addressed throughout the Thesis, with the aim of providing a clear picture of the factors and trends that have been affecting the Italian TV market and forming the basis for a critical evaluation of the current trends, the strategies adopted by the players and the implications for the coming years:

How is the Italian TV industry changing in respect to the international market trends?

- ***How are the Italian players reacting to the opportunities and threats presented by the new competitive scenario?***
- ***How are the Italian consumers modifying the way they interact with content and brands?***

Although the case study shares many similarities with the TV industries of countries like the United States and Great Britain, it presents many country specific characteristics that have contributed to the birth of the TV medium and its development following different paths. The geographical conformation of the country and the profound bound between media and politics for instance, have played an important role in the development of technologies and in the openness of the market to new players. The TV content offer is controlled today by almost exclusively Digital Terrestrial TV (DTT) and DBS operators. Cable TV never took root and even if, in the past few years, different telecommunications companies have attempted to introduce IPTV in the country, they achieved no success or rather poor results. Services based on IPTV technology (e.g., video on demand) are however present and are operated by the two main Italian pay TV platforms, so are the major OTT services, which have approached the market very recently. Other country specific factors, like the Italian long lasting dubbing tradition (foreign content on Italian TV is rigorously dubbed in Italian, with almost no exceptions), the distribution policies and the lack of a substantial affordable and legal alternative to linear TV, have also conditioned the viewing habits of the audience and have arguably contributed, especially among younger viewers, to the increase of digital pirated video content consumption, through illegal streaming and download.

However, despite the Italian TV industry still appears as fairly closed, the most recent years have shown the first signs of change. The success of international business models

and the threat of new entrants are pushing the established players to rethink their offering, in order to create a strong value proposition in the mind of the consumers, as well as to preside over the market with an offering as ubiquitous as possible in terms of content but also hardware and software, so to create switching barriers and barriers for new entrants. It has also emerged an orientation towards the production of original content and the use of techniques to foster and maximise viewers' engagement. The revolution is underway.

1.4. Motivations for studying the topic

Throughout my studies I have developed a great interest towards the creative industries and the world of media. I graduated from Bocconi University with a Bachelor's degree in Economics and Management for Arts, Culture and Communication and I later decided to continue my studies within the field with the Master of Social Sciences in Management of Creative Business Processes at CBS. My academic background allowed me to acquire a large knowledge on the organisation and management of the creative industries, as well as of many innovative firms in more traditional industries that adopt creative processes as part of their business. I learned about innovation theories and their practical application in connection with the creative field and I developed analytical and critical skills to understand and address a series of managerial issues that are extremely relevant for decision making and that are peculiar to the industries within this field, which have to deal and combine art and creativity together with commercial logics.

Over the past two years, I have had the chance to put my interest, academic knowledge and skills into practice by working for two major international TV networks operating in Italy (the country in which I was born and I currently reside): Fox International Channels and A+E Networks, respectively in the marketing and creative production departments. The expertise in the TV industry, particularly the Italian one, I gained from these experiences motivated me to select, as main focus of my Thesis, the digital revolution enabled by disruptive innovations that is taking place today in the TV market. This topic, besides being very interesting to me, is highly contemporary and has important implications, which are relevant to those who operates in the industry but also to the great majority of the TV content consumers.

1.5. Paper structure

The Thesis is organized after the following structure:

- **Chapter 2** focuses on the relevant theory related to the topic. Starting from the original formulation of the Disruptive Innovation Theoretical Framework and its critique, the chapter illustrates the application of the theory in the TV industry, posing the basis to understand the challenges faced primarily by the established firms in the international market, as well as the managerial implications for all the players involved.
- **Chapter 3** presents the choices in research design and the technique and procedures used to collect and analyse the data.
- **Chapter 4** illustrates the analysis conducted in order to answer to the research question and present the initial findings, deriving from the observation of qualitative and quantitative data, that describe the dynamics characterising the Italian TV industry.
- **Chapter 5** and **Chapter 6** compose the discussion and interpretation of the results, within the context of the theoretical framework, and the conclusive sections of the Thesis.

2. THEORETICAL FRAMEWORK

2.1 Disruptive Innovation

The concept of "Disruptive Innovation" was pioneered by Harvard Business School Professor Clayton Christensen in the 1990s. Christensen built his argument upon a series of technological innovation studies and observations, which soon created a significant impact on management practices and aroused plenty of rich debate within the academia (Yu and Hang, 2009). In the last two decades, a large number of studies have been conducted on the topic and the nature of the resulting literature is rather scattered and conflicting. One of the main issues is represented by the actual definition of disruptive innovation and the lack of a clear-cut criteria to determine whether or not a given innovation is disruptive (Danneels, 2004). The following paragraphs aim to clarify, through a brief review, the concept of disruptive innovation and some common misinterpretations that contributed to the state of ambiguity surrounding the theory.

2.1.1. The Innovator's Dilemma and the Innovator's Solution

In 1997, Christensen published *The Innovator's dilemma*, his first influential book on the basic theory of disruptive technologies. According to Christensen, disruptive technologies are those that provide different values from mainstream technologies and initially underperform the latter along traditional performance metrics, over time however, they end up displacing the prior established technologies and thus the incumbent firms that supported them.

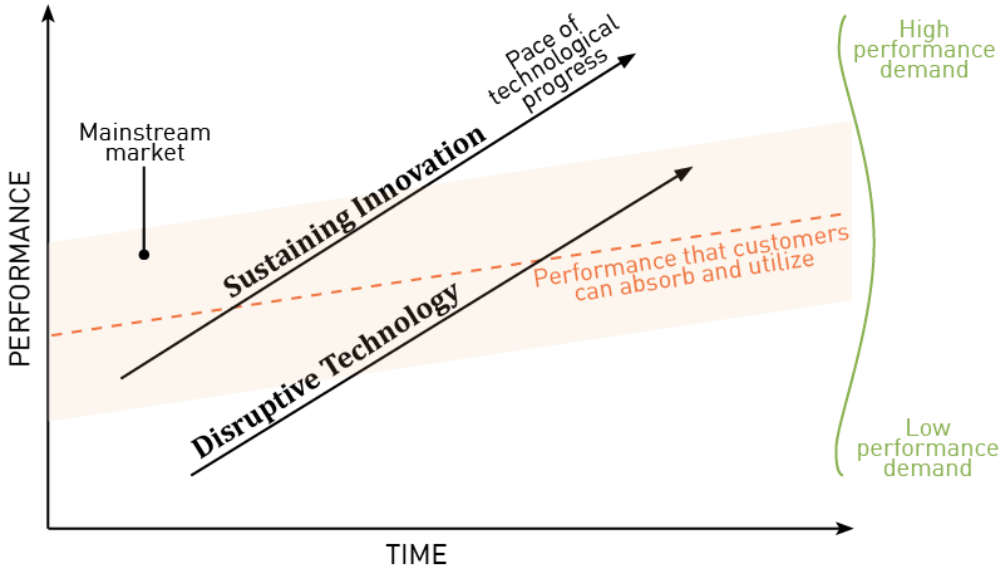


Figure 2.1. Distruptive Technology Model (Christensen, 1997).

As shown in Figure 2.1., the performance demanded by various customers segments within a market can be mapped into a normal distribution curve that goes from low performance demand to high performance demand. Average customers constitute the mainstream market, and with the passage of time they are able to absorb increasingly improved performance.

However, given the pace of technological progress and the competitive pressure in the market place, companies tend to innovate faster than their customers' needs evolve and find themselves designing products or services that are often too sophisticated, complicated and expensive for many of the customers in their market. Christensen argues that industry-leading companies pursue these "sustaining innovations", targeting demanding high-end customers with better performance than previously available, because they are attracted by the greatest profitability potential deriving from charging a higher price to those customers at the top of the market. By doing so however, companies involuntarily open the door to new entrants bringing disruptive technologies at the bottom of the market.

In the early development stages, products based on disruptive technologies do not attempt to bring better performance to established customers, on the contrary they are usually not even as good as the already available solutions. Their strength lies in the simplicity and convenience to use, the lower price and other non-standard performance attributes, valued by those low-end consumer, who do not need the full improved performance. As these lower tiers of the market are usually only niches and offer lower gross margins, they appear as less attractive to established companies, which are not motivated to focus on pushing innovations to meet the needs of unprofitable customers. New entrants take advantage of this non-served targets to take root in the market. At a later stage, further developments raise the disruptive technology performance to a level which customers consider "good enough", sufficient to satisfy and attract mainstream customers.

The market disruption occurs when, despite its still inferior performance on some focal attributes valued by existing customers, the new product displaces the mainstream product in the mainstream market. In Figure 2.1., disruption takes place when the

trajectory of performance provided by the disruptive technology intersects with the trajectory of performance demanded in the mainstream market.

In order for the process to happen, two main conditions have to exist: the improved performance of incumbent products has to exceed the demand of mainstream customers and there has to be an asymmetry between the incentives of a healthy existing business and those of a potential disruptive one. Christensen documented the above dynamics focusing on different contexts. Table 2.2., shows two emblematic examples:

INDUSTRY	DIRUPTOR	DIRUPTEE	NOTES
Rigid disk drive	3.5" hard disks	8" hard disks	At the time of introduction, 3.5" drives were significantly slower and smaller in capacity than the industry standard 8" drives. For this reason, workstation manufacturers, customers of the 8" hard disks companies, had no interest in the new product. Even if the 3.5" drive offered a lower performance, attributes like smaller physical size and lower cost made them perfect to be used in an inexpensive and much smaller home machine: The Desktop PC. When the market took off, companies that had bet on 3.5" grew exponentially and as their drives improved over time, becoming faster and denser, they eventually overtook the demand curve of workstations computers. At this point, even if 8" drives were still faster and denser, they were much more so than their customers needed, and the cheaper 3.5" drives cannibalized their market.
Excavating equipment	Hydraulic actuation	Cable-actuated movement	Early hydraulic diggers were cheaper, but as they were too weak to handle big jobs, their makers started selling small backhoes that could excavate the basements of suburban homes and so created a niche market. The producers of heavy-duty shovels showed no interest in such market, as they considered it as too small. Over time however, hydraulic technology improved and so did the performance of the smaller machines, which became able to compete for the business of every customer segment of the incumbents. Eventually, hydraulics could do everything the cable machines could do, and at a better price. This allowed their makers to become the industry's new leaders and to displace many of the older companies.

Table 2.2. Examples of disruptive technologies (Christensen, 1997).

In 2003, with the aim of providing an answer to the dilemma faced by the large companies that had failed to sustain innovation and to catch up with the lead of the new entrants, Christensen and co-author Michael E. Raynor published a book entitled *The Innovator's Solution*. While in the original formulation of the theory, Christensen focused primarily on technological innovation and on how new technologies succeed in surpassing seemingly superior technologies in a market, in the new book Christensen and Raynor widened the application of the term "disruptive technology" replacing it with "disruptive innovation". The use of the word "innovation" allowed the authors to include in their argument not only technological products, but also services and business models, such as: discount department stores, low-cost airlines, online businesses, etc.

The book highlighted the possibility of broadly classifying disruptive innovations in two main categories: low-end and new-market disruptive innovations. Low-end disruption is proper to the new entrants that target the least profitable customers at the bottom of a value network[1], and eventually move upmarket displacing established competitors, as seen earlier; new-market disruption, on the other hand, allows the players to create and exploit an entirely new value network.

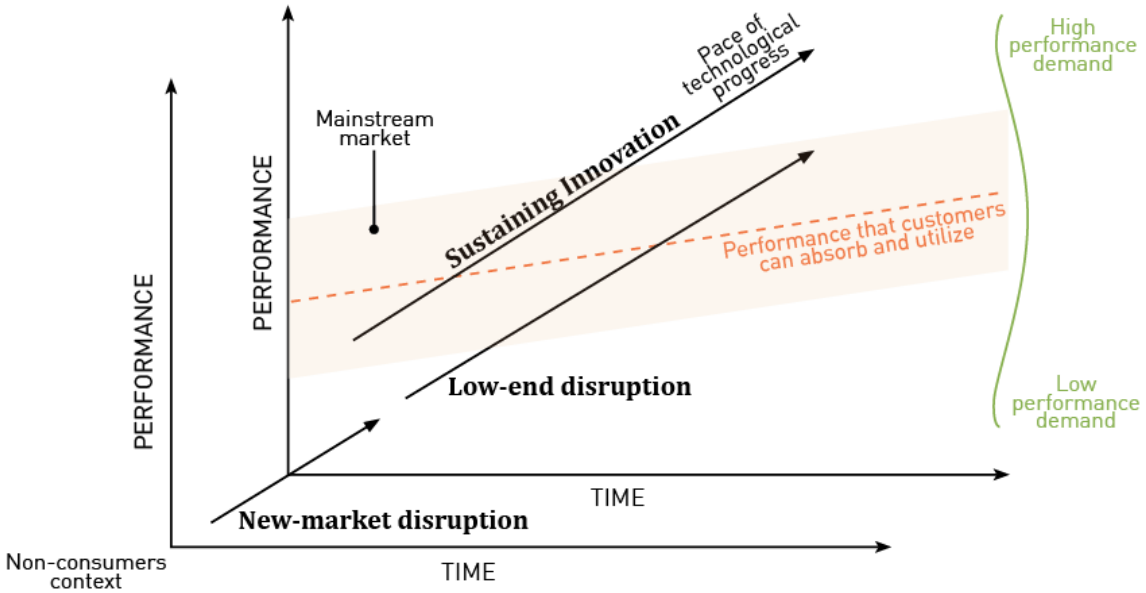


Figure 2.3. Distruptive Innovation Model (Christensen and Raynor, 2003).

[1] A value network is the context within which companies respond profitably to the needs of a class of customers (Christensen and Raynor, 2013).

Instead of targeting the low-end consumers of a traditional product, new-market disruptions focus primarily on non-consumers, those customers who have needs that are unserved by existing incumbents. By virtue of their affordability, simplicity of ownership and portability, these kind of disruptive innovations generate a need in customers or different situations in which a product can be used. Thus, they create a new niche market, enabling a larger population of people who previously lacked the money or skill, to begin buying and using a product. The challenge of new-market disruptors is therefore to create a new value network, in which is non-consumption, not the incumbent that must be overcome.

The growth of such new markets is often ignored by established firms, which consider the niche as unprofitable and the technologies employed as too different and as substandard of the existing company focus. Furthermore, as new-market disruption compete against non-consumption in its unique value network, incumbent leaders feel no pain and little threat.

Similarly to low-end disruptions, as improvements are made in new-market disruptions, the niche grows and the companies that foster them are able to pull customers out of an old or mainstream value network and into the new ones. Once the disruption sets in, the performance attributes of the product offered by the new entrants permanently reshape the traditional market place.

Christensen and Raynor offered a multiplicity of examples to argument the widened application of the disruptive innovation theory, Table 2.4. include some of the most representative.

Although the solution to disruptive innovation cannot be found in the standard tool kit of good management, there are sensible ways to deal effectively with the challenge. Every company, in every industry, work under certain laws of organizational nature, that strongly define what the company is capable of doing and what is not. The more productive route is to understand these laws and the laws that apply to disruptive innovations, in order to use them to create new markets and new products. It is only by recognizing the dynamics of how disruptive innovations develop, that managers can respond effectively to the opportunities that they present.

TYPE	INDUSTRY	DISRUPTOR	DISRUPTEE	NOTES
New-market disruptive innovation	Printer and copier	Canon's Desktop photocopiers	Photocopy centres	Canon's desktop photocopiers enabled people to begin conveniently making their own photocopies around the corner from their offices, instead of taking their originals to the corporate high-speed photocopy centre where a technician had to run the job for them. When Canon made photocopying so convenient, people started making a lot more copies.
Low-end disruptive innovation	Retail: Department stores	Discount retailers	Full-service department stores	Discount retailers such as Wal-Mart, attacked the low-end of the department store's market by selling nationally branded hard goods, such as paint, kitchen utensils, toys, etc. These products were so familiar in use that they could sell themselves, and customers in this tier of the market, over-served by department stores, did not value much having trained floor sales people helping them in the purchase process. The discounter's business model enabled lower gross margins (the costs were lower, but so were the revenues), however stocking policies and operating processes allowed a return on capital invested in inventory (ROII) as high as that of the full-service department stores. To face disruption, department stores managers could decide to either allocate more space to even higher margin goods (e.g., cosmetic and high-fashion apparel) or defend the branded hard goods business. To compete against the discounters, they should have lowered their prices as competitors did, but given their business model, this decision would have entailed them a much smaller ROCII (Department stores could not turn their inventories as fast as discount retailers). The new-market disruption thus succeeded in motivating the incumbent to flee the attack.
Hybrid: Combine new-market with low-end approaches	Airline	Southwest Airlines	Major airlines	Southwest Airlines initially targeted people who did not fly and would use cars or busses instead. The company however, through its low pricing, also managed to pull out customers of the low end of the major's airlines value networks.
	Stock broking	Charles Schwab	Full-service brokerage companies	Charles Schwab managed to attract the customers of full-service brokers with its discounted trading fees, but it also created new markets by enabling people (e.g., students) who were not equity investors to begin owing and trading stocks.

Table 2.4. Examples of disruptive innovations (Christensen and Raynor, 2003).

Christensen individuated a few explanations to justify the failure of well-managed incumbent firms, which conversely can be used to explain their success and provide a solution to the dilemma:

- **Listen to their customers**

Christensen pointed out that established firms are held captive by their customers because they listen to them too carefully and therefore miss the boat on disruptive technology. This should not mean however, that companies should not be customer-oriented, Christensen's findings only reject a rather narrow notion of customer-orientation (Danneels, 2003; Slater and Narver, 1998). The majority of the firms portrayed by Christensen in fact, shows a shallow understanding of their customers' needs. If it was not so, they would have known that their customers had a broader range of product selection criteria that those upon which products competed before the disruptive technology (Danneels, 2004).

- **Invest aggressively in innovations that give their customers what they say and want**

Customers "hire" products to do specific "jobs". Companies that segment their markets targeting their products at the circumstances in which customers find themselves and experience life, rather than at the customers themselves, have better chances of launching successful products and services. Knowing what jobs are not getting done well can give innovators a good map for designing and improving their products and beat the competition from the customer's perspective. This "jobs-to-be-done" segmentation can be used to gain a disruptive foothold.

- **Seek higher margins and target larger markets rather than smaller ones**

To maintain their share prices and create internal opportunities for employees to extend the scope of their responsibilities, successful companies need to continue to grow. Small markets do not solve the growth needs of large companies, which is why incumbents are not interested in the markets in which disruptive technologies typically initially operate. However, there is a way for established companies to exploit a disruption: creating a separate unit, with its own dedicated resources, for venturing into disruptive innovations.

- **The RVP framework (resources, processes and values)**

Many innovations fail because the responsibility to build this business is given to managers and organizations whose capabilities are not up to the task. Capabilities can be divided into three classes of factors that define what an organization can and cannot do: resources (i.e., people, information), processes (i.e., the work of people, equipment) and values (the standards by which employees make decisions). These factors should be deeply analysed and understood in order to avoid the risks of turning them into disabilities when disruption is afoot.

2.1.2. Criticism to Christensen's Theory Formulation

Even if recognizing the value of the contribution of Christensen to the development of disruptive innovation theory, many scholars from different management research disciplines have generated, over time, diverse critiques, doubts and challenges over his theories' mechanisms and effects on firms and industries:

- **Different combinations of the key dimensions Price and Performance**

Relatively to the disruptive innovations that take place in an existing value network, Christensen (Christensen and Bower, 1996; 1997; Christensen and Overdorf, 2000; Christensen and Raynor, 2003) focused on and explored throughout his work the combination Low price/Low performance, claiming that common characteristic of this kind of disruptive innovations is lower cost unit to which correspond inferior performance. He overlooked, however, the other possible combinations of the price and performance dimensions.

The High price/Low performance combination was first analysed by Govindarajan and Kopalle (2006), who introduced an innovation measure to include high-end as well as low-end disruptions. According to their definition, a disruptive innovation "introduces a different set of features, performance and price attributes relative to the existing product, an unattractive combination for mainstream customers at the time of product introduction because of inferior performance on the attributes these customers value and/or a high price". For the first time, Govindarajan and Kopalle ascribed the initial disruption innovations' unattractiveness to mainstream market, to the lower performance of the product as well as, or alternatively to, a higher price. To better

appreciate the point, they took the example of cellular phones. Despite its high price, the cellular phone at its debut was valued by corporate executives who appreciated its convenience and portability. Meanwhile, the mainstream customers still preferred land-lines phones because of their reliability, coverage and cost. Over time however, developments in cellular technology allowed it to offer reliable coverage at a price point that satisfied the needs of mainstream consumers, which caused the disruption.

Yu and Hang (2009) noted that an innovation which provides a superior performance than already available solutions with a relatively low-cost structure (Low price/High performance combination), would invade directly the mainstream market causing an even greater degree of destruction than a normal disruptive innovation focusing on low cost but initially low performance. For instance, when IBM started employing the SiGe alloy in the construction of its new generation of communication chips, it was able to increase considerably the performance of the chips, in terms of speed and power requirements. As the new chips were manufactured using existing semiconductor fabrication plants, the firm could also reduce costs by saving in new capital investment. The superior performance of the chips, combined with the lower production costs, had a severe impact on IBM's competitors, which soon became followers. SiGe has become since then a mainstream technology for the communication industry.

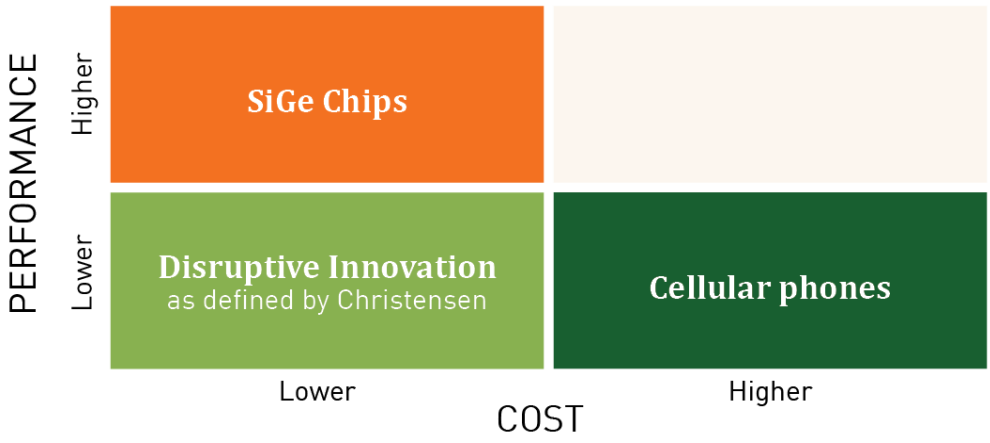


Figure 2.5. Matrix of technological innovations based on cost anf key performance dimensions (Yu and Hang, 2009).

The last example is peculiar, the superior performance of the SiGe chip combined with its lower price allowed the product to be valued immediately from the mainstream market. Disruptive technologies however, are initially commercialized in emerging or

insignificant markets and are for this reason ignored by incumbents, who focus on more attractive segments (Christensen, 1997). Does this mean however, that SiGe chips cannot be considered a disruptive technology? Do incumbents have to necessarily first ignore the disruption to allow the mechanism of disruption analysed by Christensen to take place?

Some of the characteristics of disruptive technology might be essential, while it is possible that others are industry-specific (Danneels, 2004). The stream of research on the impact of technological changes on firms has tended to focus on issues of internal validity, and despite most empirical work has been in the form of well-documented case studies, the extent to which findings from these case studies generalize across industries has not been addressed (Chesbrough, 2001). Christensen and Raynor (2003) replaced the term disruptive technology with disruptive innovation, but as the limits of the theory of disruptive innovation continue to be pushed to include areas that go from retailing to online banking and digital imaging, it seems that concepts and mechanisms outlined in earlier works become increasingly stretched (Danneels, 2004).

- **Relativity of the disruptive phenomenon**

If disruptive technologies pose a threat to incumbents and an opportunity to entrants, managers and scholars need to be able to distinguish disruptive from sustaining technology (Danneels, 2004). Christensen made a strategically important distinction between disruptive and sustaining innovation (Christensen and Raynor, 2003):

Figure 2.6. Innovation according to Christensen and Raynor (2003).

However, Christensen himself admitted that according to the business model adopted by a certain firm, the same innovation can be either sustaining or disruptive. For instance, e-commerce was a sustaining innovation for Dell compared with its previous business model, which implied selling computers over the phone or by mail. However, it was disruptive for Compaq, HP and IBM, as marketing customers directly through the

internet had an impact on their retail channel partners (Christensen and Raynor, 2003). It is thus unclear whether an innovation is inherently disruptive or if it its "diruptiveness" is a function of the companies subject to it (Danneels, 2004).

Danneels (2004) raised other two important questions relatively to the disruptiveness of a given technology: at what point does a technology becomes disruptive? Is it only when it invades an existing market and displace other competitors? Also, is disruptiveness only a function of the market in which products are sold? He takes the example of digital imaging, arguing that many are the markets that are subject to the disruption this innovation brings: camera manufacturers, film manufacturers, photo processing labs. Does digital imaging become disruptive when customers substitute analogic cameras with digital ones or is it when chemical photo processing labs go out of business because there is no longer demand for their services? It is uncertain whether a technology is disruptive only when it displaces incumbents that had built their business on the prior technology, or if it can be said of a technology even before that circumstance occurs.

- **Unpredictability of disruption**

Christensen never asserts that disruptive innovations always win. However, his choice of selecting only case studies of firms that did manage to succeed to support his framework has been criticised by many scholars, who have challenged the predictive use of disruptive innovation theory (Yu and Hang, 2009).

Barney (1997) argued that the success of a firm might be just dependent on lucky technological choices and that the retrospective rationale for this success is formed on subsequent scrutiny. Significant emerging technologies are easily individuated in retrospect, and companies are congratulated or castigated for their decision to pursue them or ignore them (Doering and Parayre, 2000). However, the real challenge to any theory, especially if it is to be useful managerially, is how it performs predictively. Ex ante predictions involve predicting what performance the market will demand along different dimensions and what performance level technology will be able to supply (Danneels, 2004). There is no predictive value if one must wait until disruption occurs (Tellis, 2006).

Christensen (2006) has refuted the assertion that disruptiveness was defined post hoc, claiming that the model was derived from history, but the definition of disruptiveness exists independently from the outcomes. The displacement of incumbents is frequently observed, but it is not necessarily the only outcome of disruptive innovation.

It has been further observed in fact, that a disruptive innovation can have a great impact on an existing market without necessarily displacing its competitors (Schmidt and Druehl, 2008). Incumbents can survive disruption and in some cases, even take the role of disruptors themselves (King and Tucci, 2002). For instance, an incumbent business with existing high-end technologies can survive by concentrating on how to satisfy its most demanding but least-price sensitive customers, in order to maintain a profitable niche market at the very high end without total displacement by the disruptive innovation (Yu and Hang, 2009).

- **Different kinds of disruptive innovations: Technological innovation vs Business Model innovation vs Product innovation**

Christensen and Raynor (2003) list as disruptive innovations a disparate variety of things: discount department stores, low-cost airlines, online businesses such as bookselling, education and brokerage, power tools, photocopier, motorcycles, etc. Even if all of these innovations are disruptive to incumbents, according to Markides (2006), treating them all as one and the same has confused matters considerably. He notes that a disruptive technological innovation is a different phenomenon from a disruptive business model innovation, as well as from a disruptive product innovation: these innovations arise in different ways and require different responses from incumbents, given their different competitive effects and implications form a managerial point of view. Even if they might follow a similar process to invade existing markets and might have equally disruptive effects on incumbent firms, they produce different kind of markets and thus they should be treated as distinct phenomena. The following pages provide a summary of Markides' view and findings (2006).

Business model innovation is the discovery of a fundamentally different business model in an existing business. For instance, Amazon and Barnes & Noble both compete in the book retail business, but they do it in different ways. Similarly, Charles Schwab, EasyJet and Dell compete by following different rules than those of their competitors in their

respective industries, such as Merrill Lynch, British Airways and IBM. To qualify as an innovation, the new business model must enlarge the economic pie, either by attracting new customers into the market or encouraging existing customers to consume more. Business model innovations do so, not discovering new products or services, but by redefining what an existing product is and how it is provided to customers, and by emphasizing different product or service attributes to those emphasized by the traditional established competitors. For example: Amazon did not discover bookselling, it redefined what the service is all about, what the customers gets out of it and how the service is provided to customers; whereas traditional airlines sell their product on the basis of frequency, range of destination and quality of the service aboard, low-cost airlines emphasize a different attribute: price.

Since the innovators emphasize different dimensions of products or services, they consequently attract different customers from the ones desiring what the traditional competitors offer. The resulting markets created around the new competitors are composed of different customers, but have also different key success factors than the established markets and require a different combination of tailored activities on the part of the firm. These new activities are often incompatible with an established company's set of activities, because of various trade-offs or conflicts existing between the two ways of doing business. The existence of such trade-offs and conflicts means that a company trying to compete in both positions simultaneously risk to pay a huge straddling cost and to degrade the value of its existing activities (Porter, 1996).

Given the above considerations, it should be not surprising that incumbent firms, initially, have little incentive to adopt these business models or to respond to them. However, when more customers embrace the new business model, the new business receive increasing attention from the media as well as from the established players, who, at a certain point, cannot afford anymore to ignore the new way of doing business and begin consider ways to respond to it. Here lies the dilemma: the new ways of competing conflict with the existing ways and it is therefore difficult to make them coexist in the same organization, hence why these innovations are considered disruptive to established firms.

Business models innovations, in particular the process by which they emerge and grow, share many similarities with disruptive technological innovations examined by Christensen. One of the key findings of Christensen's work is that disruptive technological innovations eventually grow to dominate the market and tend to be associated by the replacement of incumbents by new entrants. However, what often happens in the case of a business model innovation is that the new way of competing in the business grows to a certain percentage, but fails to completely overtake the traditional way of competing. For instance, low-cost airlines have grown rapidly in the last years but have captured less than 20% share of the market. Given such outcome, some of the accepted wisdoms on disruptive innovations, should be modified:

- New business models are not necessarily superior to the ones employed by established companies. Therefore, it is not necessarily an optimal strategy for an established company to abandon its existing business model for something new or to grow the new business model alongside its existing one. The decision should be based on careful cost-benefit analysis, depending on the specific circumstances and the innovation nature. Given a company's limited resources, it might make more economic sense for an established company, in its effort to grow, to consider other alternatives, like investing in adjacent markets or take its existing business model internationally.
- Adopting innovations through a separate unit, as suggested by Christensen, is not necessarily the best way for an established company to exploit innovation. This might be the best way to overcome the inherent conflicts between the established business and the innovation, however established companies have different options to exploit disruptive strategic innovations (as we are going to see in the next paragraph).
- Even if the disruptive innovation is not superior to the established business model, incumbents need to find a way to respond to it.

A second type of innovation that tend to be disruptive to established companies is radical innovation, which creates new-to-the-world products: the car, the TV, the PC, the VCR, the mobile phone, etc. The disruptiveness of these innovations lies in the fact that they introduce products and value propositions that disturb prevailing consumers

habits and behaviours, but also because the market they create undermine competences and complementary assets on which existing competitors have built their success. Radical innovations are thus disruptive to both consumers and producers and are rarely driven by demand. Instead they are the result of a supply-push process originated by those who develop new technologies (Markides and Geroski, 2005). However, the early pioneers, the developers of these new-to-the-world technologies, are rarely the ones that scale them up from little niches to mass market. The companies, that eventually scale up new markets, are those that are able to time their entry into the market to perfection, right before the dominant design emerges, and typically undertake a series of actions such as investing to explore scale economies, controlling the channels of distribution to the mass market, developing strong brands. While early pioneers emphasize the product's technical attributes, latecomers shift the basis of competition to other attributes such as quality and price, by cutting it to a mass-market level, while contemporarily improving the quality of the product to make it acceptable for the average consumer. In this way, the product become valuable to the mainstream market consumers and start growing. In many cases, latecomers are able to capture the market even when their product is not as good as that of the early pioneers. Early pioneers in fact, tend to over engineer and the product's performance improvements raise to a level that surpass customer needs. Furthermore, the high cost of the investments in research and development made by the early pioneers leads to high prices, which limits the attraction of the product to a small segment of technology enthusiasts and early adopters. The combination of these two factors gives latecomers the chance to move in with a product good enough in performance, but cheaper, and steal the market away. If the early adopters are not interested in these inferior products, the average consumer is, by virtue of its affordability. The latecomers can improve the performance over time so to attract also the technically astute customers and to encourage them to switch. This is not however necessary, as the latecomers are happy to leave a few niches for other competitors to feed on, as long as they have the control of the mass market.

The scaling-up process of radical innovations is similar to the disruptive innovation process described by Christensen (1997) and many of the examples of disruptive innovations that Christensen and Raynor (2003) use (e.g.: Canon photocopiers, Black and Decker power tools, Honda motorcycles) are actual examples of companies scaling

up a niche market. Therefore, an established company that want to achieve this kind of disruptive innovation, should do it as they describe. According to Markides and Geroski (2005), established companies should not spend valuable resources and managerial talent to create such innovations inside the company, but should leave this task to small, start-up firms that have the requisite skill and attitude to succeed. Established companies could serve as a venture capitalist to these feeder firms or they could develop strategic alliances with them or even buy minority equity states in them. Subsequently they can concentrate on what they are good at: consolidating young markets into mass markets on the platform these feeder firms have provided, using the company's resources, power, marketing and distribution (which younger firms do not have). What big established companies need to do to achieve this kind of disruptive innovation is fundamentally different from what is found in Christensen and others' technological disruptive innovation literature. No less it is different from business model innovation.

2.1.3. Responses to Disruption

Charitou and Markides (2003) demonstrated that in deciding how to respond to disruptive business model innovations, incumbent firms have several options at their disposal. They took a survey questionnaire: two-thirds of the 98 established companies that completed it had responded to a disruptive innovation in their industry by adopting it in different ways. And, among the companies that did not adopt the innovation, there were a series of interesting strategic responses. Overall, Charitou and Markides (2003) identified five key responses to disruptive strategic innovation[2]:

1. **Focus and invest in the traditional business**

An established competitor does not necessarily have to embrace the innovation, even when it recognises it as a threat to its business. According to the research, companies that decided not to embrace innovation did it because they wanted to remain focused on their existing business, to make it more attractive to customers relatively to the disruptive innovation, and often to capitalized on large investments already made.

[2] In 2006, Markides claimed that the term "strategic innovation", he had used in his work up to that point, to be confusing and decided to replace it with "business model innovation" (as seen in the previous paragraph) which captures the essence of this type of innovation without ambiguity.

Furthermore, senior management was inclined to not pursue this path because of issues and challenges in the existing business.

2. **Ignore the innovation – It's not your business**

Often, the new way of doing business is so divergent from the established players' way of playing the game, that it might be viewed as a completely different business. Established competitors that decide to ignore innovation, unlike the first response, might do so because they do not see the innovation as a threat and therefore continue to play the game in their business as the disruption did not even occur.

3. **Attack back – Disrupt the disruption**

Established competitors play one game, emphasizing certain product attributes and targeting certain customers. Disruptive innovators attack by playing a second game, emphasizing new, non-traditional attributes which become attractive to new customers. When the innovator become good enough at delivering the attributes valued by traditional customers, it starts attracting the customers that stayed loyal to the established companies. Established competitors can then respond by playing a third game, attacking the innovators back emphasising even different product attributes.

4. **Adopt the innovation by playing both games at once**

An established company can decide to adopt the disruptive innovation, however as it already has its way of playing the game (which differ from that of the disruptive innovator), must find a way to play two different and conflicting games at once. Despite the challenge, 68 out of 98 companies that participated in the survey decided to do so and that was because management did not view the potential conflict as a serious risk to their business. 62% of those that decided to adopt the disruptive innovation entered the new business by establishing a separate unit, while the remaining companies decided to compete through their existing organizational structures and divisions only. The products or services offered were different from those in the established business along dimensions such as target, level of personal service provided, price, etc.

5. **Embrace the innovation completely and scale it up**

The last option available to established companies is to abandon their existing ways of playing the game and embrace the innovation. In that case, the goal is not only to imitate

the innovation but also to scale it up and grow it into a mass market. Even if history suggests that the companies that pursued this option managed to successfully create the basis for remarkable growth, many of the managers interviewed at established companies talked about the strategy but refrained from using it.

2.2. Disruptive Innovation in the TV Industry

The literature review on disruptive innovation presented in the previous pages demonstrates how scholars have attempted over time to provide multiple definitions of the concept, without succeeding however in reaching a clear consensus. For the purpose of this Thesis and in order to specifically contextualize in the TV Industry the available theory, disruptive innovation is going to be intended as:

A product, service or business model, based on or enabled by a new technology, that creates entirely new markets or transforms existing ones, by offering to the consumers different performance attributes than those emphasised by the traditional competitors, thus forming new consumption patterns and disrupting the established market players, without however necessarily displacing them completely.

The above definition is derived from the sources analysed in the prior paragraphs and, if on one side, it comprises those disruptive innovations as theorised by Christensen, on the other, it allows to include a series of innovations that do not share characteristics such as the initial low price and low performance (Danneels, 2004; Govindarajan and Kopalle, 2006; Yu and Hang, 2009), but prove to have an equally disruptive effect because they encourage customers to consume more or because they undermine competences and assets on which existing competitors had built their success (Markides, 2006), even when they do not displace completely the established competitors (Charitou and Markides, 2003; King and Tucci, 2002; Markides, 2006; Schmidt and Druehl, 2008; Yu and Hang, 2009).

The necessity to broaden the scope of the definition of disruptive innovation provided by Christensen was given by the observation of the innovations that have characterised the evolution of the TV industry. If technical and business models innovations allowed the entrance of players like Netflix, Hulu and Amazon Instant Video following the classic disruption pattern intended by Christensen (Wessel, 2012), it is nonetheless true that

cable TV, for instance, was a disruptive force to broadcast TV, bringing greater value and access and options to consumers than previously available, even if that did not come at a lower cost (Greenberg, 2013).

The next paragraphs are going to provide an overview of the most significant disruptive innovations that have influenced the evolution of the TV industry and that have contributed to the development of today's competitive scenario.

2.2.1. The Evolution of the TV Industry

In a world dominated by constant disruption and technological change, the TV industry was left relatively unchanged for a long time. The reasons behind the long lasting success of the medium can be better understood by looking at a field study conducted in 2012 by Harvard Business School, which analyses the TV industry through the lens of the Jobs-to-be-done framework. According to the framework, people do not buy products or services, but they "hire" them to fulfil specific jobs, when they find themselves with a problem that they would like to solve (Christensen and Raynor, 2003). In the same way, the field study shows how people do not buy TV sets to watch TV, but they do so to accomplish jobs such as curing boredom, bringing the family together, feeling emotions, etc. Historically, few competing solutions have been able to better fulfil important, yet diverse, jobs for which consumers hire TV, with the flexibility and ease of simply pushing a button to change the channel. With the advantages of a visual medium, TV has thus been able to compete successfully against substitutes such as newspapers, radios and magazines in regards to important jobs. Fundamental Jobs-to-be-done rarely change, families still need to be entertained in the evening, fans still need to root for their favourite sports team and people still needs to be informed about what happens in the world. What does change with the passage of time however, are the available solutions to fulfil the different jobs.

It is opinion of many equity analysts and TV industry incumbents that disruption will not occur in the industry, at least in the short term (Wessel et al., 2012). In support of this statement, in the last 5 years many American TV players have witnessed consistent stock price growth. For instance, CBS Corporation's stock price grew more than tenfold between June 2009 and June 2014, from a low of $5.97 to a high of $67.40 (Yahoo! Finance, 2014). However, the stranglehold of traditional TV over a diverse sets of jobs is

not as strong as it might seem. Increasing Internet speeds, the proliferation of media-capable devices and the advancement of cellular mobile communications have given consumers new substitutes to accomplish different jobs, and particularly younger consumers are increasingly choosing emerging solutions over traditional TV. In order to successfully compete against these emerging substitutes, the TV industry has to see them first as legitimate threats and act accordingly (Wessel et al., 2012). Before addressing the patterns of disruption affecting today's TV industry, it is essential to examine some of the most important disruptive forces that the industry has had to deal with over time.

- **Cable TV**

During the 1940s, when broadcast TV started to explode in popularity in the United States, many consumers in remote or inaccessible areas could not receive the signal from the TV stations due to coverage limitations. This pent-up demand for TV signal led to the creation of the first subscription cable providers, which charged an upfront fee on a monthly basis, to connect communities local station antennas to the consumers' houses through coaxial cables (Eisenmann, 2000). Although cable TV began with the modest goal of improving network broadcast signals to rural households, its rise to prominence in the following decades proved extraordinary (Goolsbee and Petrin, 2004). Particularly in the early 1970s, when the Federal Communications Commission (FCC) deregulated the industry, cable providers gained an increased freedom of choice with regards to the programming to deliver, the stations to carry and even the possibility of originating new channels. The deregulation had thus the effect of gradually changing the basis of competition in the industry, from signal and picture reliability to variety of programming (Zarkin, 2010).

Given the difficulty, risk and cost of developing and launching new networks, cable providers started to build up channel line-ups including thematic third party cable networks, by sharing with them a portion of the subscription fee. This approach enabled cable TV to target important jobs-to-be-done much better than broadcast stations, by creating an offer customized to specific geographies and demographics (the channel line-ups started to be enriched with networks dedicated to particular kinds of programming such as sports, comedy, films, etc.). Furthermore for cable networks, the

ability to develop and transmit TV programming to a specific target attracted higher advertising revenues to complement the subscriber fee from cable providers (Wessel et al., 2012).

Investment in infrastructure and programming further boomed during the 1980s when by the end of the decade, nearly 53 million American households had subscribed to cable, and cable program networks had increased from 28 in 1980 to 79 by 1989 (NCTA, 2014a). In 1992, Cable TV reached the 98% of American households (NCTA, 2014b) and even if today broadcast network programs on ABC, NBC and CBS still tend to dominate the ratings on a show-by-show basis (Nielsen, 2014c), cable networks Prime Time share of key demographic viewers (18-49-year-old) surpassed that of broadcast networks for the first time in 2002 (Turner, 2010) and is continuing to grow (CAB, 2014).

As to Europe, cable technology started to become widespread in countries such as Germany, the United Kingdom, the Netherlands and Ireland during the 1970s, but it never truly developed in others, nor reached the level of diffusion achieved in the United States (Coleman and Rollet, 1997). In 2012, European cable TV customers were 57.65 million, the 27% of EU TV households had a cable subscription for the primary TV set used in the home, 7,5% more than the year before. However, only 10 out of the 27 EU member states registered a penetration rate higher than 50%, witnessing the disparity of adoption among the different countries (Cable Europe, 2012).

- **Direct Broadcasting Satellite (DBS)**

When the first DBS TV entered the US marketplace in 1994, people who were outside the practical range of cable reach were enabled to enjoy “cable-like” features, including an expanded line-up, better picture quality and several differentiated products such as digital channels, built-in digital video recorders (DVRs), better navigation and in some cases very desirable exclusive programming (Palmer, 2006). The cable industry started to see DBS as its biggest competitor, as the two distribution methods shared similar business models and consumer value propositions, similar quality of service and a similar cost (Palmer, 2006). Historically, cable systems had not faced much competition and before the advent of DBS, they were primarily viewed as natural monopolies. The competition between cable and DBS proved to be fundamentally important for developing telecommunications polices and it has been observed that more competition

form DBS contributed to lower cable prices and increase cable quality offering (Goolsbee and Petrin, 2004). As a consequence of DBS introduction into the TV distribution market however, over the past twenty years, cable's market share has dropped significantly, from 98% registered in 1992 to 53% in 2013. DBS, on the other hand, has been growing increasingly since its debut, reaching in 2013 the 34% of American Pay TV market share (NCTA, 2014b).

Also in Europe, DBS transmissions soon became a key feature in the media landscape that took shape in the 1980s, though as for the cable there was still a great variation between different countries, as to the degree of penetration of the two technologies (Dahlgren, 2000). At the end of 2012, European DBS TV customers were 68,4 million, the 33% of the total EU TV market, surpassing cable market share by 6% (Cable Europe, 2012).

- **Digital Terrestrial Television (DTT)**

At the beginning of 2000s, the three principle ways to receive television programming in the US and in Europe were via local antenna reception (i.e., over-the-air), via cable, or via DBS (Goolsbee and Petrin, 2004). The FCC mandated all broadcast TV signals in the US to be converted from analog to digital by early 2009 (Palmer, 2006). Similarly, the European Commission set the switchover[3] of all networks in all the member states at the beginning of 2012 (Van den Broeck and Pierson, 2008). TV stations were allocated a range of frequencies in the spectrum, to be employed for DTT broadcast, with the option to use this digital bandwidth for High Definition Television (HD TV) or Standard Definition Television (SD TV) (Palmer, 2006). Even if the switch required consumers to buy a digital TV tuner, digital TV sets or a digital-to-analog converter to attach to the antenna in order to be able to receive the digital TV signals (Palmer, 2006), the new technology allowed them to benefit of an improved quality of picture and sound, better reception, an increase in the available TV and radio channels and access to enhanced information and interactive services, compared to traditional analog broadcasting. The digitalization of TV also led to new economical and innovative opportunities for many

[3] BIPE defines "switchover" as "the progressive migration of households from analogue-only reception to digital reception" (Van den Broeck and Pierson, 2008).

stakeholders in the TV and telecommunications industries and opened up the market to new players (Van den Broeck and Pierson, 2008).

- **Telco TV**

In the 80s and in the 90s, cable enjoyed an uncontested supremacy over the Pay TV market, in the 2000s however, competition from DBS started to have a stronger impact. Cable began a very gradual decline in 2002, which started to accelerate in 2008 when telco TV entered the market (NCTA, 2014b). The telco TV service is similar to that offered by digital cable and it provides many SD and HD program choices, including local stations channels, pay-per-view (PPV), video-on-demand (VOD) and interactive capabilities. Apart from being operated by a "telco" (telephone company), the main difference from digital cable is that the signal is carried over a FTTP (Fibre to the Premises) network on optical fibre. This provides much greater band-width than available on copper coaxial cables and allows the possibility of more channels and higher-speed Internet connections for consumers. Telcos can also deliver limited TV services over digital subscriber lines (DSL), which use copper wire rather than optical fibre. In this case, the service level, and if HD or only SD programming is supported, depends on local circumstances and the type of DSL being used. The telco TV services are usually based on subscription and might use IPTV (Internet Protocol Television) technology to deliver either continuous streams of content, VOD or non-real-time download to a storage device (Pizzi and Jones, 2014).

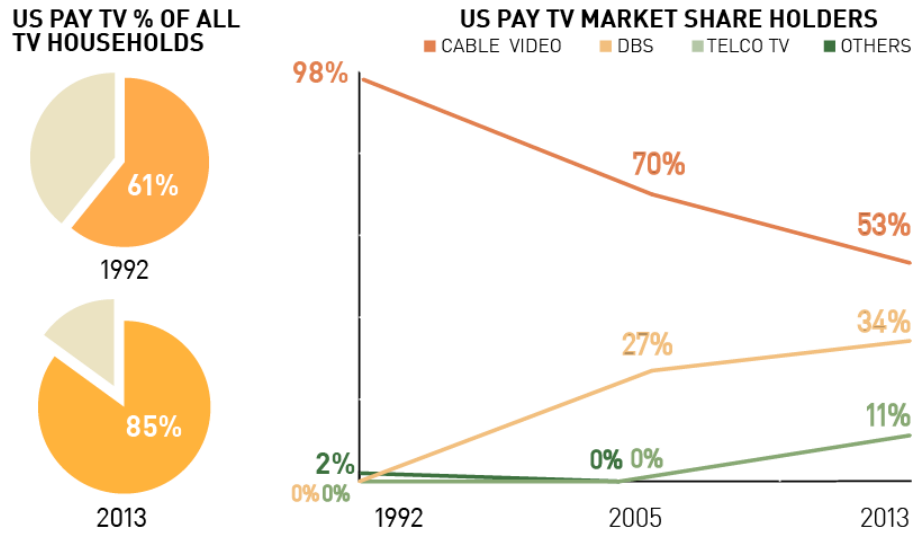
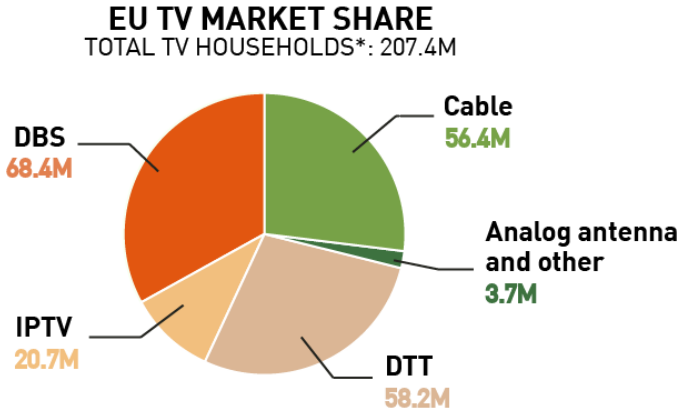


Figure 2.7. US Pay TV penetration and market share holders (NCTA, 2014b).

Telco TV now serve 11% of American Pay TV subscribers (NCTA, 2014b) and nearly 10% EU TV households (Cable Europe, 2012).



*numbers refer to the primary TV set used in the home.
Figure 2.8. EU TV market share (Cable Europe, 2012)

- **The Internet**

The rise of the Internet in the 1990s and the deployment of higher-speed "broadband" connectivity in the 2000s allowed the development of a new distribution medium for TV programming, enabled by IP-based streaming and download technologies. Some TV content providers, as well as new players, started to employ these technologies to offer on-demand TV services over the internet. As these services utilize an existing delivery system provided by others (the regular Internet connectivity), instead of establishing their own delivery path as broadcast, cable, DBS and telco TV, they are called "Over the Top" (OTT) services. OTT services provide either streaming or downloadable content on-demand, and are typically subscription based. Users can access them by simply owning a broadband Internet connection (Pizzi and Jones, 2014).

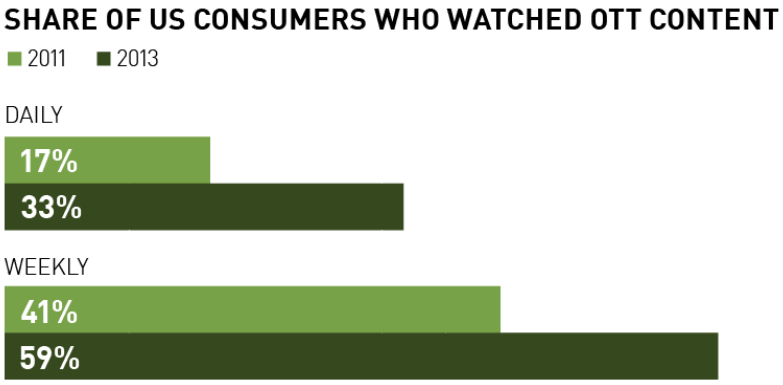


Figure 2.9. Share of US consumers who watched OTT content daily and weekly in 2011 and 2013 (Statista, 2014)

In 2013, 59% of US consumers claimed to watch OTT content weekly (Statista, 2014a) and 38% stated to subscribe or use Netflix, up from 31% in 2012 (Nielsen, 2014a). Although TV networks still enjoy a significant lead when it comes to the number of adults watching, scores are much lower among 18-34-years-old, who demonstrate a preference towards "binge-watching"[4] and accessing their TV content through streaming services, above all Netflix, followed by Amazon Instant Video and Hulu Plus (Hoffmann, 2014). The same demographic (18-34) make up the 52% of American broadband-only households, a group of consumers that are opting for broadband connections and connected devices as their primary source for watching video at home (Nielsen, 2014a).

A similar trend, that has being rising among consumers, known as "cord-cutting", has seen a growing number of pay TV subscribers moving to over-the-air reception of broadcast TV, and using of OTT for everything else, thereby avoiding the higher monthly cost of pay TV (Pizzi and Jones, 2014). About 1,7M cable customers cut their cords in 2013 and despite the loss equals a small percentage of all Pay TV subscribers, it marks the first year in which the 13 largest US pay TV providers came out with an overall year-end loss (LRG, 2014).

IP-based streaming and download technologies provided many opportunities to different established and new players of the industry, however they originated also another side tendency: the rise of illegal file sharing. According to Sandvine, BitTorrent and file sharing account for 13% of all fixed-access Internet traffic in North America, 20% of Europe and 27% in Asia. The figures are impressive, being reasonable to assume that nearly 100% of the files that make up this traffic are being traded without the rights-holder's consent, and that most of these files are films and TV shows (Brode, 2012).

Similarly, many illegal streaming websites have become increasingly popular over the past few years, although there is very little data about how many people actually use them. A survey conducted by Business Insider in 2014, showed that among the people

[4] "Binge-watching" is defined as the practise of watching multiple videos or episodes of a TV show in one sitting or over a short period of time (Random House Dictionary, 2014)

who admitted to use unlicensed streaming sites[5], the majority cited that the primary reason was the unavailability of licenced content. Also, almost 39% streamed TV series while 27% focused on movies, and the 42% of the interviewees have been doing it for more than 3 years (Sterbenz at al., 2014).

2.2.2. The TV Value Chain

The TV value chain, as it exists today, is a complex and ever-evolving ecosystem, which result from all the different technologies and business models that have followed one another over the last few decades. Wessel et al. (2012) created a framework that simplify the TV value chain, by segmenting it into four distinct areas: "consumers", "distributors", "curators" and "creators".

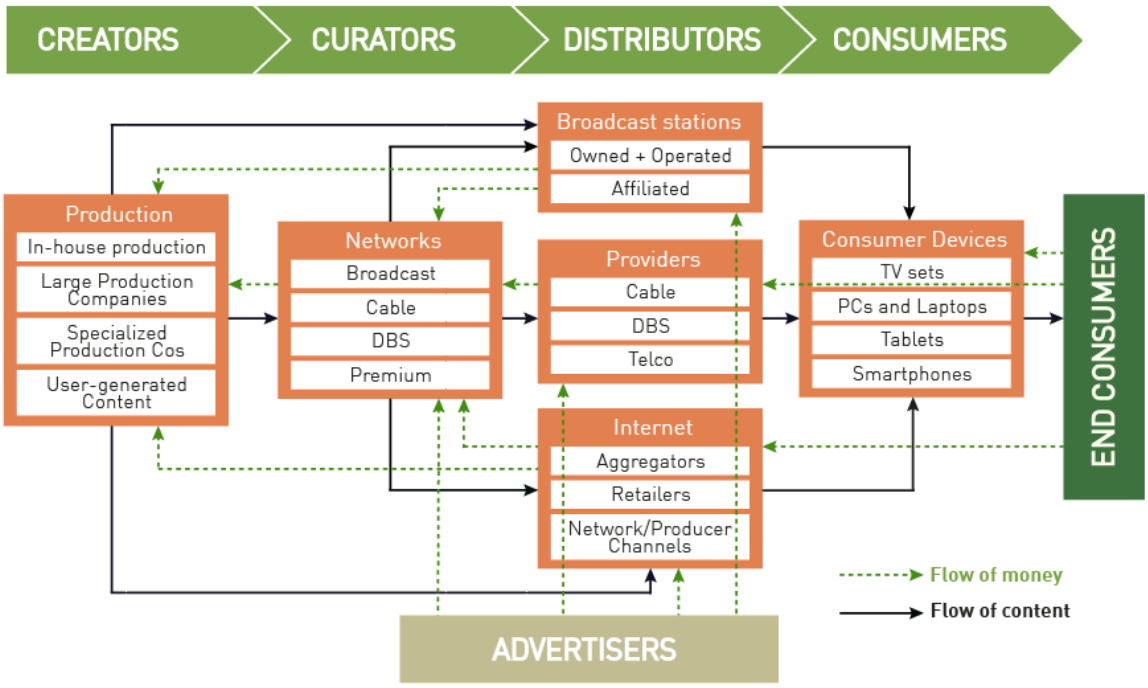


Figure 2.10. The TV Industry Value Chain (Wessel et al., 2012)

- **Consumers**

The "consumer" segment comprehends all products and services through which consumers watch TV programming: TV sets, laptops, tablets, smartphones, internet connected game consoles and OTT devices (e.g., Apple TV).

[5] Only the 14% did, but given that respondents may be reluctant to admit they engage in an activity they fear is illegal, the actual number is expected to be much higher (Sterbenz at al., 2014).

Revenues in this segment is predominantly generated from device sales, however device manufacturers are increasingly pursuing internet-driven revenue streams such as movie rentals, VOD and digital video game sales (e.g., Xbox Live and Samsung SmartTV) to diversify and grow. As a result, consumers have now more options than ever before, for viewing their favourite TV programming.

- **Distributors**

In this segment are positioned the companies that purchase the rights to TV content or programming, with the objective of passing it to consumers, through a variety of owned or leased distribution channels. The major players in this segment include cable, DBS and telco providers that purchase TV programming from networks, right holders and production studios. Many of these providers also function as Internet Service Providers (ISP) and in that capacity function as distributors. Internet-based platforms such as Netflix can also be considered as non-traditional distributors of content and similarly Apple's iTunes is a distributor in that it acts as an intermediary between sellers (networks/production studios) and buyers (consumers).

The main revenue stream of the different distributors are monthly fees, charged to the subscribers to access the TV programming packages, including basic programming, premium programming (e.g., HBO), VOD and DVR equipment or rental.

- **Curators**

The term "curation" is intended by Wessel et al. to indicate the process by which content is selected, packaged and presented to consumers. In the traditional TV industry, the curators segment of the value chain includes mainly broadcast networks, which supply content via over-the-air transmission, and cable networks, which sell content to operators who own or lease the cable infrastructure. Today however, the segment can be extended to include also different online players. With the growth of online video consumption in fact, new curation models have emerged: popular platforms such as Netflix, YouTube and Hulu have developed proprietary algorithms to determine the taste preference of individual users and present them with content they are likely to enjoy. Many of these new curation models reach consumers directly, blurring the traditional line between "curation" and "distribution", which historically used to be two distinct and different segments.

The great majority of revenues earned by broadcast networks come from advertising. In addition to advertising, cable networks earn revenues from other two primary sources: licensing the right to redistribute content and other specific services offered by the industry. Major cost drivers for both types of network includes the purchase of rights on programming and equipment. The emerging online curation models present a fundamentally different cost structure than that of broadcast and cable networks. In 2013, Netflix revenues, which mainly derive from the paid subscriptions of its 33.4M users, totalled $4.3B, with profits of $113M (2,6% margin). Primary costs included content production and acquisition, licensing, marketing and technology investments (Netflix, 2014).

- **Creators**

Content creation refers to the process by which studios and independent producers develop and film content that is sold or licensed to networks and, more recently, digital distribution partners. Traditionally, TV content has been created by independent studios using deficit financing, by initially licencing the rights to a network and later seek to recover costs through syndication, international licensing and DVD sales. In 2010, a broadcast network TV show cost on average $3M/episode, with networks paying $1.5M to licence the content.

Recently, many content curators and distributors (e.g. HBO) have moved into content production, rather than buying content from third-party studios. From a strategic point of view, absorbing content creation's financial and reputational risks allow for streamlined operations (cost advantage), marketplace differentiation and higher profit potential. Also Netflix, for instance, has developed its own original programming, most notably the dramas *House of Cards* and *Orange Is the New Black*. Owing already the distribution channel, Netflix can plug in the new original content directly. The traditional "creation" and "distribution" of content segments of the TV value chain are in this way also starting to overlap, contributing to making the TV industry ecosystem even more complex.

At the lowest end of the market lies user generated content, delivered largely over the Internet, where entry barriers are lower than ever. In 2009, *Colin*, a zombie feature with a $70 budget and actors hired from Facebook premiered at Cannes. The low-budget

content creation trend is spreading quickly, as the Internet enables even the smallest content creators to distribute directly to consumers.

2.2.3. Today's Disruptive Scenario

As seen in the disruptive innovation framework at the beginning of the chapter, when a market reach a certain degree of development, incumbents are incentivised to move-up market in search of higher profits. There are always however, some customers who do not need the most cutting edge offering available and are willing to pay an higher price for an increased offering only up to a point (Christensen and Raynor, 2013). In the same way, in a well-developed industry like TV, given the rate of improvement that customers can absorb, along the quality and variety of available programming dimensions, very few customers need the biggest and most expensive cable or DBS package with hundreds of channels and seemingly unlimited content. Despite this, many providers have moved in that direction seeking to improve the Average Revenue Per User (ARPU). Similarly, in an attempt to increase the quality of the offering to consumers, content creators and curators have been spending higher budgets on buying programming and producing original content. The higher costs, experienced by the players to pursue these sustaining innovations, have been passed on to consumers, generally in the form of higher subscription fees. From the consumer's point of view however, increasing an already comprehensive offering does not add much new value and thus does not justify incremental costs for some consumers to pay (Wessel at al., 2012).

As incumbents move up market, lower barriers to entry in content creation, curation and distribution give new entrants the opportunity to take a share at the low end of the market through new revenue models (Christensen and Raynor, 2013). YouTube, Hulu and Amazon Prime may not offer good enough content to satisfy the majority of consumers. But for those consumers fed up with the increasingly expensive fees provided by cable and DBS providers, these internet video portals are slowly becoming "good enough" (Wessel, 2012). In the US, Hulu Plus and Netflix can be purchased under $10 per month, roughly 1/6 of the cost of a basic cable subscription. As consumers opt into these disruptive services, the big studios and distribution companies, due to their overhead structures, will be unable to compete with smaller companies, designed to

leverage new distribution channels at a much lower cost, unless they recognise the threat of disruption and take action to make some changes (Greenberg, 2013).

From the perspective of sophisticated incumbents, whose products were carefully refined over the years or even decades, new entrants often look like naïve upstarts who only serve the least attractive customers (Wessel at al., 2012). For this reason, many TV industry incumbents are still reluctant to consider low-cost competitors as a concrete menace to their businesses and neglect the impact of new entrants based on a variety of factors. In the first place, the success of shows such as *Game of Thrones*, *Breaking Bad* and *Mad Men*, in which quality is better than ever, testify that customers are getting accustomed to high-budget TV and are clamouring for more. Players like HBO have been able to use their high quality and high budget original programming to drive subscriptions, while other networks have been able, through high quality programming, to increase their attractiveness to advertisers and their necessity to providers (Wessel at al., 2012). Also, as a result of the higher share of ad spend, TV players have a big advantage on the programming investment side compared to other media (CAB, 2014). For instance, broadcast and sports channels are able to spend millions of dollars every year for licensing of sports, which is appointment viewing for many customers, thus allowing them to keep ad rates high and avoid disruption form digital players who cannot afford to buy the rights for this content (Hipes and Lieberman, 2011). Secondly, the segment of "cord cutters" and broadband-only householders, which is typically younger, lower-to-mid income and economically frugal, is considered by incumbents to be "light" TV viewers already, thus any shift by this segment would continue to have a rather insignificant impact on average ratings (CAB, 2014). Thirdly, with triple and quadruple play[6] services, companies like Comcast and Time Warner have been able to leverage their natural monopolies to "hook" consumers. As long as the consumer has to pay $70 a month to get a high speed internet connection in fact, the additional cost of cable might appear not as high anymore (Wessel, 2012).

[6] Quadruple play is a service bundle that adds wireless to the Triple play offering, which already included high-speed data, telephony and TV (Reardon, 2005).

However, Netflix's foray into original, high quality programming, proves that also streaming TV networks can manage to offer high standards products that consumers are clamouring for, and at a much lower fee than established competitors (Greenfield, 2013). Netflix's *House of Cards* was the first major TV show to completely bypass the usual TV ecosystem of networks and cable operators. It was also the first time that a series released an entire season (thirteen episodes) all at once, for viewers to watch at their own pace (Satell, 2013). Netflix blew up all the old paradigms about who, what, when, where, why, and even how consumers watch TV content. Its strategy might prove too costly for even a cash-rich company like Netflix to sustain in the long run (Hass, 2013), nevertheless the disruption that Netflix's businesses model is inflicting on the scripted entertainment industry is believed to have vast and far-reaching effects for a whole host of companies that cannot be ignored (Liebling, 2013). According to many, while the loss for Pay TV providers deriving from the cord-cutting phenomenon is far from monumental, it could be interpreted as a sign of the times (Tretbar, 2014) together with the broadband-only households trend, which in proportion still involve a small number of consumers, but is growing rapidly, marking these early adopters key to understanding how the living room will evolve in the future (Nielsen, 2014a). Younger demographics in fact, might not represent the high-value subscribers cable and DBS operators want to focus on (Spangler, 2013), but they do represent the audience of the future (Auletta, 2013).

As to service bundles, they might still represent a reason for consumers not to churn from Pay TV. If consumers opt away from expensive TV packages in favour of cheaper, more accessible, OTT solutions, they are still subject to very high broadband fees and a saving of 20-30% off the total bill might not be enough of an incentive to opt-out. However, as Rogers pointed out back in 1962 in his book called *The Diffusion of Innovation*, many innovations are slow to see adoption, not for lack of appeal but for lack of an appropriate ecosystem. Ecosystems however can change, even those in industries with the largest barriers to entry (like that built around multi-billion dollar wire infrastructures). For instance, the development of 4G wireless connectivity allowed the entrance of new Internet service providers that leverage 4G technology instead of expensive-fibre optic networks. The small 4G mobile wireless routers provide customers with unlimited high speed Internet that can be easily carried around, at half

of the price of wired broadband. This solution might be not good enough for many consumers, 4G Internet speed is slower than wired broadband and there is not much content available through Hulu, Netflix and Amazon if compared to that housed with, for instance, a 150 channel Comcast bundle. However, as compression technology develops, the 4G infrastructure is expanded and the quality of video improves, the solution might appeal increasingly more customers. It is the path of disruption in its most basic form, but as many scholars have noted, disruption is a slow process. Disruptive cycles normally take place over periods of 15-30 years and this is why some time might pass before meaningful changes become visible. In the short term, it might appear that everything is under control, but history shows that innovation always finds a way to drive cost down and let new players in, and even if some industries are harder to penetrate than other, incumbents should always keep in mind that no industry is invulnerable to disruption (Wessel, 2012).

2.2.4. The Dark Side of the Internet

In some markets, especially the American one, thanks to streaming libraries such as those of Hulu and Netflix, as well as to the ability to purchase content from iTunes, Amazon Instant, Google Play and more, the quality and quantity of legally accessible content is growing broader and deeper. Despite this, piracy is still a reality that interests the majority of countries in the world.

On average with a broadband Internet connection, films can be downloaded through BitTorrent in about 5 minutes, while entire seasons of hit shows can be transferred in 10 to 15 minutes. At that point the media can be watched on a computer, transferred to a mobile device, burnt to a DVD and played anywhere or streamed to a TV set using the same technology that a Hulu or Netflix subscriber would use. Nonetheless, TV industry and investors have deemed piracy “too hard” for most consumers and for this reason have believed that their businesses were immune from disruption (Brode, 2012).

This assumption however, is doomed to drastically change after the release of “Popcorn Time” earlier this year. The new software, which has been called “the Netflix for pirates” (Misener, 2014), creates a new way to access the pirated content that is available through torrent-based piracy sites like The Pirate Bay. However, instead of requiring users to download files via a BitTorrent client, the Popcorn Time software begins

streaming movies immediately after being clicked, quickly and in high quality (Buyside Notes, 2014). Popcorn Time makes video piracy easy for the first time, pulling it from a world of sketchy torrent sites full of porn ads and scammy pop-ups into a simple, streamlined and beautiful, Netflix-like interface. For years, services like iTunes and Netflix have been able to compete with piracy by offering the paid options in a cleaner, safer environment and this is way Popcorn Time feels particularly significant (Misener, 2014). Furthermore, as Popcorn Time has been open-sourced, it is now owned by the entire Internet community. There is not a single entity that lawyers can attack, it is thus almost impossible to stop the software. The developers can go underground and keep distributing their creation under multiple names. They are not charging for the program or incorporating ads. Popcorn Time is "Napster for video without a company that is trying to turn it into a business. It is the epitome of online guerrilla warfare" (Burns, 2014). Right now in Hollywood, the biggest disruptor is Netflix. With its growing rooster of original programs and massive subscriber base, it is the technology that has moved many executives to rethink of where the entertainment business is going. Popcorn Time however, might prove to be even more dangerous (Pomerantz, 2014).

2.2.5. The Living Room Battlefield

The great increase in the number of mass media outlets that has taken place over the past few decades has had a deep fragmenting effect on the TV industry, among those who make and deliver TV, but also, just as pervasively, among those who watch (Turow, 2014). The only constant in this ever-evolving scenario is the role of the consumers, who keep on lying at the centre of the TV industry. Consumers influence multiple revenue streams: TV networks rely on viewership to set advertising rates, TV content providers charge consumers monthly fees for subscriptions, technology companies rely on TV consumption to sell devices to access TV content. Consumers' behaviour however, is changing rapidly, largely due to the rise of Internet-connected devices and faster Internet speeds. As a result, companies are attempting to adapt to changes in consumer preferences, which is transforming the entire TV ecosystem (Wessel et al., 2012).

TV was traditionally hired to fill the role of weeknight Prime Time entertainment. While viewers have steadily increased their overall TV consumption, many consumers have slowly shifted away from Prime Time viewing (Nielsen, 2014a). This phenomenon can

be explained by two factors: consumers today have an increasing number of substitutes competing to be hired for important jobs-to-be-done during Prime Time hours (e.g., Internet surfing, social networks and video games all represent an ideal solution to the "cure my boredom" job); time-shifted viewing technologies provide consumers with the ability to watch their favourite TV content outside of the Prime Time hours (e.g., DBS-provided DVRs and OTT services such as Netflix and Hulu) (Wessel et al., 2012). As consumer devices evolves and as new substitutes enter the market, a decline in ratings and a shift in ad spend as been registered (Delo, 2012).

Many Internet-based content curators and electronics manufacturers are trying to capitalise on the advancement of Internet technology, increased connection speeds and the proliferation of media-capable devices, by implementing bundled solutions that allow the integration of internet-based platforms into the living room (e.g., Netflix started a partnership with Sony to stream content through the PlayStation 3). However, data shows that the bundled solution available today are yet "not good enough" along most performance metrics valued by consumers, as they are failing to deliver an ease-of-use and seamless integration. Consumers, particularly in older demographics, struggle to understand how these devices work together and, even if TV manufacturers have started to incorporate Internet connectivity into their TV sets (i.e., the so called "Smart TVs" or "Connected TVs"), the barrier of purchasing additional electronics is also slowing the adoption of bundled solutions. As Internet-based curators continue to acquire better content, it will be critical for electronics manufacturers to solve the performance gap and serve those consumers that desire better experience for streaming video content, and whose jobs are currently unfulfilled (Wessel et al., 2012).

According to the disruptive innovation theory presented by Christensen and Raynor (2003), when performance is yet not good enough, bundled solutions are almost never the right approach. Interdependent architectures on the other hand, optimize performance as products engineers have the freedom to develop unique end-to-end solutions that do not need to adapt to constraints in other areas of the value chain. From this perspective, it is realistic to expect that the manufacturer who can develop a tightly integrated solution that brings the best Internet-based TV experience will likely win the "living room war" (e.g., Apple, who is well-known for its integrated solutions, has been

rumoured for a few years to be developing its own connected TV, which would allow the company to vertically integrate across the curation, distribution and consumer areas of the value chain). The solution to the ease of use problem would have a significant impact on the TV industry, that could shift the entire competition landscape. Digital media consumption would increasingly grow, so would arguably the trend of consumers cutting the cord from traditional TV subscription. The growth of Internet-based distribution and curation would also provide content owners with more leverage over broadcast and cable networks (Wessel at al., 2012).

2.2.6. Social TV

In recent years, another interesting phenomenon associated to the emergence of the Web, social platforms and digital technology has been changing the way networks and advertisers connect with consumers and analyse their engagement (Goldman, 2012). That is "Social TV": the integration of social media interaction with TV programming (Benton and Hill, 2012). Since its birth, TV has always been a social experience (George, 2013), in the 50s families and friends would gather together in front of the tube to watch popular Prime Time shows (Dumenco, 2011). However, the growing number of TV sets available in every household caused TV viewing to become an increasingly solitary activity (Leboff, 2012). Today, online social media communities such as message boards, Twitter and Facebook have become the new "virtual water cooler" for TV viewers (Benton and Hill, 2012). With the proliferation of social media apps and smartphones, social interaction around TV programing can now be shared amongst millions of viewers simultaneously. In 2011, it was estimated that on average, 10 million public online comments related to TV content were made each day worldwide (Talbot, 2011).

Social media platforms have become an integral outlet for TV viewers who look to express themselves while watching their favourite TV programs. And this backchannel of communicating during TV shows has led, according to some, to the resurgence of people's interest in watching live TV shows (Proulx and Shepatin, 2012). It has been reported in fact, that people watch more live TV in order to communicate with other viewers but also to avoid "social spoilers" (Dumenco, 2011). For the first time in history, this social media buzz can turn into valuable real-time feedback for agencies, brands and networks who want to understand the sentiment about products and whether their ad

spend is paying off (Goldman, 2012). The most successful example is presented by the 2014 Super Bowl, which set real Social TV records. The Tweets about the events generated a total of 1.8B impressions throughout the night, with a peak of 301.400 Tweets sent in one minute (Nielsen Social, 2014). For the first time, more than half of all commercials aired during the big game included a social hashtag (Gross, 2014), the hashtag *#EsuranceSave30* for instance, displayed by the auto insurance provider Esurance in its single commercial spot for the night, drove over 1.2M Unique Authors to send 1.9 million Tweets about the brand, making it the most-tweeted brand of the night (Nielsen Social, 2014). Despite the 30 seconds of TV exposure during the Super Bowl cost advertisers $4M, the event offered brand an unprecedented social media value. The one-way broadcasting of advertising messages to a passive audience is evolving into a much more interactive advertising and marketing experience that allows brands to converse with customers, exchange ideas, and solicit content (Bobowski, 2014).

As the experience of TV viewing continues to evolve, a variety of analytics companies such as Bluefin, Trendrr and Networked Insights have come into the market, tracking and measuring the number of conversations occurring around a show (Goldman, 2012). It is symptomatic that Nielsen made a partnership with Twitter to create "Nielsen Twitter TV ratings", an industry-standard metric that is based entirely on Twitter data, intended to act as a complement and companion to the Nielsen TV rating and to answer the request of many players in the TV industry, who consistently asked for a benchmark from which to measure the engagement of their programming (Sladden, 2012).

The greatest number of conversations occur around live, tent-pole broadcasts such as awards shows or major sporting events. However for traditional, weekly shows, the number of social comments is reported to be less (Goldman, 2012). A study released by the Council for Research Excellence, a Nielsen-funded group, showed that only 16,1% of the respondents surveyed use social media while watching TV during Prime Time. And less than half of the people using social media were actually discussing the show they were watching. The research findings contradict the notion that conversations on Twitter and Facebook are a big factor driving people to tune into TV shows (Goel, 2014). The study also found that those who engage on social media about the shows they're watching tend to be more likely to binge watch programs and consume TV shows on

tablets and smartphones and on the whole social media is far down on the list of factors driving viewers to watch new shows (Fiegerman, 2014). Nevertheless, 84% of smartphones and tablets owners say they use their devices as second-screes while watching TV at the same time, and opportunities to deepen consumer engagement with content on the primary screen do exists (Nielsen, 2014a).

2.3. Limitations to Theory

The limited number of pages to be dedicated in this Thesis to the theoretical framework, in respect to the high quantity of available literature on the topic of disruptive innovation, entailed the unavoidable necessity of excluding from the review a large number of authors and perspectives. The purpose of this chapter was that of clarifying the real essence of the concept of disruptive innovation, often misconceived and abused. In order to do so, I have decided to start by presenting the thoughts and findings of the pioneer of the disruptive innovation theoretical framework, Clayton Christen, and to continue with the scholars that in my opinion have most constructively contributed to the development of the literature on the topic, through their critiques and point of views. However, the impossibility of including all the different contributions from the academia and the difficulty of defining such an ever-evolving theory might have led to biased conclusions.

With regards to the application of the disruptive innovation theory to the specific case of the TV industry, most of the dynamics presented in this chapter refer to the American market, which has been chosen as reference model by virtue of its cutting-edge characteristics and of its historical influence on other markets. Although Italy is part of Europe and it would have been interesting to focus more on the characteristics of such market, the reason for not having done so extensively is to be found in the problematic task of generalising the results and trends of the different member states. Every European country is in fact characterised by a unique history and set of features that have consequently played an important role in the diverse development of the relative TV industries, therefore representing a limitation for the purpose of this Thesis.

3. METHODOLOGY

3.1. Research Design

The objective of this Thesis is to explore the evolution of the Italian TV industry, from the birth of the TV medium to the present day, to understand the critical factors that have contributed to the development of the current competitive scenario and to individuate those that are possibly going to determine the success or failure of the market's current players. In order to accomplish this goal, the analysis and interpretation of the data collected have been carried taking in consideration, throughout the entire project, the following research questions and sub-questions, earlier presented in the introduction to the Thesis:

How is the Italian TV industry changing in respect to the international market trends?

- ***How are the Italian players reacting to the opportunities and threats presented by the new competitive scenario?***
- ***How are the Italian consumers modifying the way they interact with content and brands?***

The research takes the form of a descripto-explanatory study. In fact, if on one side the analysis aims at gaining an accurate profile of events, actors involved and situations, the discussion, on the other, tries to explain the relevant relationships between the different variables through the lenses of the disruptive innovation theoretical framework.

3.2. Research Strategy

Given the vastness of the research topic, the strategy chosen to explore it and to answer to the research question is a case study: the Italian TV industry. The main reasons behind this choice are the possibility, given by a case study, to focus the scope of the research on a specific context, a national market in the case of this Thesis, and the possibility, given by the selection of the Italian TV industry, to exploit the insights and expertise on the topic that I have gained by directly working in it.

The time horizon selected to analyse the case study is that of a longitudinal research. Given the nature of the topic in fact, it appears as necessary to study the development that occurred over the entire period of wide-ranging change that characterised the

evolution of the TV industry. Only by doing so, it is possible to build a valid interpretation of the phenomenon and produce consistent findings.

3.3. Techniques and Procedures

The case study analysis and discussion are primarily based on desk research, as this technique was the most appropriate in order to gather the type of data that were necessary to answer to the research question. The secondary data collected were both quantitative and qualitative, as well as both raw and compiled. The analysis features, namely:

- Industry statistics and reports
- Government publications, surveys and censuses
- EU publications, surveys and censuses
- Organisation reports to shareholders
- Books
- Journals
- Newspaper reports
- Magazines
- Web pages

3.3.1 Sources

The main sources from which secondary data have been extracted are:

- **Auditel**

Auditel is the "super partes" research company that measure the audience size and composition of TV programming in Italy, 24 hours a day, 7 days a week. The company carries 7 statistical surveys a month, on a sample of 20K households every year, in order to evaluate consumers TV equipment, including DVRs, set-top boxes, pay TV, etc. From the statistical surveys sample, Auditel draws, randomly and anonymously, a smaller sample, proportionally distributed on the Italian territory, which is provided with an electronic device, called "people-meter", that automatically register and transmit to the central database the information about the channel the TV set in tuned on. The data gathered allow the company to calculate, among other indicators: the channels' AMR (Average Minute Rating), the average number of individuals viewing a TV channel, given

by the sum of the individuals viewing a selected channel every minute during a specific period of time, divided by the number of minutes that make up the period of time; and the channels' share, given by the percentage report of the viewers of a specific channel compared to the total number of viewers that at the same time are watching any other channel.

- **AGCOM**

AGCOM, the Autorità per le Garanzie nelle Comunicazioni (Authority for Communications Guarantees), is the regulator and competition authority for the communication industries in Italy, including radio, TV, newspapers, magazines and other national and EU media. On the 30 June of every year, the authority produce a report for the Prime Minister and the Parliament on the activities undertook during the year. The report contains data and financial statements of the Italian markets AGCOM is responsible for, with special reference to technological development, resources, investments and revenues.

- **Nielsen Italia**

Nielsen Italia, is a branch of Nielsen Holdings, the information and measurement company that monitors what consumers watch, in terms of programming and advertising, and what consumers buy on a global and local basis.

- **Istat**

Istat, Istituto Nazionale di Statistica (Italian National Institute of Statistics), is a public research organisation and is the main producer of official statistics at the service of Italian citizens and policy-makers. It has been operating in Italy since 1926 in complete independence and continuous interaction with the academic and scientific communities.

Other sources include national newspapers such as *Corriere della Sera*, *La Repubblica*, *Il Sole 24 Ore* and national magazines like *Panorama*.

3.3.2. Data Collection

All the different types of secondary data were accessed mainly digitally, through:

- Copenhagen Business School library's electronic resources <http://libsearch.cbs.dk/>

- Google Scholar <http://scholar.google.com/>
- Google Books <http://books.google.com/>
- Google Search <https://www.google.com/>, by using search key words such as “storia televisione italiana” (History Italian TV), “diritti televisione italiana” (Italian TV Licence Rights), “televisione digitale Italia” (DTT Italy), “OTT Italia” (OTT Italy), etc.

Some of the data were accessed physically in:

- Biblioteca Nazionale Centrale di Roma (National Central Library of Rome). Rome, Italy.
- Biblioteca della Camera dei Deputati (Library of the Chamber of Deputies). Rome, Italy.

4. ANALYSIS

4.1. Italian TV Industry Overview

Because of the way it developed and transformed, the Italian TV industry represent a unique case study in the European post-war scenario. On the one hand, Italy has had the most open broadcast system in Europe, with very little cable TV experiments, few DBS channels and hundreds of commercial TV stations, which have broadcast since 1976. On the other hand, its transformation was brought on largely by the initiative of broadcast pirates and the Italian political system, which was unable to establish a policy of entry or regulation, provided almost no structural control over local private broadcasting. As a consequence, Italian commercial TV could rapidly evolve into a highly concentrated landscape dominated by Silvio Berlusconi, with strong elements of a public-private duopoly (Noam, 1992). The following paragraphs are going to highlight the most important passages in the history of the Italian TV industry and the rise of its major players.

4.1.1. The RAI Monopoly

The history of Italian broadcasting, since its early days, has been closely linked with politics. In 1924, the Mussolini government controlled the privately owned Unione Radiofonica Italiana (URI), which had a monopolistic concession on broadcasting in the country, subject to a strong censorship supervised by the Fascist party. In 1927, URI was transformed in the Ente Italiano per le Audizioni Radiofoniche (EIAR), a semi-governmental company still controlled by Benito Mussolini (Cantoni, Falciasecca and Pelosi, 2011).

In 1944, during World War II, with the arrival of the Allies, EIAR was in turn transformed into RAI (originally Radio Audizioni Italiane, later Radiotelevisione Italiana). The following year, RAI was left with exclusive national broadcasting rights and in 1952 its activities were extended to TV (Monteleone, 1999). It is not until 1953 however, the year that marks the completion of the national reconstruction after the World War and the beginning of the Italian economic miracle, that Italy approached the launch of TV (Menduni, 2006). Regular TV transmissions began on 3 January 1954, with the support of licence fees and, since 1957, also by advertising revenues (Noam, 1992). By the end of 1957, the broadcast network coverage had reached the entire country

(Ferrarotti, 2005) and the number of TV households had grown constantly from 24.000 in 1954 to over 6M in 1965 (RAI, 2014).

The ruling Christian Democratic party used RAI extensively as a propaganda instrument and, as a result of the Church-allied party's domination of Italian politics, through the first decades of the post-war period, RAI's programs tended to be relatively straight-laced. The Christian Democrats blocked and challenged any private initiative of a broadcasting plan and in 1960, the Italian Constitutional Court further upheld the legitimacy of the state monopoly, justifying its decision on the scarcity of broadcast frequencies (Noam, 1992). In 1962, in an attempt to provide a wider menu of programs, RAI launched its second channel, Rai 2 (RAI, 2014).

In 1975, one of the main RAI reforms (Law 103/1975), shifted control of public broadcasting from government to parliament, in order to guarantee greater pluralism, still confirming however the exclusive state monopoly. The reform additionally ruled the introduction of a third broadcast channel and in 1979, RAI launched Rai 3. The major political consequence of the reform was the start of the so called process of "lottizzazione": the parcelling out of the key posts of the RAI channels on the basis of the party membership. Rai 1 was incorporated in the sphere of the Christian Democrats, Rai 2 in that of the Socialist party and Rai 3 in that of the Communist Party. From a cultural point of view, the new-born intellectual competition that followed the reform, initiated a particularly prolific creative period. The new cultural and political dimension of RAI, took place during another epochal turning point for the Italian TV, that is the official start of the first colour TV transmission (Grasso, 2004). The three channels developed a different orientation: Rai 1 provided the most information and entertainment programs to the broad public, Rai 2 focused on more specialised programs for narrower audience and Rai 3 broadcast the most cultural programming (Mazzoleni, 1992).

4.1.2. RAI – Fininvest Duopoly

In 1972, when RAI was still a monopoly and the only broadcast network authorised by the state, Giuseppe Sacchi, a former RAI producer and director, launched a pirate cable channel with the name of Telebiella (Esposito, 2010). The channel provided community programs to about 100 subscribers in the town of Biella, near Turin. Its programs, not available over the air, were intended to "better inform" the local audience during

elections and to counter the entrenched local political hierarchy, from an independent leftist perspective (Noam, 1992). The case of Telebiella soon became of national significance. Shortly after the start of the transmissions, the government issued a decree that declared the channel illegal. When Telebiella was forcedly shut down in 1973, Sacchi fought the decision in the Constitutional Court, claiming that the state TV monopoly infringed the citizens' freedom of speech and expression through the TV medium (Rennie, 2006). In 1974, The Constitutional Court ruled that local private cable systems were legal, provided they did not interfere with other signals (Walker, 2001). Cable programmers can thus be considered as instrumental in ending the government monopoly, cable's assertiveness however ultimately lost its foundation as transmission medium. When unlicensed local broadcaster, learning from cable, went on the air, the need for the much costlier cable transmission technology declined, and cable TV played no further role in the subsequent Italian TV development. In the following years, an avalanche of piracy begun and hundreds of private commercial TV went on the air. In 1976, with the historic Judgment 202, the Constitutional Court held that RAI monopoly was unconstitutional with respect to local broadcasting. The ruling had the immediate and primarily effect of literally opening the floodgates as a large number of private broadcasters started local operations. It was the official end of the RAI monopoly (Noam, 1992).

In the following years the number of local broadcast stations grew exponentially. In the middle of the 1980s, there were over 1.300 private TV stations operating in the country (Sasson, 1985). With one TV station per 10.000 households, Italy broke the record for world's greatest density of broadcasters and became the largest European market for TV programs, including foreign and domestic productions (Noam, 1992). The main restriction on private broadcasting, at the time, was the prohibition of national networking among stations. However, the economic incentives for networking proved too strong to be contained and many media entrepreneurs started to undercut the prohibition through the creation of de facto networks that broadcast pre-recorded material simultaneously, from their various stations across the country. Three major networks emerged from the fray: Canale 5, Italia 1 and Rete 4. Amazingly, all three became controlled by the industrialist Silvio Berlusconi and his Fininvest Group (Noam, 1992). Canale 5 targeted a general audience with an offering similar to that of Rai 1,

Italia 1 focused on a younger target, while Rete 4 started by targeting a general audience, but it later shifted towards targeting adults (Saporiti, 2009).

From the start, Berlusconi's operation was marked by a very high investment into stars and technology. He paid independent antenna installers to ensure that the signal from the channels would be technically well received in the entire country, and offered low rates to advertisers and fewer advertisements per hour to viewers, than any competing channels. In this way, he was able to weaken the position of all the others private networks, becoming by 1983 practically the owner of the only private TV in Italy. In 1984, the magistrates of Rome, Milan and Pescara ordered to shut down Berlusconi's unofficial networks for violating the Court ruling that gave RAI the exclusive right to transmit national network signal. The government, headed by Prime Minister Bettino Craxi, responded by approving an emergency decree, known as "Decreto Berlusconi" overturning the magistrates' order (Noam, 1992). These actions raised significant constitutional issues about the role of the judiciary and were ascribed by many to the close relationship between Craxi and Berlusconi (Messina, 2007). By the time an official regulatory legislation caught up with the situation, in the form of a new Broadcasting Act in 1990, known as "Legge Mammì", it could do little more than legitimize and solidify the situation that had been profoundly altered by commercial mechanisms during the previous decade and a half (Dahlgren, 2000). The Legge Mammì thus confirmed the allocation of the Italian broadcast TV channels between the two players, RAI and Berlusconi's Fininvest. In the meanwhile, Fininvest three commercial networks together were about even in viewership with RAI's three channels (Noam, 1992).

In 1996, Fininvest founded the mass media company Mediaset, which was listed on the stock exchange and took the helm of the three TV networks (Fininvest, 2014a). Fininvest is today Mediaset major shareholder, holding the 41,3% share of the company (Mediaset, 2014a). Both companies are still controlled by the Berlusconi family (Fininvest, 2014b; Mediaset, 2014b).

4.1.3. The Rise of Pay TV and DBS

In 1991, Telepiù (later Tele+) launched three encrypted analog channels that required the installation of a set-top box included in a monthly subscription fee, giving thus birth to the first Pay TV offering in Italy (Fiorucci, 2008). In 1996, Telepiù started to distribute

its channels through digital DBS signal. Soon after, Stream, a company that registered among its major shareholders Telecom Italia (the largest Italian telecommunications company) and Rupert Murdoch, approached the DBS market offering subscription-based digital channels. In the following years, the two companies were the only Pay TV platforms operating in the country and the major players in the DBS market, therefore representing the only significant competition to the RAI-Mediaset free-to-air (FTA) TV duopoly (Prario, 2005).

THE ITALIAN TV MARKET IN 2001
NUMBER OF HOUSEHOLDS: 21,6M

	PENETRATION	MAJOR PLAYERS
Analog TV	100%	RAI (Rai 1, Rai 2, Rai 3) Mediaset (Canale5, Italia1, Rete4) Tele+
DBS TV	12%	Tele+ and Stream
Cable TV	0,4%	Stream[7] and e.Biscom

Table 4.1. Major players in the Italian TV market in 2001 (Prario, 2005).

Both Tele+ and Stream however, reported repeated financial losses, primarily due to the high cost of licensing movie rights and sport (partly attributable to the reciprocal competition), the slow growth of multi-channel connections that characterised the Italian market (DBS, cable) and the high diffusion of pirate decryption (Prario, 2005). In July 2003, the two companies merged into Sky Italia, the pay TV platform controlled by Murdoch's News Corporation (Treré and Sapio, 2008). At the time of its launch the platform's offer included 100 channels of cinema, sport, entertainment, kids and teenagers programming, news, documentaries and music. One year into business, Sky counted 3M subscribers and embarked on a decisive fight against piracy, investing in fully converting the broadcast system and replacing the set-top boxes and smartcards of the old Tele+ and Stream subscribers (Sky, 2014). In 2006, for the first time in the Italian TV history, an event of national interest like the FIFA World Cup, was aired exclusively on pay TV. Sky's acquisition of the rights for the event opened a new frontier for the

[7] Stream had started broadcasting as a digital cable pay TV in a few of the largest Italian cities (Manca, 1996), only later it included DBS TV.

coverage of sporting events, in which FTA channels were going to play an increasingly minor role. 2006 was a year of significant innovation and development for other two reasons. Firstly, pay TV reached 4M households and registered, for the first time, a positive operating profit, with a €32M margin. DBS TV was watched by 12M Italians, positioning number third in Europe, after the UK and France, in terms of audience. Secondly, in 2006, Sky was the first Italian TV operator to introduce HD broadcasting, thus making a technology, that greatly enhances the quality of home entertainment, available for a constantly growing audience (Centorrino, 2006).

After the merger of Tele+ and Stream, Italian DBS TV became a monopolistic regime controlled by Sky, in juxtaposition with the RAI-Mediaset duopoly dominating the FTA TV (Mazzoleni and Vigevani, 2005). The situation remained substantially unchanged until the national development of the DDT few years later.

4.1.4. DTT

DTT was introduced in Italy with the adoption of the Digital Broadcasting Law in 2001. However, the switch-off of analog broadcasting started in 2009, with the progressive "digitisation" of regional areas. The deadline for the definitive switch-over from analog to digital broadcasting was set for 31 December 2012 (Mazzoleni, Vigevani and Splendore, 2011). Although Italian regulators saw DTT as an opportunity to introduce more competition, Berlusconi became Prime Minister in 2001[8] and the duopoly obtained

[8] Silvio Berlusconi became Prime Minister first in 1994, then in 2001, and has continued since to dominate Italian politics, with a short break between 2006 and 2008, until 2011 (Starks, 2013). The rise to political power of Berlusconi in 1994 raised an important issue: the conflict of interest. The formal RAI-Mediaset duopoly substantially became a monopoly in the hands of Berlusconi, who was the owner of Mediaset but also, as Prime Minister and member of the government, the major stakeholder of RAI, thus the holder of a strong power of influence over the management of the public broadcasting authority. In 1997, the left of centre government issued a law, known as "Legge Maccanico", which decreed that a single operator could not hold more than the 30% of the TV market resources. In 2004, Berlusconi government issued another law, known as "Legge Gasparri", which reduced to 20% the cap of a single operator, it however extended the market to the so called SIC (Sistema Integrato delle Comunicazioni), which included together with TV, also press, publishing, radio, internet, cinema and direct advertising. As a matter of fact, considering the vastness of these markets, the Legge Gasparri resulted in allowing a single operator to potentially almost double its revenues, and both laws (including the Legge Maccanico) did not resolve the vexata quaestio of the conflict of interest, being the law referred to those who operates the companies and not to the owners (Mazzoleni and Vigaveno, 2005).

an early grip on DDT. Mediaset was first to launch in 2003 with a multiplex of five channels and RAI followed promptly with two national multiplexes (Starks, 2013). The early stages of transition to DTT in Italy followed a pattern very much determined by the pre-existing structure of the terrestrial analog sector (Del Monte, 2006).

By the end of 2004, two other multiplexes made their move into the market, one run by Telecom Italia and TV International and the other by a company called D-Free. Approximately 25 national channels and 40 local ones, including the simulcast of the existing national terrestrial channels, were available in total. The business model adopted by the players was originally all free-to-view, based on advertising revenue. Nevertheless, led by Mediaset, the broadcasters decided to challenge Sky Italia's DBS premium services and began offering pay TV events (particularly football) through prepaid rechargeable cards (Starks, 2013).

In 2005, Mediaset launched the pay TV platform Mediaset Premium (Mediaset, 2014c). Mediaset Premium fostered particularly football and films, the content that Italian audiences had already proved to be willing to pay a Sky subscription fee for. However, instead of mimicking the pay TV model adopted by Sky, which implied a monthly subscription fee independent from the time spent watching TV, Mediaset Premium shaped its offer on low-cost, prepaid and rechargeable smartcards without subscription. Even if Mediaset Premium's line-up was less broad, in terms of number of channels and transmission quality[9], than that of Sky, prepaid cards allowed the company to go beyond the high spenders and did not require new and complex billing systems. At the end of 2006, out of a total 21.8M Italian households, 18,1% were subscribed to Sky and 11,3% owned a Mediaset smart card. Since 2008, with the aim of increasing its revenues, the company also introduced post-paid subscriptions (Colapinto, 2010).

By the end of 2012, when the digital switch-over was complete, the release of analog terrestrial spectrum allowed further DTT multiplexes to be allocated and the Berlusconi

[9] Mediaset Premium transmission are in SD, in 2010 the platform launched Premium Cinema HD and Premium Calcio HD, which are currently its only two HD channels (Mediaset, 2014a). Sky on the other hand, launched HD in 2006 and currently offers over sixty HD channels and one 3D channel (Sky, 2014).

government envisaged this being done by "beauty contest"[10]. However, opponents who regarded this approach as potentially too favourable to incumbents argued that an auction could generate substantial revenue, especially in the light of the country's economic crisis. Following Berlusconi's fall at the end of 2011, Italy's new technocrat, Prime Minister Mario Monti, confirmed an auction as the course to be followed (Starks, 2013). Table 4.2. shows the major networks operating in Italy in May 2014 (latest data available), in the DTT market as well as in the pay TV one:

NETWORKS	DIGITAL CHANNELS	TOTAL DAY SHARE
RAI	14 FTA	37,04%
Mediaset	11 FTA 8 Pay TV	33,3%
Sky	54 Pay TV 1 FTA	4,78%[11]
Discovery	8 FTA 8 Pay TV	5,79%
Cairo Communication	2 FTA	4,27%
Fox International Channels	18 Pay TV	1,47%
MTV-Viacom	1 FTA 12 Pay TV	1,25%
Others		12,1%
		100%

Table 4.2. Author's elaboration of the May 2014 national channels ratings measured by Auditel.

Despite this and despite the promise of the technological change being able to bring more pluralism in Italy, DTT policies development has been deeply rooted with the national context and the Italian policy-makers have failed to secure a concrete solution to the abiding lack of pluralism of the Italian broadcasting market, which remains today dominated by the long-lasting duopoly (Fanucci and Brevini, 2013). In fact, RAI and

[10] "Beauty contest", as it has been referred to in the Italian press, is the process by which TV frequencies are given away for free, on the basis of the decision of an ad hoc commission, which judges which players have the resources to use the frequencies better. Even if this practice is not an Italian-only prerogative, the conflict of interest in which Berlusconi was involved moved many to think that the process would have unfairly favoured Mediaset and RAI (Lyman, 2011).

[11] The percentage include only the networks owned by Sky, and not the third party channels available exclusively on the platform such as, for instance, those of Discovery and Fox International Channels.

Mediaset owns respectively the 37% and the 33% share (total day) of the Italian TV audience. It is interesting to notice that nearly half of the share for both networks is represented by that of the two main channels Rai 1 and Canale 5, as shown in Table 4.3.

COMPANY	MAIN CHANNEL	ALL CHANNELS	TOTAL
RAI	16,26% (Rai 1)	37,04%	70,34%
Mediaset	16,18% (Canale 5)	33,3%	

Table 4.3. Author's elaboration of the May 2004 Total day share of Rai 1, Canale 5, RAI and Mediaset as measured by Auditel.

4.1.5. Internet and new technologies

Also in Italy, one of the effects of the advent of the Internet, on the TV content provision side, was the birth of Telco TV. Fastweb was the first company to enter the Italian market in 2001, offering a service based on IPTV technology. The aim of the company was to provide a unique set-top box able to unify all the DTT channels that were starting to arise, together with the Pay TV offerings, and to build its proprietary and exclusive channel line-up. However, the adoption by consumers was very slow and in 2010 Fastweb counted only 200K subscribers. In a decade of use, the TV market had changed and the business never managed to really take off, furthermore the government did not put in place any kind of tax break or subsidies, like other countries did. As a result, Fastweb and all the operators in the Telco TV sector that in the meanwhile had entered the market (i.e., Infostrada TV, Tiscali TV, IPTV di Telecom Italia) together did not reach 600K subscribers. Fastweb stopped providing its TV service in 2012 and so did the other competitors, with the exception of Telecom Italia (Serafini, 2012), which still operates today.

The development of technology and the diffusion of Internet connections have allowed many players from the traditional Italian TV industry to enter the OTT market and design specific solutions to provide new services to the consumers. The major FTA networks started to offer web TV services (e.g., Rai.tv, Video.Mediaset.it, MTV on demand) through portals that allow consumers to watch some of the content that has been previously aired on the linear channels (Rossi, 2014). Pay TV operators, on the

other hand, enriched their offering with many more services, that can be summarised as follows in Table 4.4.

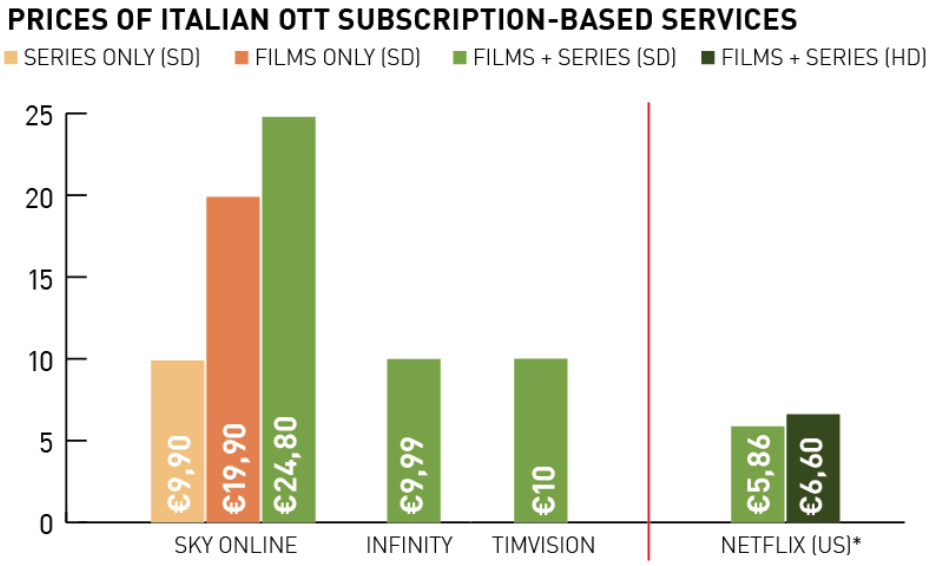
	SKY	MEDIASET PREMIUM
DVR	**MySky HD** Launched in 2008, the HD set-top box with integrated hard disk provide Sky subscribers with the possibility of recording a program while watching another one, pausing a live broadcast, programming recordings away from home, etc.	
TV everywhere	**Sky Go** Launched on March 2012, the application brings TV on the move and allow Sky subscribers to live broadcast of sport, news, entertainment and kids programming, on laptops, tablets and smartphones.	
VOD	**Sky On Demand** Launched on July 2012, the VOD service offers Sky subscribers a constantly updated library with thousands of films, TV series documentaries, kids programming, news and sport. The service is also available on Sky Go.	**Premium Play** Launched on November 2011, the VOD service offers Mediaset Premium subscribers a library of 2.500 films, TV series, football, documentaries, kids programming and the best of the programs aired on Canale 5, Italia 1 and Rete 4 in the last 7 days.
OTT	**Sky Online** Launched on March 2014, the subscription-based and PPV service is open to anyone and provide access to a selection of the Sky offering, which can be streamed through internet-connected devices, Samsung Smart TVs and PlayStation 3 and 4, Xbox One and Xbox360.	**Infinity** Launched on December 2013, the subscription-based and PPV service is open to anyone and provide access to a library of films, scripted series and TV programs. Content can be streamed through internet-connected devices, Samsung and LG Smart TVs, PlayStation 3 and 4, Xbox One and Xbox360 and Google Chromecast.

Table 4.4. Services offered by Sky and Mediaset Premium (Sky, 2014a; Mediaset, 2014a).

Also Telecom Italia, on the side of its IPTV offering, in 2009 launched CuboVision an hybrid telco-OTT subscription-based and PPV service, accessible through a specific set-up box or Smart TV connected to the internet through a Telecom Italia connection, that allowed consumers to access a library of films, TV series and programs, and to organize

personal photos, music and videos (Telecom Italia, 2009; Dini, 2014). In May 2014, CuboVision changed its name in TimVision, through a rebranding operation (La Repubblica, 2014). TimVision is both a PPV and subscription-based OTT service that works similarly to Mediaset's Infinity and Sky Online without requiring the subscription to Telecom Italia internet connection, and that is accessible through internet connected PCs, tablets and smartphone, Smart TVs or through a dedicated set-top box connected to the traditional TV set (TimVision, 2014).

As to international players operating in the Italian market, most notably Google Plus and iTunes offer a large library of films for sale or for rental, in SD and HD quality. TV series are however excluded for now from the offering in Italy. The only legal option for Italians to access TV series online is currently provided by Mediaset's Infinity, Sky Online and Telecom Italia's TimVision. The three OTT services, however, present different limitations, namely: the content available is in SD only; the catalogue does not include many titles; for most of the TV series available there are no complete seasons; content cannot be streamed simultaneously by different registered devices; the value for money ratio is perceived as low (Niola, 2014).



*Netflix's prices are referred to the offering in the US: $7,99 (€5,86); $8,99 (€6,60).

Figure 4.5. Author's elaboration of prices data gathered on Sky Online (2014), Infinity (2014), TimVision (2014) and Nefflix (2014).

In 2014, Netflix has been expanding its business in the European market, but the company has confirmed in May that Italy, for now, is not going to be part of the new expansion wave (Pennisi, 2014). One of the main reasons behind the decision is given by

the low bandwidth and broadband penetration in the country, for the service to work properly. According to Eurostat in fact, only the 55% of Italian households has a broadband connection, compared to an average of 72% across Europe, while average broadband speed is about 4 Mbps compared to 7 to 8 Mbps in the UK (Vivarelli, 2014). Another reason that appears as plausible is the difficulty of negotiating SVOD rights deals with the Italian distribution companies (Niola, 2014) and Italian windowing structure that considerably slow down the availability of content (Pezzali, 2013).

4.2. Business Models and Strategies Adopted by Players

The Italian TV landscape has much evolved during the past decade, however the two main players that have dominated the market since its origin, RAI and Mediaset, continue to do so today. Although the share of the two players remains uncontested, data show a slight decrease over the last years:

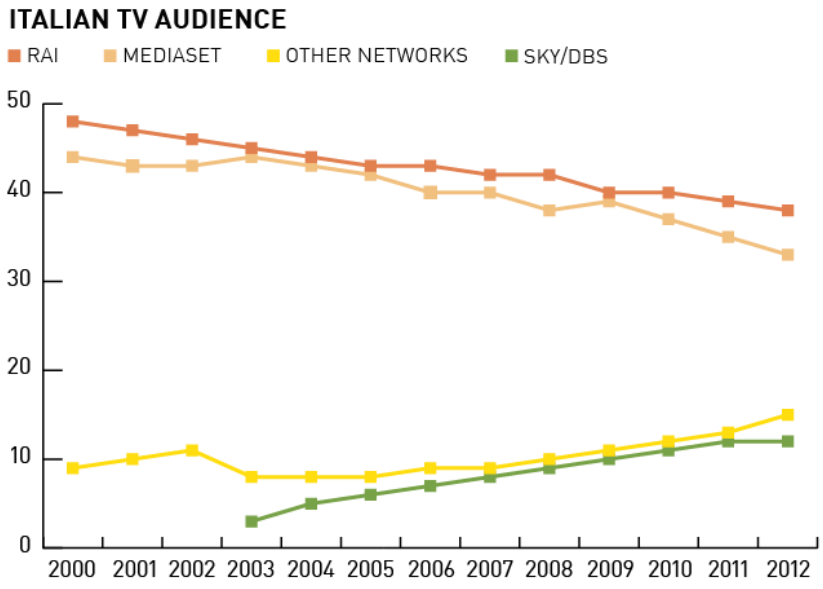


Figure 4.6. Italian TV audience trend from 2000 to 2012 (AGCOM, 2013).

By contrast, the other DTT networks and the Sky platform register a positive trend. Against the inertia of the positions occupied by the incumbents, it is thus possible to observe a slow, but constant decline of the generalist channels in favour of thematic channels.

As to the reception method of the TV product showed by Table 4.7., the conclusion of the switch-over process results visible after 2012, when TV analog transmissions ceased to

exist. Today, almost the 84% of the population access TV content through DTT, while the remaining part use DBS. Completely marginal is the role played by IPTV platforms, which, in addition to having a low share on the total TV audience, have been registering a progressively negative trend over the past years.

PLATFORM	March 2010		March 2012		March 2014	
	AMR	SHARE	AMR	SHARE	AMR	SHARE
Analog	5.055.873	48,0%	1.196.198	11,0%	0	0,0%
DTT	3.763.948	35,7%	7.814.445	71,9%	9.345.354	83,6%
DBS	1.586.942	15,1%	1.807.831	16,6%	1.835.270	16,4%
IPTV	29.845	0,3%	20.074	0,2%	2.509	0,0%

Table 4.7. AMR and Share divided by platform (AGCOM, 2014).

Even if RAI and Mediaset are the uncontended major operators in terms of TV audience share across different platforms, things are different in terms of total annual revenues. By looking at the total TV revenues distribution per operator in Table 4.8., what emerges is an evident tripartition of the entire TV market among Sky, Mediaset and RAI. The three players together hold the 90% of the total resources. The remaining 10% is scattered among a large number of operators.

	2010 (€M)	2011 (€M)	2012 (€M)	2013* (€M)	Δ2013/2012	SHARE ON TOTAL REVENUES
Sky	**2.706,44**	**2.688,84**	**2.701,56**	**2.605,67**	**-3,5%**	**32,5%**
Advertising	268,92	258,86	256,63	210,31		
Pay TV offering	2.437,52	2.409,98	2.435,93	2.395,36		
RAI	**2.571,93**	**2.532,13**	**2.356,32**	**2.317,61**	**-1,6%**	**28,9%**
Licence fee [12]	1.586,15	1.606,14	1.647,44	1.654,77		
Advertising	946,58	890,69	683,66	632,48		
Mediaset	**2.893,16**	**2.865,48**	**2.486,33**	**2.281,50**	**-7,5%**	**28,4%**
Advertising	2.433,37	2.347.90	1.966,10	1.730,19		
Pay TV offering	458,35	516,41	520,22	550,90		
Other operators	**853,42**	**937,14**	**696,83**	**814,40**	**17,1%**	**10,2%**
Advertising	633,48	723,83	559,03	684,27		
Total	**9.024,95**	**9.003,59**	**8.387,94**	**8.021,18**	**-4,7%**	**100,0%**

*Estimated values

Table 4.8. Author's elaboration of total TV market revenues per operator (million euros) measured by AGCOM (2014).

[12] Royal Legal Decree 246, of 21 February 1938, requires anyone in Italy owning one or more television sets to pay a television subscription fee, which is an ownership impost due regardless of actual set use or selected television stations (RAI, 2014b).

The recessive economic landscape, that affected the country over the past decade, determined a progressive reduction of the budget for advertisers and of the disposable income for consumers (AGCOM, 2014). 2013 confirm a negative trend, even if in slight upswing compared to 2012, for the revenues of Mediaset (-7,5%) and RAI (-1,6%), primarily caused by a contraction of advertising revenues. In countertrend, only the results of Cairo Communication (owner of the FTA DTT channels La7 and La7d) and Discovery. Even if the two companies together account only for the 3,3% of the total revenues registered in the TV market, they more than doubled their advertising revenues, registering respectively a 268,9% and a 110,7% increase (AGCOM, 2014).

Figure 4.9. shows that even if in 2013 TV confirms itself as advertisers' favourite medium, holding the 50% of the total advertising share, the advertising investments on every media registered a negative variation compared to 2012. On the rise, the number of investors that choose internet, even if investing smaller amounts.

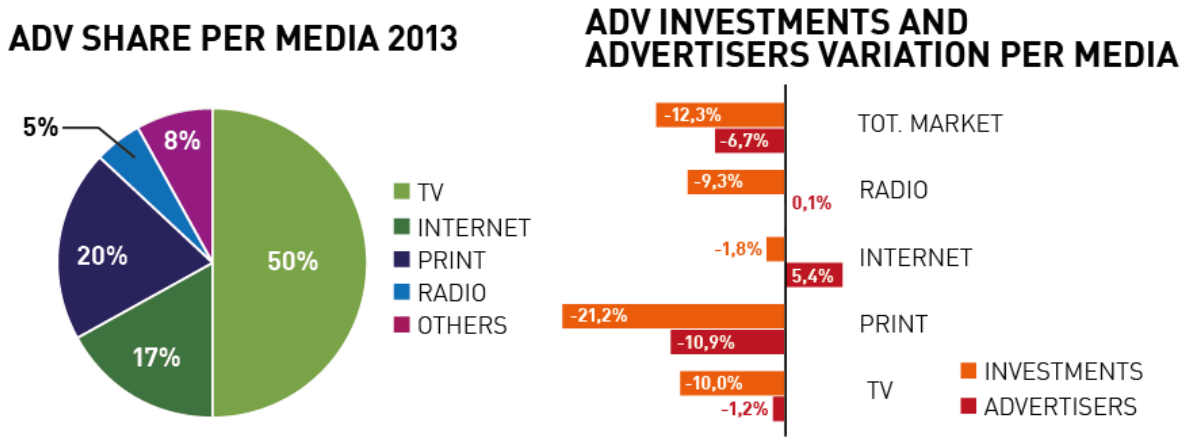


Figure 4.9. ADV share per media and ADV investments and number of advertisers variation per media (Nielsen, 2014d)

Sky confirmed itself as the leader of the market in terms of revenues, with a 32,5% share. However, the total revenues of the platform diminished by 3,5%, due to a decrease of the advertising revenues, but more largely due to a decrease of the number of subscribers. The rise of the prices of pay TV, was not enough to contrast the losses deriving from the subscribers' churn.

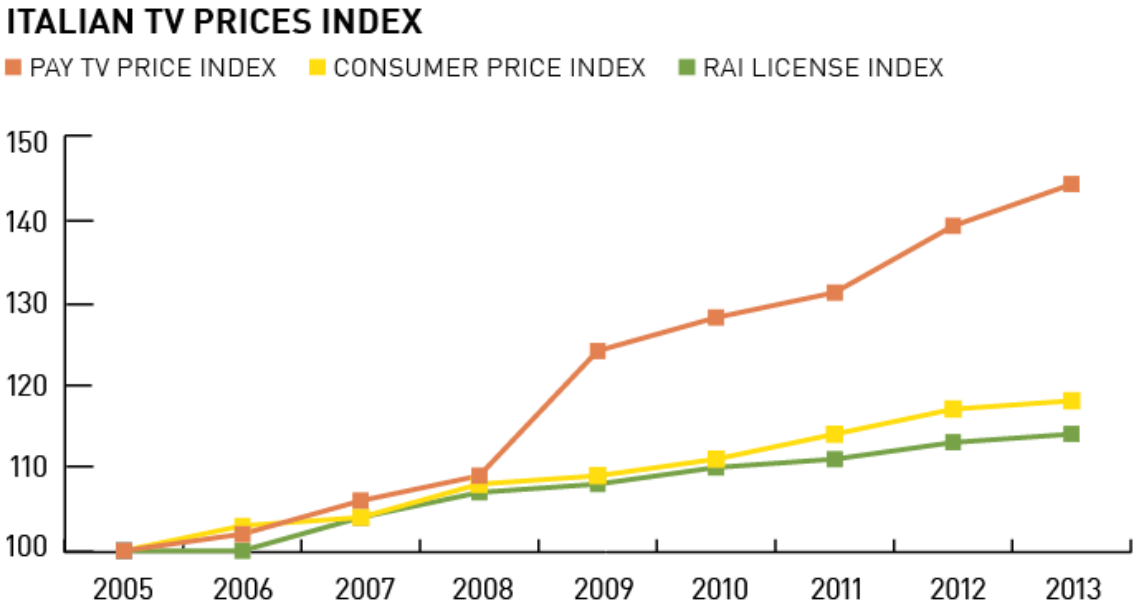


Figure 4.10. Italian TV prices index (ISTAT, 2014).

As showed by Figure 4.10, starting from 2008, Pay TV prices have risen at a fast pace compared to the consumer price index, the RAI license fee trend, on the other hand, has been more in line with that of the inflation.

Table 4.11. shows the detail of the subscription-based offering of two pay TV competitors Sky and Mediaset Premium.

	SKY	MEDIASET PREMIUM
Activation (Una Tantum cost)	**€69**	**€39**
Entertainment, Documentaries and Kids, Cinema	**€34,90/month** (first 12 months), later **€39/month**	**€19/month** (first 6 months), later **€26/month**
Entertainment, Documentaries and Kids, Football, Sort	**€22,90/month** (first 12 months), later **€52/month**	**€19/month** (first 6 months), later **€26/month**
Full (Entertainment, Documentaries and Kids, Cinema, Football, Sport)	**€58,90/month** (first 12 months), later **€67/month**	**€29/month** (first 6 months), later **€36/month**

Table 4.11. Author's elaboration of data from Sky (2014b) and Mediaset Premium (2014).

Although the three combinations in the table are the only ones offered by Mediaset Premium (Mediaset Premium, 2014), Sky provides consumers with more options to combine the different Entertainment, Documentaries and Kids, Cinema, Football and

Sport packages. Sky customers can opt for the basic offer, which include only the Entertainment package, at €19 a month or can for instance combine the Basic package with Cinema only or with Football only at €29,90 (€34 after the first 12 months) or with Football and Sport at €39,90 (later €47) (Sky, 2014). Whichever the combination however, Mediaset Premium offering results considerably cheaper, but also less wide as illustrated by Table 4.12.

PACKAGE	SKY	MEDIASET PREMIUM
Entertainment	38 channels (17 of which are available also in HD), including: all Fox International Channels TV series channels, Sky owned channels dedicated to TV series and local and international shows, Comedy Central, Discovery Travel & Living, SkyTG24, EuroSport etc.	4 owned channels (SD only) dedicated to TV series
Documentaries and Kids	7 documentaries channels (6 of which in HD) including: National Geographic Channel, Discovery Channel and History. 13 kids channels (2 of which in HD) including: Disney Channel, Disney Junior, Cartoon Network, Nickelodeon, Baby TV, etc.	2 SD documentaries channels: BBC Knowledge and Discovery World 1 SD kids channel: Disney Channel (Other two channels Disney Junior and Cartoon Network are available for €5/month extra).
Cinema	12 HD channels	6 channels (1 of which HD)
Football	16 HD channels featuring the Italian Serie A matches, the German Bundesliga (Sky exclusive), the English Premier League and FA Cup, the Spanish Primera División, the French Ligue 1 and the Dutch Eredivisie.	8 channels (1 of which HD) featuring the Italian Serie A and Serie B matches, the UEFA Europa League (Mediaset Premium exclusive), the English Premier League and FA Cup, the Spanish Primera División the French Ligue 1, and the Dutch Eredivisie.
Sport	6 HD channels featuring all the 128 matches of the UEFA Champions League (Sky exclusive), MotoGP (Sky exclusive), F1, tennis, basket NBA, rugby, golf.	2 SD channels: EuroSport and EuroSport2.

Table 4.12. Author's elaboration of data from Sky (2014b) and Mediaset Premium (2014).

The disparity between the two offerings is evident in every package, with the exception of the Football one, in which, despite the different number of HD channels available, the offering is more balanced. Sky owns the exclusive rights for the German Bundesliga, but

Mediaset Premium counter-offer with the Italian Serie B[13] and the exclusive right for the UEFA Europa League.

The strategic value of coverage of major football events is testified by the fact that most of the 2013 expenses for both of the companies were determined by the acquisition of football rights (21st Century Fox, 2013; Mediaset, 2013). With regards to the seasons to come, despite to date official expenses data from the two companies are not available, the Italian Football League has given forth, at the end of June, the result of the auction to allocate the Serie A TV rights 2015-2018: Sky is going to spend a total of €572M a year for all games of the 8 leading sides on DBS, Mediaset €373M for the big-team games on DTT. The Football League will thus be able to collect €2.8B for the 2015-2018 seasons, the highest amount ever spent for the Serie A TV rights (De Cesare, 2014; Bellinazzo and Biondi, 2014). Mediaset Premium is also going to have the exclusive rights for the Champions League 2015-2018 seasons (which are today owned by Sky), paying €700M for the three years (Balestreri, 2014).

The increase of revenue streams from the sale of football broadcasting rights is an exponential trend registered in all Europe, where football is at the head of sport disciplines which provide the highest audience figures, making broadcasting of major events one of the most profitable business related to sports (Moya Izquierdo and Troncoso Ferrer, 2014). The battle for football rights was dramatically intensified especially for pay TV operators, given that the demand for such premium content is rather inelastic and, as confirmed by the literature, the exclusive coverage of football events can be crucial to lure new subscriptions (Gardini and Galperin, 2005).

4.2.1. RAI

RAI, the Italian national public service broadcaster, has registered no substantial changes in its business model over the years: licence fee and advertising remain the main sources of revenue. Until the introduction of digital content, RAI's offering was limited to its three analog TV channels (Rai 1, Rai 2, Rai 3) and three national radio

[13] Serie A is the professional league for football clubs located at the top of the Italian football league system. Serie B is the secondary football competition in the country.

stations. Digitalization altered and multiplied these services, which today include (RAI, 2014):

- 15 DTT channels (3 generalist and 12 thematic channels, the latter mainly focused on kids programming, films, education, lifestyle and sports).
- Rai.tv website, where it is possible to access RAI's TV programming on demand
- Podcast service for several radio programs

All RAI services are regulated by the Public Service Contract. signed between RAI and the Ministry of Communications, which establishes that at least 70% of RAI's annual TV programming must consist of content relating to the following categories: information; debates on public affairs; work and social affairs; culture, education and training; tourism and environmental quality; entertainment; sports; children; an promotion of audio-visual media (Mazzoleni, Vigevani and Splendore, 2011).

The RAI Group has also grown over the years, giving birth to different companies with the aim of entering and controlling different areas of the marketplace more efficiently. Among these companies there are (RAI, 2014):

- Rai Cinema, which manages the group's activities in the cinematographic production sector, and which buys and manages international licence rights of films and TV products;
- Rai Fiction, which manages the production of Italian TV mini-series and series;
- Rai Trade, which manages the distribution of RAI's products and productions rights around the word;
- Rai World, which manages production and commercialization of RAI's TV and radio programs internationally.

4.2.2. Mediaset

As opposed to RAI, the Mediaset Group has gone through significant changes throughout the years, experimenting new revenue models, partnerships and acquisitions. The success of the Group, in the 2000s, was also largely due to a strong networking logic and the ability to interlock with networks of finance, advertising, technology and (above all) politics (Colapinto, 2010).

Digitalisation allowed Mediaset to launch 7 new FTA thematic channels, focused on kids programming, films, news and lifestyle, on top of the ex analog Canale 5, Italia 1 and Rete 4. Although FTA TV remains Mediaset's core business, the Group has been exploiting the new opportunities provided particularly by the new media environment, aiming to extend its leadership through the adoption of following key strategies (Mediaset, 2013).

- **Venture in the digital PPV market**

The operation allowed the company to enlarge its portfolio and to add, through the provision of premium content, a new revenue stream to complement the main one, which remains advertising (AGCOM, 2014). Furthermore, leveraging the DTT platform allowed Mediaset to enrich its TV offering with interactive services featuring non-linear, VOD content and foster commercial and technological innovations (e.g., HD TV, OTT services), mainly as a response to the increasing competition in the Pay TV market (Colapinto, 2010).

- **Make relevant investments on the content side**

The acquisition of Endemol in 2007, a top editorial content company, enabled Mediaset to act as a leading content producer in the TV market. In the same year Mediaset acquired Medusa, the main Italian film production and distribution company, and in 2008, Toadue, a leader in Italian TV mini-series production. Investments on the content side include the acquisition of rights for major sporting events, particularly football (Mediaset, 2014a).

- **Expend the business internationally**

Mediaset controls Mediaset España Comunicaciòn S.A., the private TV group leader in the Spanish TV market, in terms of share and advertising revenues. In 2005, the company was listed in the stock exchange of Madrid, Barcelona, Bilbao and Valencia in the Ibex 35, the index of the 35 major Spanish companies. Mediaset España owns the FTA TV channels Telecinco and Cuatro and hold the 20% share of the Pay TV Digital Plus (Mediaset, 2014a).

4.2.3. Sky

Sky Italia currently distribute more than 190 channels of basic, premium and PPV programming services via DBS and via broadband on the IPTV di Telecom Italia (21st Century Fox, 2013). In December 2009, the company launched Cielo, a FTA channel on DTT, which offer programming from the library of Sky, Fox International Channels and 20th Century Fox (Sky, 2009). Sky's offering is based on the company belief that the quality and variety of programming, audio and interactivity are the key for gaining and maintaining market share (News Corporation, 2010). The company was the first to incorporate HD quality programming and to launch a 3D channel (Sky, 2014), on top of its services and technological offering, as seen in paragraph 4.1.5.

Despite Sky's share is not comparable to that of RAI and Mediaset, its revenues surpass those of its two major competitors. As seen earlier, revenues derive primarily from subscribers fees, however the continued Italian challenging economic environment has contributed to a reduction in consumer spending and has posed challenges for subscriber retention and growth (21st Century Fox, 2013).

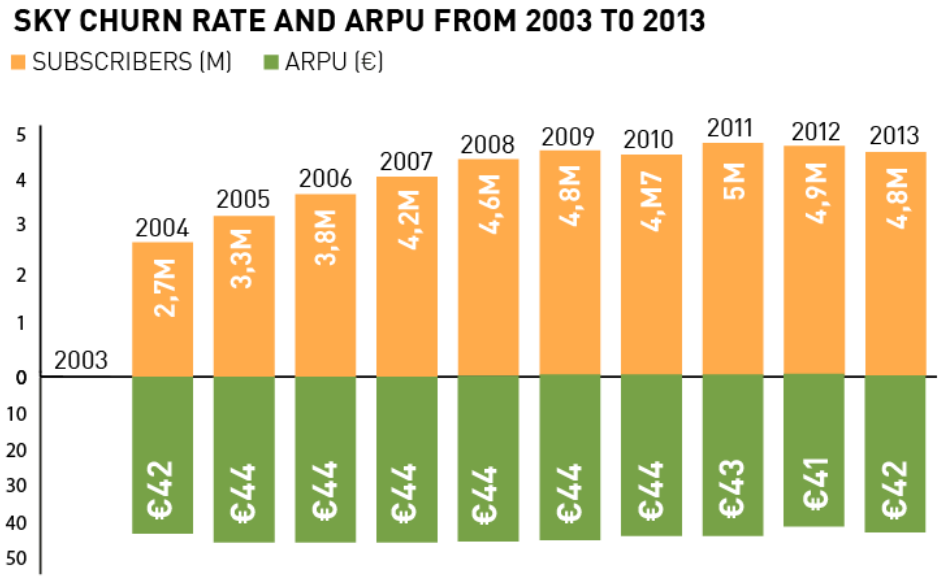


Figure 4.13. Author's elaboration of the variation of Sky's number of subscribers and ARPU as indicated in the annual reports of News Corporation (2003-2012) and 21st Century Fox (2013).

Figure 4.13. shows that the company has registered a decrease of its subscribers particularly since 2011 and of the ARPU, which slightly increased from 2012, but register today the same value it had at the launch of the company.

Sky most significant expenses are those related to the acquisition of the entertainment, film and sport programming. The coverage of major sporting events, in particular, has determined most of the expenses for the fiscal year ended June 30, 2013 (21st Century Fox, 2013). With regards to the Serie A TV rights for 2015-2018, on top of the matches Sky was awarded for, the platform presented the highest bids also for the big-team games on DTT for a total of €895M. It was the first time that Sky made an offer for satellite ad well as DTT rights, making room for hypothesis over a next move of the company to include DTT in its offer. The Football League, however, awarded the DTT rights to Mediaset, even if the Group had made a lower bid (€280M against Sky's €420M), in order not to leave all the most important matches in the hands of one single operator and safeguard consumers and competition. Sky accused the authority of awarding the rights by arbitrary criteria not contemplated in the invitation to tender, however at least for the next three season the two competitors are going to operate on their traditional platforms (De Cesare, 2014; Bellinazzo and Biondi, 2014).

On the content production side, unlike RAI and Mediaset, Sky did not invest in buying or creating proprietary solutions. However, in the last few years the platform ventured in the executive production of local versions of international TV formats (i.e., *XFactor* and *MasterChef*) and original TV series (Sky, 2014a). Among the original TV series, the critically acclaimed *Gomorra*, which debuted on Sky in May 2014, achieved the title of most watched TV series in the history of Italian Pay TV, with an average 700K AMR per episode. The last episode of the series obtained nearly the 3% of the total Italian audience share and the hashtag #GomorraLaSerie was among the Italian trending topics of the week on Twitter. The broadcasting rights of the series have been sold to 60 countries (Ansa, 2014).

4.3. Italian Consumers Viewing Habits

4.3.1. Media Consumption in Italy

From the point of view of the Italian consumers, media consumption in its entirety has increasingly grown over the years. The development of technology has enabled the entrance of new media and devices in the market, however, data highlight how traditional media have been progressively flanked by them, rather than being substituted (AGCOM, 2014). In Italy, TV remains the most accessed medium of all, even if

a slight decrease was registered compared to 2010. The second medium preferred by consumers is radio, followed by the Internet, which grew most than all the others media, reaching in 2013 the 55% of the Italian population.

	2010	2013
ALL MEDIA	98,3	98,8
TV	96,8	95,2
Radio	67,6	68,0
Newspapers	58,7	52,0
Magazines	43,2	43,4
Internet	38,2	55,0

Table 4.14. Access to media (% Italian population) (AGCOM, 2014).

The supremacy of TV, over the other media, is confirmed internationally as showed in Figure 4.15. In Italy however, the strength of the medium is particularly accentuated by the percentage points that outdistance it from the other media. The international comparison also confirm the rising importance of the Internet, which win the third position in the rank of the most accessed media by consumers in Italy and the US, but which is already second in the biggest European countries, surpassing the radio.

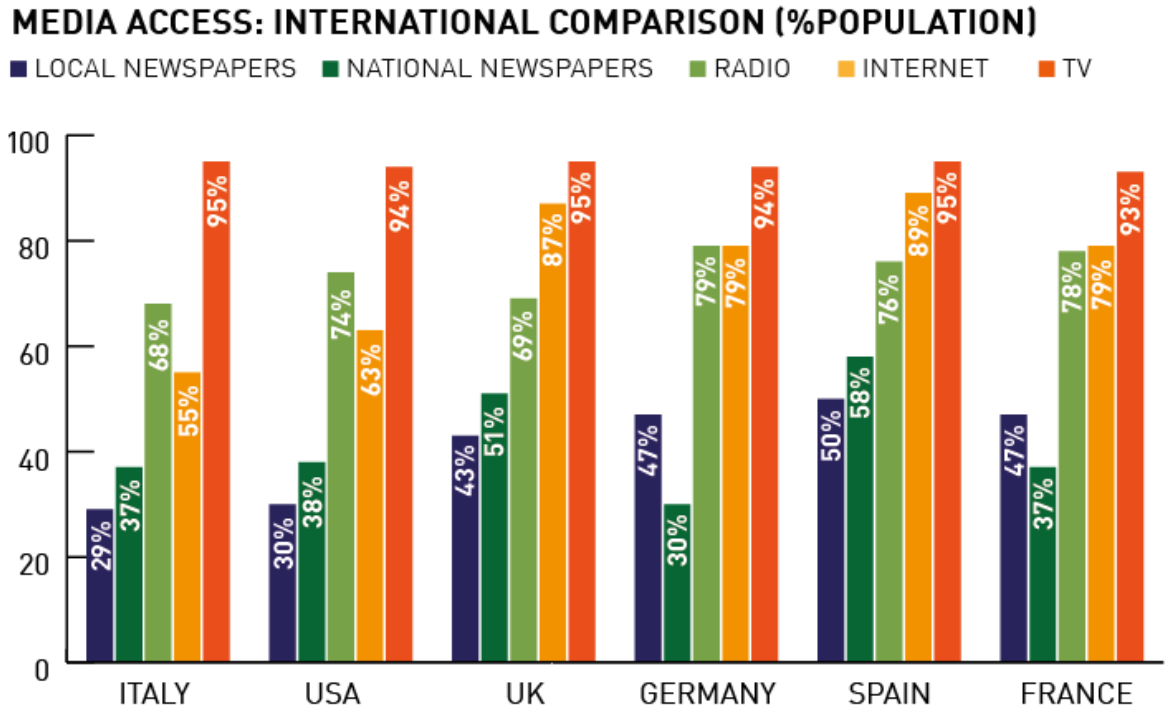


Figure 4.15. Media access: international comaparison (AGCOM, 2014).

As to the devices most utilized to access TV content, in Table 4.16., the traditional TV set is confirmed as Italian consumers' favourite option, followed by PCs. The penetration of Smart TVs is still marginal in the country and, even though smartphones and tablets register a penetration rate of respectively 50% and 25% on the Italian population (Statista, 2014b; 2014c), the use of the two devices for the purpose of accessing TV content is limited to a small group of users.

	% Italian device users in 2013
TV set	85
PC	20
Smart TV	8
Smartphone	7
Tablet	6

Table 4.16. Devices used to access TV (% Italian device users) (AGCOM, 2014).

In 2013, the 85% of Italian TV viewers declared to access content in the most traditional way, through a normal TV set. In the same year, against a slight decrease of the total number of TV viewers, the time dedicated to the consumption of TV through a TV set grew, reaching 260 minutes per day and registering an increase of 13% compared to five years before. One of the main reasons of this increase is to be found in the growth of the FTA offering as a consequence of the digitalization (Nielsen, 2014d; Nielsen Insights, 2014). These data further confirm what emerges from TV ratings: FTA, linear TV still lies today at the very core of Italians' watching habits.

It is however interesting to notice how the growth of the DTT offering has started a process of fragmentation of the audience. The phenomenon is particularly evident when looking at the ratings of generalist TV. As seen in paragraph 4.2, the major generalist channels (Rai 1, Rai 2, Rai 3, Canale 5, Italia 1 and Rete 4), begun a slow progressive negative trend and although they still represent the primary choice of elderly demographics (65+), Figure 4.17. highlights a direct correlation between age of the audience and share: as share decreases, the age of the audience decreases as well and vice versa.

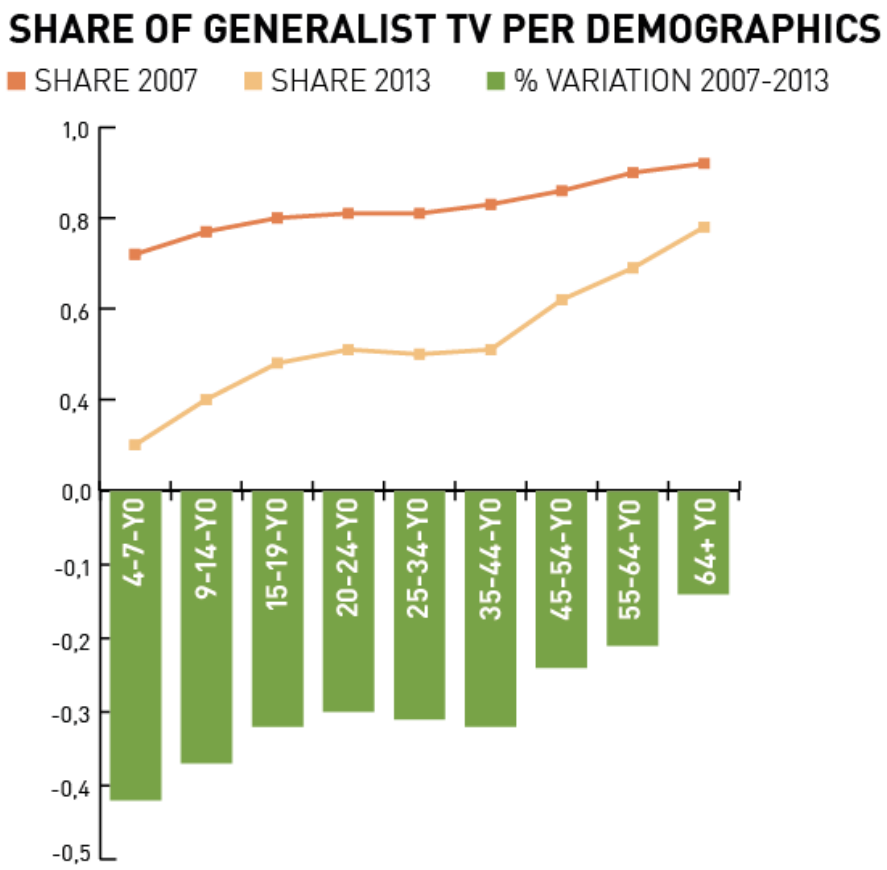


Figure 4.17. Share of generalist TV per demographics (Nielsen Insights, 2013).

4.3.2. Programming with Top Ratings on Italian TV

At the end of 2013, Auditel released the top 25 of the most watched programs aired on Italian TV during the year, in terms of AMR and share. From the ranking, 9 key programming genres emerge:

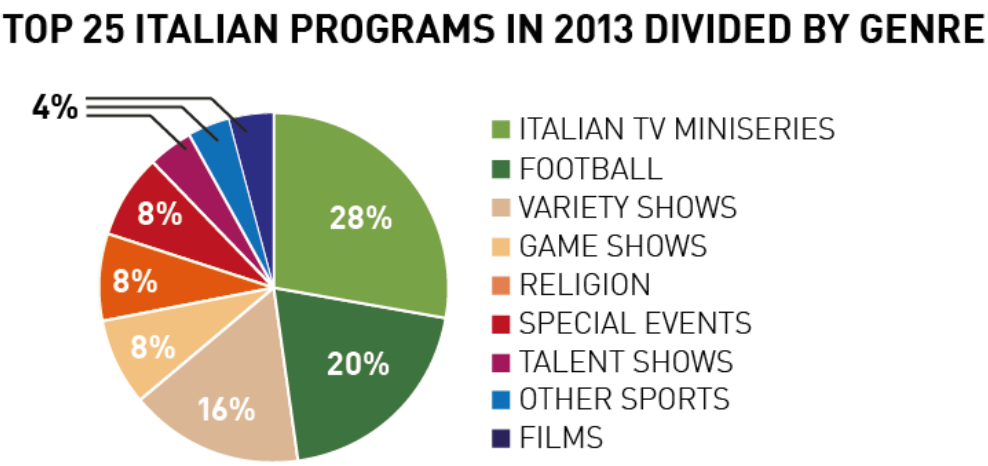


Figure 4.18. Author's elaboration of Auditel (2013) data.

Figure 4.18 highlights that nearly the 50% of the programming that attracted the largest audience was made of TV mini-series produced and set in Italy, and football matches, witnessing a certain degree of predilection of the viewers for Italian stories and for the game of football on top of any other sport. The other genres that stood out in the ranking are variety shows, game shows and programming related to Christian religion, such as the broadcasting of the Mass and of other liturgical celebrations. The most watched program of 2013 was a special event, the proclamation of Pope Francis, which was aired with simultaneous broadcast. Among other special events, there is the Italian President New Year's message, which was also aired with simultaneous broadcast. Towards the end of the ranking there are talent shows, sports programming, namely F1, and films.

It is important to notice however, how the 72% of the top 25 programs was aired in the Prime Time of Rai 1. The second network was Canale 5, with the 16% of the top programs. Follows La7 with the 4%, as showed in Figure 4.19.

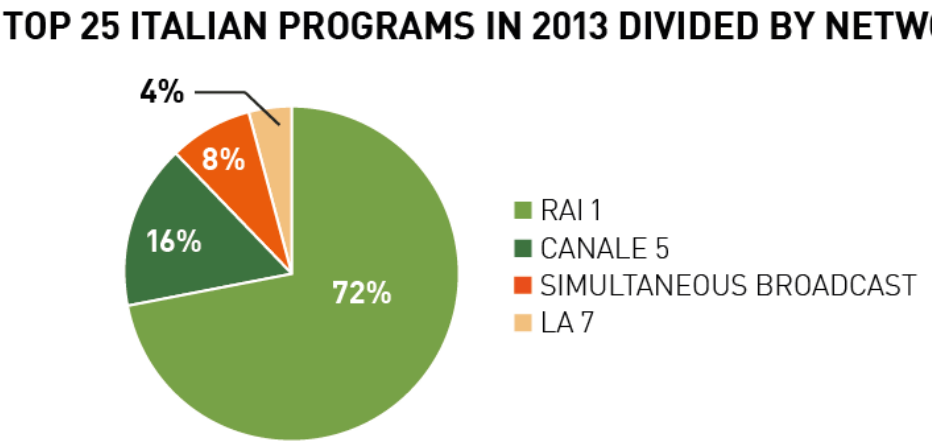


Figure 4.19. Author's elaboration of Auditel (2013) data.

In terms of social network interaction, the results show a rather different scenario. The most popular 2013 TV programs on Twitter were: *X Factor Italia* and *MasterChef Italia,* the Italian versions of the British talent shows, both produced by Sky and aired on Sky 1 (SkyTG24, 2013; Sky Uno, 2013); *Amici di Maria De Filippi*, the Italian talent show aired on Canale 5 (Social Mediaset, 2013) and *The Voice of Italy,* the Italian version of the Dutch talent show, aired on Rai 2 (Jannuzzi, 2013). Talent shows triumphed as Italians favourite Social TV genre.

None of the Italian top tweeted programs mentioned above appeared in the Auditel top 25 ranking, highlighting a certain degree of incongruity between the two ways of defining a top program. Nevertheless Twitter conversations are generating interest in an increasing number of broadcasters and advertisers, to such a degree that Nielsen has decided to launch Nielsen Twitter TV Ratings in Italy, as the first country outside of the US, in the fall of 2014 (Nielsen, 2013).

In order to complete the analysis of the TV watching habits of the Italians, it is necessary to consider the illegal TV content consumption phenomenon. The Digital Music Index 2013, an international study conducted by Musicmetric to analyse the extent of illegal file-sharing across the world, calculated that for every 100 active Italian IP addresses, there are 77 that habitually or occasionally download files through BitTorrent (Deotto, 2013). In other word, according to the study the 77% of Italians who own an Internet connected computer engage in illegal file sharing.

Another research project on the consumption of international TV series in the country (a type of programming not mentioned in the Auditel ratings nor in the major Twitter results), carried in 2012 on a sample of 1.400 Italians, reported that even if 91% of the respondents owned a TV set, only the 17% of them used it to watch TV series. The 62% downloaded the TV series, the 21% watched them in streaming, the 9% on pay TV and only the 4% on DDT. The demographic more inclined to downloading and streaming resulted to be the 18-34-year-old. Among the main reasons for downloading and streaming the responded cited: the possibility of binge-watching; the possibility of watching series that are not available in Italy or that come to Italy usually months or years later; the possibility of watching the series in the original language (Vitale, 2012).

5. DISCUSSION

5.1. The Italian TV Industry Evolution

The next pages are going to present a series of personal considerations on the Italian TV industry evolution, based on the disruptive innovation theoretical framework and on the findings that have emerged from the analysis of Italian market data and trends.

In order to answer the Thesis research question and sub-questions the first two paragraphs are going to focus on the two perspective that characterise the evolution of the industry, that of the Italian TV players and that of the Italian consumers. The chapter concludes with on overview of the main implications of the evolution and with what are, in my opinion, the advice for incumbents and new entrants.

5.2. The Evolution from the Italian Players' Perspective

5.2.1. Disruptive Innovation Patterns in the Italian TV Industry

RAI and Mediaset are the incumbents with the longest history in the Italian TV industry and those that have been able to maintain an almost exclusive control of the entire market for the longest time, partly due to the lack of an adequate legislation regulating the competitive scenario.

When Sky made its entrance in the industry, it succeeded in enlarging the niche market in which its two predecessors, Tele+ and Stream, had pioneered. Sky was a disruptor to RAI and Mediaset, in the way it created a new value network by targeting those consumers with needs that were not served by the existing incumbents. The platform introduced a new-market disruptive innovation, enabled by the development of DBS technology and in the form of an offering characterised by higher quality transmission standards and a wider array of channels and programming, than previously available. Unlike the new-market disruptive innovations analysed by Christensen and Raynor (2003) however, the new value network creation did not take place by virtue of affordability or a greater simplicity of ownership. On the opposite, Sky's offering targeted the consumers at the high-end of the market that were eager for more and better TV. The set of features, performance and price attributes introduced by the platform thus positioned its offering along the High price/High performance dimensions.

As observed by Markides (2006) and Schmidt and Druehl (2008), disruptive innovations can have a great impact on an existing market without necessarily displacing its competitors. Sky redefined the TV content offer, by emphasizing different service attributes, and the way the offer was provided to consumers. Through its innovative business model, the platform enlarged the economic pie, encouraging existing TV consumers to consume more, it did not however completely overtake the traditional way of competing. Today, RAI and Mediaset continue to jointly control the largest share of Italian audience ratings (70% in May 2014), this share was however reduced by entrance of the new player.

As demonstrated by Charitou and Markides (2003), incumbents companies have several options at their disposal in order to respond to disruptive business model innovations. As it emerges from the analysis of the business strategies of the two incumbents, RAI, primarily by virtue of its role of public broadcast authority, decided not to embrace the innovation and remained focused on its existing business, investing a few years later in enlarging its offer of FTA channels, exploiting the DTT technology. Mediaset on the other hand, adopted the innovation by playing two games at once and took the role of disruptor itself, as many incumbents often do (King and Tucci, 2002). While keeping FTA TV its core business in fact, Mediaset launched Mediaset Premium, which put the company in the position of directly competing with Sky over the pay TV market. Although Mediaset Premium's offering was similar to Sky along the target dimension, still to date, it significantly differs from it in terms of technical quality, number of channels available and pricing. Despite these differences, for many consumers, especially in the light of the continuing economic recession and the consequent reduced spending power, the inferior quality performance of the offering started to be "good enough" against the possibility of saving almost half of the subscription to premium content. This is particularly true in the case of football fans, whose inelastic demand for the sport is satisfied by the exclusive coverage of the main Italian and international leagues and championships, provided by Mediaset Premium just as well as by Sky. Evidence of this can be found in the revenues deriving from subscription fees of the two operators, analysed in paragraph 4.2.: while Sky has not been able to balance the subscribers churn, Mediaset Premium has registered a proportionally inferior but increasing positive trend.

The development of technology triggered a fierce competition between Sky and Mediaset Premium over the design of interactive services and devices to enrich their offering with. Sky is still the only operator to offer a set-top box including an integrated DVR and to develop a "TV on the go" service. Mediaset Premium was, however, the first to launch a VOD service, which allowed customers to connect their set-top box to the internet to access a library of films and TV programming, and an OTT service, open to anyone (Table 4.4). Sky promptly mimicked Mediaset Premium strategy, launching its own VOD and OTT services few months after its competitor, in an effort to provide an offering as integrated as possible and create switching costs for the consumers who adopted the platforms' solutions.

The decision of launching an OTT service, by both operators, can be seen as preventive move to enter that particular market before other new players could do, as it happened in many other countries. The presence of the two services in the market heightens the barriers to entry for operators like for instance Netflix. Although a limit for the development of this service in general is still represented by the deficiency of broadband penetration and speed on the Italian territory. Internationally, the rise of OTT services, through the most classic disruptive innovation path, is starting to be recognised as a serious threat to the pay TV business. In Italy, the lack of relevant players operating in the market, except for the pay TV operators themselves, proposes, for now, a completely different scenario. Because of the nature of OTT services however, they result as incompatible to some extent with the established company's set of activities, because of various trade-offs or conflicts existing between the two ways of doing business. The existence of such trade-offs and conflicts means that a company trying to compete in both positions simultaneously risk to pay an high straddling cost and to degrade the value of its existing activities (Porter, 1996). The OTT offering of an independent company would point at putting together the better and largest library as possible and set the most competitive pricing policies. However, pay TV incumbents like Sky and Mediaset Premium can do so only to a certain extent, because if they make their OTT offering too attractive in terms of content quantity and quality or too cheap, they would inevitably detriment their traditional pay TV offering.

In the wake of the negative trends registered by its IPTV offering and of its hybrid telco-OTT experiment (CuboVision), Telecom Italia decided to pursue the strategy started by Sky and Mediaset, introducing a pure subscription-based OTT service. However, despite the lack of trade-offs and conflicts observed in the case of the pay TV competitors, the telco has failed, to date, to provide any extra value on the quality or price performance valued by consumers.

5.2.2 The Italian TV Industry Value Chain

Today's Italian TV Industry can be summarised as follows:

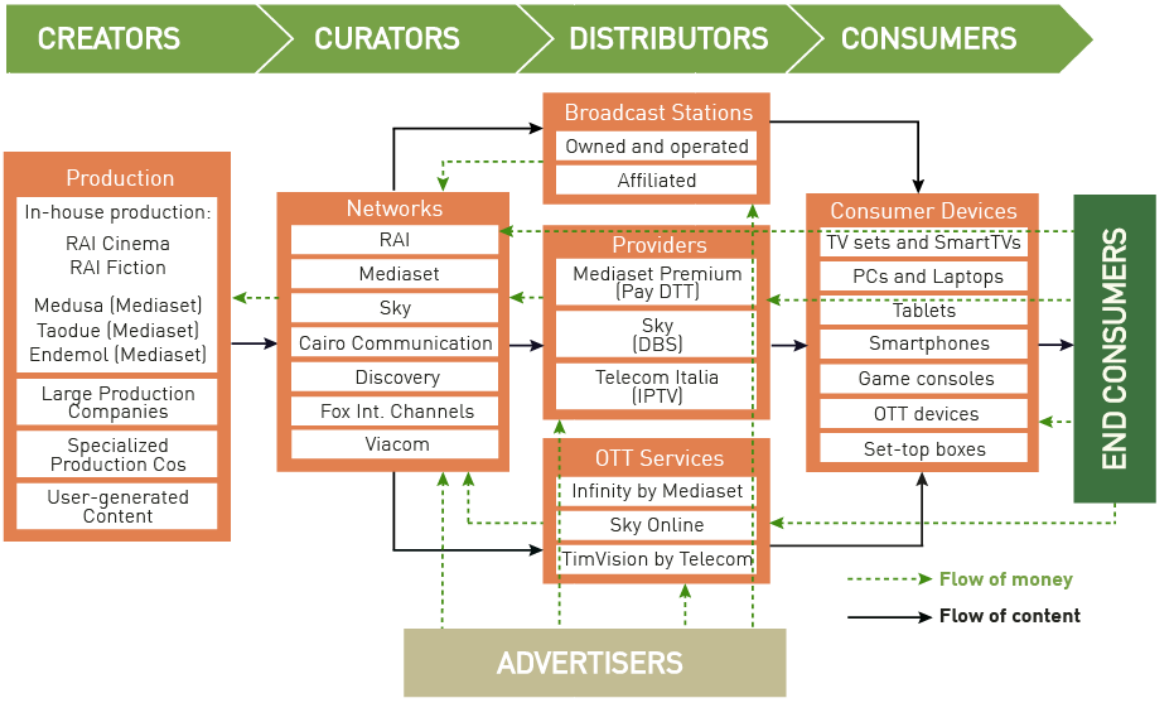


Figure 5.1. Authors's Italian TV Industry Value Chain

The consumer segment comprehends all products and services through which Italian consumers can access TV programming: TV sets and Smart TVs, PCs and laptops, tablets, smartphones, internet connected game consoles (i.e. Play Station and Xbox), OTT devices (e.g. Google Chromecast) and set-top boxes. This segment of the value chain results as the most similar to that in the US model analysed by Wessel et al. (2012).

The Italian distribution segment results mainly divided today among: FTA broadcasters, which pass along to consumers the TV content they purchase the rights for, via owned and operated or affiliated broadcast stations; the pay DTT, DBS and telco providers,

represented in the specific case of the Italian market by respectively Mediaset Premium, Sky and Telecom Italia; and the new internet-based platforms with the OTT services provided by the same three companies.

In the curation segment of the value chain are included all the main FTA and pay Italian networks that select, package and present the content to consumers. As highlighted in the theoretical framework however, the segment can be today extended to include also different online players, such as platforms that incorporate proprietary algorithms to determine the taste preference of individual users (e.g., YouTube) and OTT services which reach consumers directly, blurring the traditional line between "curation" and "distribution".

In the creation segment there are all the main Italian production companies, including those directly owned and controlled by the industry incumbents RAI and Mediaset. It is interesting to notice that all the three big players of the Italian TV industry, RAI, Mediaset and Sky, traditionally operating in the content curation and distribution segments of the value chain, have moved into original content production, reinforcing a strategy aimed at creating a model of vertically integrated TV operators. Absorbing the financial and reputational risks of content creation further allow the players for costs saving, higher profits potential deriving from the sale of broadcasting rights and not least market differentiation. At the moment, Italian OTT services are excluded from the development of original programming. Being two of these services being operated by pay TV companies, in the light of the trade-offs and conflicts discussed earlier, it is easy understand why the core distribution paths are preferred. Neither Telecom Italia has however, at least for now, shown interest in the original content production strategy pursued by the international competitor Netflix.

5.3 The Evolution from the Italian Consumers' Perspective

Since its birth, the TV medium has become an integral part of the life of the Italian consumers, and still today, despite the rise of new media and the availability on the market of new devices, it remains the most accessed medium of all.

The traditional TV set is confirmed by data as the favourite device to watch TV content for the 85% of consumers. Just the 20% of consumers are reported to watch TV through

a computer connected to the internet and even less are the owners of tablets and smartphones who use the devices for the purpose of accessing TV content. This tendency well reflects the fact that the Italian TV offer is still concentrated on traditional distribution platforms, while still few and very recent are the available options to access legal TV content through the internet.

Today's Italian FTA offer is one of the largest in the world, in terms of quantity and variety. The advent of digitalisation allowed the multiplication of the number of thematic channels and thus the possibility for incumbents and new players entering the DTT market to target important jobs-to-be-done much better than analog broadcasters could to before, even if Sky's DBS offering still reign uncontested in terms of number of channels and above all transmissions quality. The offer of content through traditional platforms in its entirety results rather rich and satisfactory for both consumers that are willing to pay to access premium TV content and for those that are pleased with FTA TV.

Generalist TV, however, still wins the Italian Prime Time registering the highest audience share of all networks. In particular, Auditel data attest Italian TV mini-series as consumers favourite programming, followed by football and variety shows. Despite these results, it is important to notice how the hard core audience of generalist TV has remained, over time, that made up of individuals over 64 years old, while it has emerged from the analysis that younger demographics are progressively walking away. This trend can be seen as the result of the increased offer of new channels and of the subsequent fragmentation, but is arguably also the consequence of the illegal consumption of TV content through internet connected computers, which is not properly measurable.

As highlighted in the previous chapter, different research findings show that the 77% of Italians owning an internet connection habitually or occasionally download files through BitTorrent and that, especially when it comes to international TV series, the 80% of the interviewees, the majority of which aged 18 to 34, chose downloading or streaming over traditional TV watching. The reasons behind this behaviour are to be found in the possibility given by this form of consumption: to binge-watch, a trend already observed in other international markets; to access content otherwise not available in Italy, because of the months or even years delay in acquiring the broadcasting rights; and to

watch the content in its original language, a demand originated particularly by the rising number of young people studying and being able to speak English, who appreciate better watching the original versions rather than dubbed ones (every international program on Italian TV is provided in the dubbed Italian version only, with the exception of Sky which provides the possibility of choosing between Italian and original language). Consumers however, tend to choose illegal options when there is not a valid legal alternative to it and the Italian data on illegal TV content consumption highlight the unserved needs of a rather big segment of consumers for incumbents and new entrants to exploit. According to a report published by Norwegian research body Ipsos MMI, the rise of legal alternatives to online piracy, such as music streaming service Spotify and OTT video service Netflix contributed to lowering, in 4 years, the number of illegal songs downloads and the piracy of films and TV shows in the country, respectively by 80% and 50% (Curtis, 2013). As the launch of Mediaset's Infinity, Sky Online and TimVision took place less than 12 months ago, no official data have been released about the performance of the services, there is therefore no quantitative evidence about whether the incumbents strategy is succeeding or not. However, from the analysis emerged that consumers and prospects are currently not satisfied with the offering, especially when it comes to TV series, because of the quality and quantity of the content available with respect to the price.

Data coming from illegal content consumption also evidence how younger demographics are not only walking away from generalist TV, but have also different preferences when it comes to programming compared to those pointed out by traditional audience measurements. Social TV data confirm this assumption, highlighting that the TV programming that are popular particularly on Twitter most often do not coincide with those that register the highest audience share. With regards to social TV however, it should be considered that the Italian market presents a few specific characteristics that partly void the relevance of the results, along general metrics. For instance, theory reports that social TV encourage people to watch more TV in order to avoid "social spoilers" especially with regards to TV series, which are, with the exception of major national events, the US most discussed trends on Twitter (Dumenco, 2011; Nielsen, 2014a). Being all the international TV series broadcast in Italy with a consistent delay and being most of the Italian TV series targeted to an older demographic, than that the

regularly utilises Twitter, the "social spoiler" driver is not as effective in Italy. Twitter conversation has on the other hand, proved to be successful for other kinds of programming, such as live talent shows, and its measurement can be useful for agencies, brands and networks to understand the consumers' sentiment. It might be less so, however, for other kinds of programming and it is yet to be verified to what extent social TV does represent an effective driver for Italian consumers to turn on the TV and watch a particular network and program.

5.4 Implications and Advice

After having been dominated by a public-private FTA TV duopoly in the hands of RAI and Mediaset for most of its history, the Italian TV industry, over the last ten years, has registered the first signs of change, particularly on an economic and technological level.

Unlike the US and many other European countries, cable and telco TV have played a minor role in the development of today's competitive scenario. The former because of the higher costs of building and maintaining the infrastructures, which did not justify its use, given the possibility of easily covering all the Italian territory with regular over-the-air broadcasting signal; the latter because the Italian IPTV providers have been unable to design an offer with any added value for consumers (the offer up to now, has consisted of: internet, FTA DTT channels and the possibility of watching Sky through the IPTV set-top box, but by paying extra the regular Sky subscription fee).

However, the digitalisation and the development of the DBS and DTT distribution platforms, provided with a superior transmission capacity, increased the variety and availability of TV content, free and pay. These processes allowed to overtake the problem of spectrum scarcity that had characterised the previous audio-visual analog offer and enhanced the technical potentialities of broadcasting, contributing to the evolution of the economic activities related to the TV industry and of the business models of incumbents and new players operating in the curation and distribution segments of the value chain.

The industry incumbents RAI and Mediaset have exploited the opportunities provided by digitalisation to enrich their offer and, in the case of Mediaset, to employ new business models. Sky entered exploited DBS technology to enter the market as an

atypical disruptive force, but has grown and developed like most of the industry incumbents observed in the TV industry disruptive innovation framework: constantly improving the quantity and quality of its offering, incentivised to move-up market in search of higher profits. As an effect of the employment of new business models, the audio-visual communication underwent a deep transformation, evolving from a generalist and linear model, to a non-linear and personalised one, in which is the end consumer that decide where and when to access content, namely though DVRs, VOD services and Internet connected devices.

In this scenario, the main distinctions for the end consumers become, on one hand, that between free and pay TV services and, on the other, that between linear and non-linear TV services. Even if from the latest official data, still emerges a persistent preference of Italian consumers for accessing TV content through traditional platforms.

As to new entrants, the only new players that have followed one another in the last few years have been networks approaching the market by launching new thematic channels on FTA DTT or exclusive to Sky. Despite the available opportunity to take a share of the low end of the market through new revenue models enabled by new technologies, no new players have tried so far to venture the Italian TV market exploiting this factor, unlike observed internationally.

From an economic point of view, the Italian TV industry in its entirety feels the effects of the persisting negative economic trend. FTA TV suffers from the decrease of gross receipts coming from advertising. Pay TV does as well, even if to a lesser extent, but it is also affected by the diminished spending power of the consumers, which in the particular circumstance are less inclined to spend money for accessing premium content.

5.4.1 Advice to Incumbents and New Entrants

Based on the disruptive innovation theory and the Italian TV industry analysis, here follows a series of considerations that, in my opinion, Italian incumbents and new players should take into account:

- **Need for an optimal OTT offer**

By looking at the patterns of disruption that took place internationally, OTT services currently appear as the main threat to traditional TV content consumption on linear channels. Disruptive innovation theory shows that incumbents are often unable to recognise disruption and are especially reluctant to consider low-cost competitors as a concrete menace to their businesses. It is the case of players like Netflix, whose entrance in the market, through the offer of an OTT service, has had a powerful impact, still neglected by some incumbents on a variety of factors, as previously analysed. The Italian incumbents entrance in the OTT market, however, shows an understanding and recognition of the threat represented by internet platforms. The way the current OTT offer is structured in Italy, however, is not optimal along the performance metrics valued by Italian consumers, allowing room for improvements by the incumbents that already operate in the market and for new players that wish to enter. In particular, what emerges from research are particularly the unserved need of consumers for binge-watching and for accessing content that normally arrives to Italy with a large delay. Until the OTT offering is not going to provide consumers with multiple seasons of TV series (possibly both in original language and Italian dubbed versions) and until Italian distributors are not going to be able to shorten the delay deriving from the rights acquisition, consumers are expected to continue to access this type of content illegally. Although the trade-offs and straddling costs deriving from the conflicts between the traditional business and the new one, if Sky and Mediaset want to be competitive in the light of the entrance into the market of a player like Netflix, they need to find an appropriate balance of content offering and pricing in an effort to better serve the need of consumers and prospects, especially with regards of international TV series. Telecom Italia, which in this perspective stands in an advantaged position compared to its competitors, needs to find a way to improve its offering along the highlighted metrics. Also, by virtue of its position as an internet provider, it could exploit the possibility of designing bundles to encourage consumers to subscribe to TimVision by paying a smaller fee on top of their internet subscription.

- **Vertical integration**

The choice of the three incumbents to venture the content production segment of the value chain proved to be successful, by virtue of the results obtained by the mini-series

produced by RAI and Mediaset for their generalist FTA channels and by the series produced by Sky for its pay TV platform. The players have adopted different ways to venture production, as seen in the analysis Mediaset chose to acquire outside organisations whose processes and values closely match the requirements of the new task (Christensen, 1997), RAI enlarged its Group by giving birth to different companies specialised in the specific area of the marketplace, while Sky opted for employing external production companies and executive produce the original content. Despite these operational differences, what incumbents have in common is the tendency, observed in the disruptive innovation theory, to move toward the production of higher-value content in an attempt to increase the quality of the offering to consumers. In this light, incumbents would be expected to progressively move up-market and it is reasonable to assume that, if this trend occurs, in the future there is going to be increased room for new players to enter the creation and distribution segments of the value chain and take a share of the low end of the market.

- **Football as key strategic asset**

The dramatically intensified battle for sport rights proves football to be an extremely important asset for a network to own. Despite the rising costs of the exclusive coverage of football events, such investment appears necessary for pay TV operators. Given consumers' inelastic demand for this type of content, the investment has a strategic importance as major subscription driver, especially fundamental in the light of the reduced spending power of the consumers. Furthermore, conversely to what happens at incumbents that moving up-market by producing higher value content make room for new entrants, incumbents that invest in high value content like exclusive football rights avoid disruption from smaller operators and from the entrance of digital players, which cannot afford this content.

- **The living room battlefield**

Although the Italian TV content is today primarily distributed by traditional platform and accessed via traditional TV sets, the progressive growth in the number of mass media outlets is going to deepen the fragmentation effect, among those who make and deliver TV, as well as among those who watch. Incumbents like Sky and Mediaset have already started to capitalise on the advancement of internet technology and the

proliferation of media-capable devices, by implementing proprietary solutions for their core pay TV business (i.e., TV on the go, DVR and VOD services) and bundled solutions aimed at integrating their internet-based platforms into the living room. For instance, both incumbents started partnerships with Sony and Microsoft, for Sky Online and Infinity content to be streamed through PlayStation and Xbox. Evidence from theory however, demonstrates that most bundled solution available today on the market are failing to deliver an ease-of-use and seamless integration, and that the operator who is going to be able to provide an integrated end-to-end solution, most likely based on interdependent architectures (Christensen and Raynor, 2013), will likely win the war for consumers' living room. As a consequence, developing such solution would represent for the succeeding operator a very relevant competitive advantage to competitors.

- **Understand and focus on consumers' jobs-to-be-done**

The most important advice for both incumbents and new entrants is to never stop focusing on what important jobs-to-be-done for consumers are and how the solutions to fulfil these jobs evolve. Consumers are only interested in solutions that help them do a better job better compared to the available alternatives. With particular reference to the TV industry, simplicity and ease of use seem to emerge as the most highly valued attributes. Therefore, understanding the jobs-to-be-done, not only help new entrants designing strategies that can be disruptive to established players, but it also help incumbents to develop a disruption of their own before it is too late to reap the rewards of participation in new, high-growth markets (Christensen and Raynor, 2003). Although the latter has represented the imperative response for incumbent prescribed by Christensen throughout his work, more recently Christensen and Wessel (2012) recognised the advice to incumbents to be incomplete. Disruption is less a single event than a process that plays out over time, sometimes quickly and completely, but other times slowly and incompletely. In order to chart the path and pace of disruption and plan a complete strategic response, the two scholars suggest incumbents to identify the strength of the disruptor's business model and the owned relative advantages, so to evaluate the conditions that would help or hinder the disrupter from co-opting the current incumbents owned advantages in the future. Once again however, only a deep understanding of people's jobs-to-be-done and of what jobs-to-be-done the disruptor could fulfil better, that incumbents can get a clear picture of their relative advantaged

and see what are the parts of the current business most vulnerable to disruption and what are those that can be most effectively defended (Christensen and Wessel, 2012).

6. CONCLUSIONS

Everything is changing inside and around the TV screen. The medium that resisted substantially unaltered for most of its history and that still seems unalterable in the eyes of many, is starting to be subject to a progressive blur of its traditional roles and definitions. The TV industry overall still enjoys today a rather good health, changing is coming slowly and its effects are not fully perceivable yet. It is reasonable to expect, however, that this same change is going to accelerate considerably with the passage of time, particularly in the light of the generational turnover and the rise of digital natives as the main class of consumers. It is hard to exactly predict when and how it is going to take place, but it is not difficult to imagine, in my opinion, that innovation is going to progress toward a market for TV content in which it is the content itself to take a prominent role as opposed to the content distributor. Players and technologies that lie between the content and the viewer are thus going to increasingly serve for the purpose of finding the desired content as easily, fast and at the lower cost as possible, in the context of a living room progressively more characterised by home automation systems and solutions.

Who are going to be the winners and losers of the TV industry of the future? Disruptive innovation theory do not provide all the reasons nor the answers. Few weeks before this chapter was being written, the New Yorker published an article by Jill Lepore, which reopened a rich debate of the academia on the descriptive and predictive value of the theory developed by Christensen. Although I agree with Lepore's vision that the use of the disruptive innovation theory has ballooned out of proportion to justify almost any kind of random purpose (point on which Christensen himself later admitted to agree on), I believe that the theory has among its merits that to provide interesting food for thought, tools and concepts to help analysing effectively many trends and dynamics occurring today. There is no magic formula to assure success to a player that has been operating in a market for many years or to a player that embarks on it for the first time. Especially in the light of the pace with which technology develops and enables new solutions and business models to be designed, it is particularly difficult to make accurate long-run forecasts. Nevertheless, every incumbent and new player should never stop wondering what are the drivers that make the world around them change and how new proprietary solutions can be developed or how the available solutions provided by the competitors can possibly better accomplish consumers' needs and jobs-to-be-done.

No one is immune from change, in every industry, in every market and TV makes no exception.

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