

# IPTV and Video on Demand: Discussion of Business Models

## **Bachelorarbeit**

zur Erlangung des akademischen Grades „Bachelor of Science (B. Sc.)“ im Studiengang  
Wirtschaftswissenschaft der Wirtschaftswissenschaftlichen Fakultät der Leibniz Universität  
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Sarstedt, den 08.08.2016

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# 1. Introduction

## 1.1 Motivation and Relevance

Watching TV is a popular free time activity in Germany. The average watching time was 221 minutes per day in 2014 (Statista, 2016, Screenshot 1). But in the last years, a change in the way people watch movies and series has been observed. More and more people in Germany tend to watch movies and series online instead of using their regular TV. But how did this trend arise?

The public-service broadcasting was build up in the 50's and in the beginning of the 60's. This development seemed to be a big invention and when the TV market was opened to commercial providers in the 80's another big change arose. From then on, new channels were provided every year and the viewers were able to choose between many different offers (Kaumann, et al., 2008, p. 5). A few years later, companies started to develop the first subscription based TV offers that became mostly popular because of Premiere in 1991 (Messner, 2013, p. 27). Additionally in 1986, the VHS-cassette started to become the standard as a play-back-medium for the movie market (Goertz, 1994, p. 53). But this standard was at first replaced by the DVD and later on by the Blu-ray Disc. You can say that a continuous development of the way we watch TV and Videos seems to appear.

The keyword for today is Internet Protocol Television (IPTV). This means watching regular TV-programs, movies, series and other videos using the internet instead of cable or satellite television and Blu-ray. A deeper introduction is given later in the paper. Watching TV online became a trend in Germany that not only influenced the technically oriented population but also reached the mass-market. But how could such a trend arise. This is connected to the technological advancements from the past years (OECD, 2014, p. 5). On the one hand the network coverage and bandwidth is higher, so most of the people have access to high speed internet (Statista, 2016, Screenshot 2), which of course supports the use of IPTV. On the other hand the devices that support the use of such IPTV platforms are getting more powerful every year. Most of the TV's that can be bought in the electronic market are so called smart TV's, which means that they can connect to the internet and also run different applications that one might know from smartphones. But IPTV and especially "Video on Demand" (VoD) services can be used also with a tablet or a smartphone which enables the user to use the services anywhere and anytime.

In 2014 the term VoD became extremely popular when the US-company Netflix started its market entrance in Germany. Most of the people knew Netflix from social media platforms like Facebook

or Twitter and wanted the company to expand also to the European market. But it is not only Netflix that hopes to get a slice of the cake of the streaming market in Germany. There are a lot of other companies like Watchever, Maxdome and Videoload that seem to see a high potential as they are all offering online streaming platforms, even though offering such a service is very costly because of high bandwidth requirements (Huang, et al., 2007, p. 1) and license costs. You should also concern, that “designing such a large scale, fast growing video streaming platform with high availability and scalability is technically challenging” (Adhikari, et.al., 2012, p. 1620). A research about a forward-looking business model for a VoD service seems to be an interesting task and should help companies from this industry to find a way to make profit in this fast changing world.

## **1.2 Objective and Scope of Study**

The Topic VoD is not completely new in literature. Many researches were made but most of them are focusing on VoD from the technological point of view. The authors are for example searching for different server architectures and analyze how the high bandwidth requirements can be fulfilled (Huang, et al., 2007). This is of course an interesting scope for a research but I want to look at VoD as a business model. This is a topic for that little research has so far been conducted.

The main objective of this paper is to develop a business model for a VoD service. To be able to do that I will have to analyze the VoD market in Germany and how it developed in the past years. Additionally, I have to look through the existing literature for different business model approaches that are appropriate to help developing an own approach. The goal is to find a synthesis in the analysis of the existing business models and to let different parts of other models influence my own model. The research question of this work is:

*How can a VoD business model look like and which scientific approaches can be consulted for designing such a model*

Answering that question should also help the VoD providers that are currently on the market. It gives them a guidance on which points they have to focus, if they want to expand their present model or want to develop a completely new idea to reach the customers.

### **1.3 Research Design**

This Work can mainly be divided into three parts. The first one is the theoretical framework that is given in Chapter 2. Here I give a basic introduction into IPTV and explain what it is and what it offers the customer. I will also give information about the strategies that the providers of IPTV have to reach the customer and bind him/her to the company. To make this more understandable I will also explain the pricing model that many providers are using. After that I describe what VoD is and which concepts have to be differentiated.

The next Chapter is called Research Methodology. The first part of this Chapter is the market analysis for VoD. I explain how the market changed in the past and I will also give information about the biggest competitors for VoD. Of course at the end I give a little prediction how the market will develop in the future. After that I will introduce the term business model for the first time and briefly describe how the term evolved in the past and how it is defined. After shortly explaining the procedure of the further analysis I will use the classifications of business models from literature to find approaches that can help me with my research. I will describe some approaches for classification in more detail and then introduce three different business model approaches that I found would give an additional value for this work. I will explain the basic concept and the main components of those approaches.

Chapter 3 is about developing the VoD business model. At first I discuss the approaches that I introduced before and analyze which aspects are helpful and which aspects might miss and are not covered by each model. This helps me to find a synthesis and develop an own approach which is done in the next section. I furthermore apply this business model approach to a business model idea of mine to have an example for representation.

At the end of my work I will sum up the main points of this work as I summarize the procedure of the study as well as the findings. I give some recommendations and of course I will also name limitations that came up in the study.

Also on the right side of the model I placed the Commercial Partners again and show the revenue stream that is coming from the partners in this business. So basically costs are on the left side and the revenue is on the right side which of course is a similarity to the model of Wirtz (2013b). On top of the model I placed the component capital model. Here it has to be described and calculated in detail what costs and returns are arising for the company and if the result is profitable. As this is only an idea for a business model I have not calculated the business in detail.

Right down at the bottom of the business model I added a component that I found interesting and important in the model of Afuah and Tucci (2003). The component is called Environment/Market with the attachment Change. The reason for this is important but easy. As every business model, the model described here is dependent on the market and influenced by the global environment. There can be regulations by the government, market entries from new competitors and so on that can directly affect the company. Additionally online businesses are always strongly affected by technological changes. These factors have to be included in the planning and in the strategy of the company to make sure to be able to compete also in the future. There has to be a constant development in the company and the Product/Service Offer. If this does not happen other competitors will do so and take away market shares.

## **5. Limitations**

Of course there are a few limitations for this work. The first one is that no new quantitative or qualitative data was acquired that could have helped to analyse the wishes that customers have and what would be a good thing to offer. Another point that misses is a detailed analysis of the possible profitability of the business model I developed. The component capital model that I presented in my business model was not really described and is more or less presented as a black-box here. I also only analysed and discussed three business model approaches from literature due to short time requirements. Of course there are also other approaches for an e-business or with a similar focus that I did not mention in this work.

## **6. Conclusion**

After explaining the basics of IPTV and VoD I analysed the market for VoD. I found out that there is a trend in Germany for watching audio-visual content online instead of watching regular TV. VoD seems to be a growth market in Germany that has a high potential even though Germany has not the same supporting conditions that the US market has.

Then I analysed the literature for existing business model approaches and explained the models of Wirtz (2013b), Osterwalder and Pigneur (2011) and also Afuah and Tucci (2003). While discussing those models I decided which components should be included in a business model for VoD and which other aspects a business model has to fulfil. Especially the interaction between different components of a model and the presentation of performance and reward streams were explained to be important. Another component that has to be include is the influence of the environment and the changing markets expectations of the customers on the whole business. This was elaborated to be a factor of success. What was also determined to be important is the role of the internet. This element was highlighted in the model because of the importance for this specific case and also because of the additional value the internet gives to the company and also to the customer.

At the end, a business model for a VoD service was developed that included different aspects of the models that were introduced before. The Model was applied for a VoD business idea of mine and also explained on basis of this idea.

After writing this paper I can give a few recommendations to the players that are currently on the market. The first one is the importance of the additional value that a product/service has to give to the customer. The customers in Germany do not need an additional provider for VoD services that only offers the same that all the other providers do. Of course the market will grow a lot in the next years but the profit will go to the big players that are already on the market since the beginning of the hype such as Netflix. To be successful you have to be different and give the customer something that he cannot get anywhere else. Of course that can be a lower price as well, but this is not an easy task as the big companies on the market are already well connected and found partners that allow them to offer low prices. The other recommendation I want to give is the importance of development that is especially important for an e-business model. As there are new technologies on the market every day that offer the user now features and possibilities the pressure for innovation is very high. Standing still leads to failure so there should always be a development process in the company.