



Palabra Clave

ISSN: 0122-8285

palabra.clave@unisabana.edu.co

Universidad de La Sabana

Colombia

Wirtz, Bernd W.

Business Models, Value Chains and Competencies in Media Markets. A Service System Perspective

Palabra Clave, vol. 17, núm. 4, diciembre, 2014, pp. 1041-1065

Universidad de La Sabana

Bogotá, Colombia

Available in: <http://www.redalyc.org/articulo.oa?id=64932836003>

- How to cite
- Complete issue
- More information about this article
- Journal's homepage in redalyc.org

redalyc.org

Scientific Information System

Network of Scientific Journals from Latin America, the Caribbean, Spain and Portugal

Non-profit academic project, developed under the open access initiative

# Business Models, Value Chains and Competencies in Media Markets. A Service System Perspective

**Bernd W. Wirtz<sup>1</sup>**

Recibido: 2014-06-30

Aprobado por pares: 2014-07-24

Enviado a pares: 2014-06-30

Aceptado: 2014-08-02

DOI: 10.5294/pacla.2014.17.4.3

**Para citar este artículo / To reference this article / Para citar este artigo**

Wirtz, B. W. Diciembre de 2014. Business Models, Value Chains and Competencies in Media Markets – A Service System Perspective. Palabra Clave 17(4), 1041-1065. DOI: 10.5294/pacla.2014.17.4.3

## **Abstract**

Business models, value chains and competencies are of paramount importance for the achievement of competitive advantages in media companies. In the field of media management researchers usually discuss these terms generically and isolated from each other. This paper focuses on an integrated management view of business models, value chains and competencies and analyzes these concepts in a media specific management context.

## **Keywords**

Media management, value chain, competencies, business models, revenues. (Source: Unesco Thesaurus).

---

1 Prof. Dr. Bernd W. Wirtz, Chair for Information and Communication Management. German University of Administrative Sciences Speyer. [ls-wirtz@uni-speyer.de](mailto:ls-wirtz@uni-speyer.de)

# Modelos de negocio, cadenas de valor y competencias en los mercados de medios de comunicación. Una perspectiva desde el sistema de servicios

## Resumen

Los modelos de negocio, las cadenas de valor y las competencias son de vital importancia en el logro de ventajas competitivas para las empresas de comunicación. En el campo de la gestión de medios de comunicación, los investigadores generalmente discuten estos términos genéricamente y separando unos de otros. Este documento se centra en una visión de gestión integrada de modelos de negocio, cadenas de valor y competencias, y analiza estos conceptos en un contexto específico de gestión de medios.

## Palabras clave

Gestión de medios de comunicación, cadena de valor, competencias, modelos de negocio, ingresos. (Fuente: Tesauro de la Unesco).

# Modelos de negócio, cadeias de valor e competências nos mercados de meios de comunicação: uma perspectiva a partir do sistema de serviços

## Resumo

Os modelos de negócio, as cadeias de valor e as competências são de vital importância no alcance de vantagens competitivas para as empresas de comunicação. No campo da gestão de meios de comunicação, os pesquisadores geralmente discutem esses termos genericamente e separam uns dos outros. Este documento se centraliza numa visão de gestão integrada de modelos de negócio, cadeias de valor e competências, e analisa esses conceitos num contexto específico de gestão de meios.

## Palavras-chave

Gestão de meios de comunicação, cadeias de valor, competências, modelos de negócio, ingressos. (Fonte: Tesouro da Unesco).

# Introduction

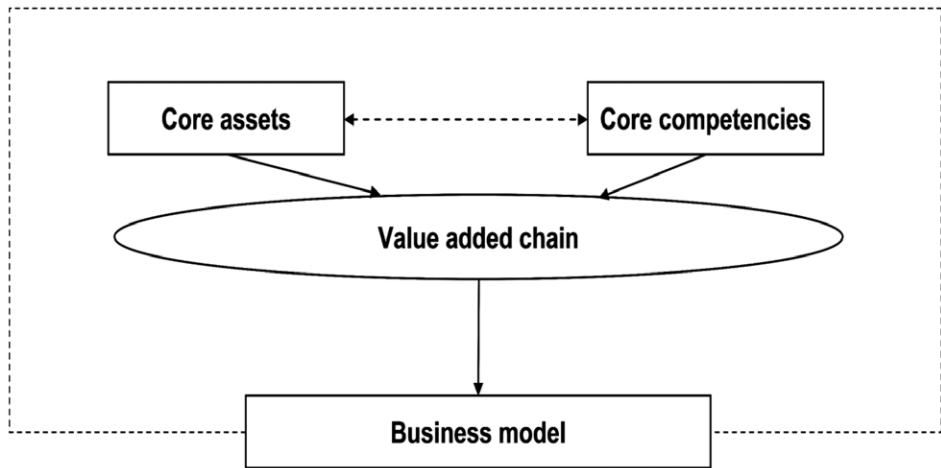
During the last two decades three management concepts have gained in importance in media management. Particularly, in the 1990s strategies which focus on value chains and the positioning implications for media companies are discussed (Wirtz, 1999). This market-based view is followed by the resource-based view, which particularly focuses on the management of core competencies (Prahalad & Hamel, 1990; Wirtz, Pelz & Ullrich, 2011). Recently, these two basic approaches for media companies are supplemented by the contemplation of business models (Wirtz, 2000; Wirtz, 2011). Thus, business models, value chains and competencies are accorded a special significance for both research and practice in media management (Wirtz, Pistoia & Mory, 2013). Many researchers in the field of media management consider these three approaches as standalone concepts. However, on closer inspection all three approaches have similar content. Additionally, all three approaches are complementary with regard to the superior goals of generating competitive advantages in media companies. In addition to the isolated consideration of each concept, the three approaches are often only considered generically in the field of media management instead of adapting them to the context of specific media companies.

The value chain, the core assets and competencies as well as the business model of media enterprises belong to the essential elements of a media service system (see Wirtz, 2011). Figure 1 provides an overview of the service system of media enterprises. Here the core assets, core competencies and value chains need to be taken into consideration as complementary topics of analysis. The value chain facilitates the differentiated and structured presentation and analysis of the activities in media enterprises, while core assets and core competencies describe the foundation of competitive advantages. The business model covers both concepts and in addition takes a special look at external aspects of managing media enterprises.

## Value creation in media enterprises

In the development of a business model, it is primarily the individual value creation activities within the enterprise that are analyzed. This analysis focuses especially on the different physical and technological activities of

**Figure 1. Service system of media enterprises**



an enterprise which are considered the building blocks for a product that is useful to the consumer. A relatively simple but successful instrument for portraying the value creation of enterprises is the value chain analysis by Porter (Porter, 1985). The value chain serves to provide a functional structure for in-house activities in order to identify approaches to improve the quality of products and processes. In its original form, which has primarily been developed for manufacturing companies, the value chain consists of primary activities that deal with the physical production and transfer of the product to customers. These include the acquisition of materials, creation of the products, out-bound logistics and product marketing, as well as after sales activities. Further, there are also supporting activities that are necessary during the entire value creation process and influence the individual primary activities.

In this regard, procurement, the development of technologies, human resources management and the provision of the enterprise's infrastructure count as supporting activities. The sequential portrayal of all the activities clarifies the consistent orientation of all value creation activities towards the consumer, whereas the profit margin actually constitutes the end goal. The latter consists of the difference between the total value and the sum of costs that accrued in conducting the value creating activities.

The value chain can be understood as a very simplified structure that can and must be individually adapted to each enterprise. In the analysis of the primary activities, it will, however, become clear that the structure cannot be transferred to service or media enterprises without any problems. The inbound logistics cannot be viewed here as a logistic activity in the sense of inventory planning since the input factors of the production process are often of intangible nature. Furthermore, the first contact with advertising clients occurs at this juncture – in connection with activities that are directed to the advertising market – because the advertising enterprise makes a considerable contribution to the input.

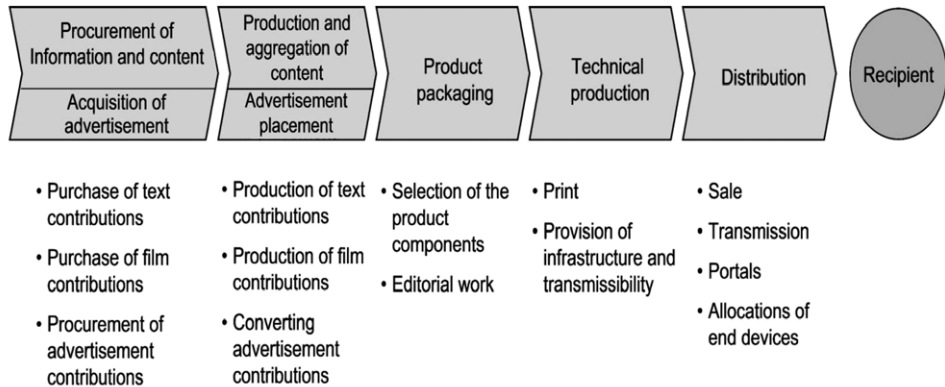
In the portrayal of production in media enterprises, it is pointless to summarize all production activities at one level. For this reason, the aggregation and production of content is separated from the configuration of the product and the technical production. In sectors in which content is connected to a tangible storage medium for transmission, a distinction can be made between technical production and distribution, whereas in other sectors, e. g. in the radio sector, both activities coincide to the greatest possible extent. Also, customer services are not of the same importance in the value creation chain of media enterprises compared to many other service enterprises and the material goods sector. An analysis of customer services, if necessary, can hence be carried out within the framework of distribution.

Even if the media sector appears very heterogeneous, the generic value chain in Figure 2 serves as a basis for further consideration. This process disclaims a portrayal of the supporting activities as they yield peculiarities that are usually only marginally relevant for the media.

## Core assets and core competencies

Core assets and core competencies are extremely important for the long-term success of a media enterprise. Core assets are those tangible and intangible assets that take on a central role in service creation and marketing. This includes, for example, the corporate brand name and its reach. Furthermore, core competencies complement core assets. They denote the enterprise's capabilities to combine its assets and core assets in a manner that gives rise

**Figure 2. Value chain of the media industry**



to special customer benefits. Examples of core competencies of a media enterprise are an outstanding editorial or programming ability or cross-medial marketing competence. The core assets and core competencies give the enterprise a lasting competitive advantage in the long term, which is reflected in the attainment of above-average returns on capital. Hence, the identification and management of core assets and core competencies is especially important for media enterprises.

## Analysis of core assets and core competencies in media enterprises

Core assets and core competencies give media enterprises lasting competitive advantages in the recipient and advertising markets. This section thus portrays the most important core assets and core competencies of media enterprises. Moreover, their significance for the long-term success of the enterprise is clarified.

Core assets designate all those company-specific resources and assets that take on an especially important role in an enterprise's value creation process. Assets become an enterprise's core assets if they are valuable and there is a shortage of them in the market. Additionally, the assets must not be easy to imitate and acquire for the competition, which gives them the potential for a lasting competitive advantage. Such core assets can, for example, be developed within the scope of in-house refinements of simple



assets and production factors. The following definition for the asset and core asset concept can be derived from this discussion:

### **Definition of assets and core assets**

Assets are tangible and intangible resources that form the basis for the activities and the competitiveness of an enterprise. Core assets concern company-specific assets that are accumulated or at least refined in-house and have a special intrinsic value for an enterprise's value creation process. They are relatively scarce and do not lend themselves to imitation or substitution by the competition. Core assets form the basis for a lasting competitive advantage.

The most important core assets of media enterprises essentially include the employees, the brand, networks and the customer base. Employees possess know-how and often have complementary abilities. The combination of individual abilities in one team can lead to an improved service creation and thus to a competitive advantage. Only those employees who are of central importance for the service creation and marketing, such as the employees in the editorial office of a newspaper publishing house, however, can be viewed as core assets. Due to the fact that the interaction pattern within the team can hardly be assessed from the outside and it is not connected to an individual employee, this core asset is difficult for the competition to imitate.

A brand concerns a benefit bundle with specific features which ensure that the relevant target groups can differentiate this benefit bundle in a sustainable manner from other benefit bundles fulfilling the same basic needs. Brands constitute a guarantee of value and are associated by the customers with specific, mostly positive product characteristics. Due to their uniqueness, they usually do not lend themselves to imitation and can hardly be substituted; they are therefore a core asset of media enterprises. Since media products are experience goods, a superior product quality can be signaled by the brand name. This is advantageous in launching new products, for example, if an already known brand name can be used in order to lower advertising costs.

In the media sector, networks can emerge at various junctures in the service creation process. For example, they serve to procure information and thus input for content creation. Also, in many media domains, there are production networks of specialized actors. Even in distribution, access to certain distribution channels is possible only via networks. Networks require intensive maintenance and frequently also personal commitment. Since they evolve historically they can hardly be imitated. Furthermore, the scarcity of potential network partners limits the opportunity to imitate. If they are extremely important for service creation and provide a differentiation or cost benefit for media enterprises, the networks constitute a core asset.

In the media sector, the scope of the customer basis in the recipient market is often subsumed under the concept of reach. In many cases, the customer basis is the result of long-term successful work in a certain market segment. For that reason, it can be imitated by competitors only with difficulty. Since the interdependence between the recipient and advertising markets, a large reach results in a clear competitive advantage: the greater the reach in the recipient market, the higher the advertising revenues tend to be.

The core competencies are necessary in order to make use of the core assets. Organizational competencies and abilities facilitate the skillful combination of assets and core assets for marketable products and services that distinguish themselves from the competition and create preferences among the customers. The competencies can help in the coordination and use of the core assets so that a competitive advantage is created for the enterprise.

The concept of core competencies is, to a considerable extent, based on the management-oriented publication of Prahalad and Hamel in 1990. According to the authors, core competencies are characterized by three features. First, a core competence provides access for an enterprise to various business areas. Secondly, core competencies are transferable to a multitude of products, services and/or customer groups. Thirdly, in this manner, the core competencies of an enterprise form the basis for its core products, which further create business areas in which end products emerge. Based on the previous discussion, competencies and core competencies can be defined as follows:

### **Definition of competence and core competence**

Competencies form the foundation for the collective action in an enterprise and facilitate the service creation process in which assets and core assets are combined into marketable services. Core competencies are a special form of competencies. They are relatively scarce and do not lend themselves to imitation or substitution by the competition. Core competencies make a significant contribution to the perceived customer benefits of an end product and provide enterprises with a lasting competitive advantage.

Especially the content-sourcing competence, the content-creation competence, the format competence, the distribution competence and the technology competence belong to the core competencies of media enterprises. The content-sourcing competence describes the ability to obtain high-quality information and entertainment content as well as authors or producers as input for the content production. This ability provides media enterprises, which are largely dependent on input goods for content production, a unique competitive edge in comparison to their competitors. This is especially the case if exclusive content can be procured.

The content-creation competence covers all the abilities that are necessary for the production of successful media content. They can be differentiated into various sub-competencies such as trend competence and refinement competence, i. e. the abilities to timely seize upon a societal development (trend competence) and to implement it into informative or entertaining media products such as TV programs (refinement competence). Sub-competencies are very media, genre, and format-specific, because the factors that make the content attractive from the perspective of recipients differ according to the purpose of media usage and the target group. Thus, other abilities must be employed for the production of informative content than for the production of entertainment content.

The content-creation competence is influenced to a high degree by the implicit knowledge of the employees and organization-specific routines. Their modes of action are difficult for outsiders to comprehend, so that this competence hardly lends itself to imitation and on the basis of its great im-

portance for service creation, it is also hardly substitutable. Thus, the content-creation competence facilitates the obtainment of lasting competitive advantages through superior service creation and constitutes one of the most important core competencies in most media enterprises.

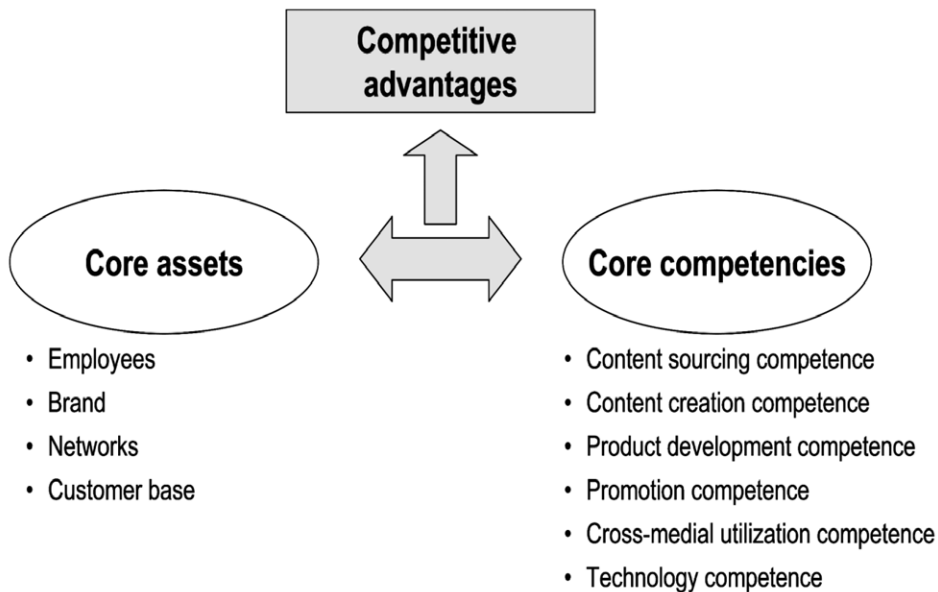
The product development competence contributes to advantageous positioning in the recipient and advertising markets. The product development competence consists of the ability to develop promising media products and to assess them with respect to their marketability and refinancing chances. This requires a great deal of knowledge about the specific market segment in which the media enterprise is active. This knowledge is usually only available within the enterprise as implicit knowledge and is thus non-transferable. It is of major importance for the product policy in media enterprises, because a balanced product portfolio facilitates a steady revenue flow.

The promotion competence of media enterprises is primarily relevant for individual media products for which the promotion of brand identity is coupled with difficulties. Films, music or books belong to this category. Promotion competence covers the ability to promote public attention for media products and in this manner achieve an advantageous market position or improve the market position. It is based on knowledge that is generated in-house and is thus difficult to imitate. Due to the fact that promotion competence constitutes an essential success factor within the framework of obtaining optimal revenues for many media products, it must be viewed as a core competence.

In various media sectors, even the cross-medial utilization competence is relevant. It is based on the ability to provide content to the recipients in a timely manner, in the desired amount and via the correct channel. On the one hand, the media products often must be adapted in a channel-specific manner to the respective target group, and on the other, the media enterprises must be in the position to control the distribution channel technologically and logistically. Competitive advantages are created through economies of scope in the content utilization and a better accessibility for the recipients.

Closely connected with distribution competence is the technology competence. In particular, it describes the ability to employ modern information and communication technology for the creation and marketing of content. In this manner, efficiency advantages are achieved and cost reduction potentials are realized. Both competencies require considerable knowledge about the distribution channels or the technologies that are used or usable. This knowledge is created through internal learning processes in which implicit and hence non-transferable knowledge can be generated. A summary portrayal of core assets and core competencies in media enterprises is provided in Figure 3.

**Figure 3. Core assets and core competencies in media enterprises**



## **Management of core assets and core competencies in media enterprises**

The core competence concept offers a valuable basis for the strategy formation process in media enterprises. The analysis of the current asset and competence basis of an enterprise constitutes an important prerequisite for formulating recommendations for action in order to ensure the enterprise's future success. Based on an external market analysis, the assets and core competencies that have strategic importance for the future must first be

predicted. Here the developmental scenarios for the future procurement, advertising, competition and recipient market can be included, from which promising core assets and core competencies can be derived. For example, it can be assumed that in the future, it will become increasingly important for media enterprises to be able to market their content in a multimedia fashion via various channels.

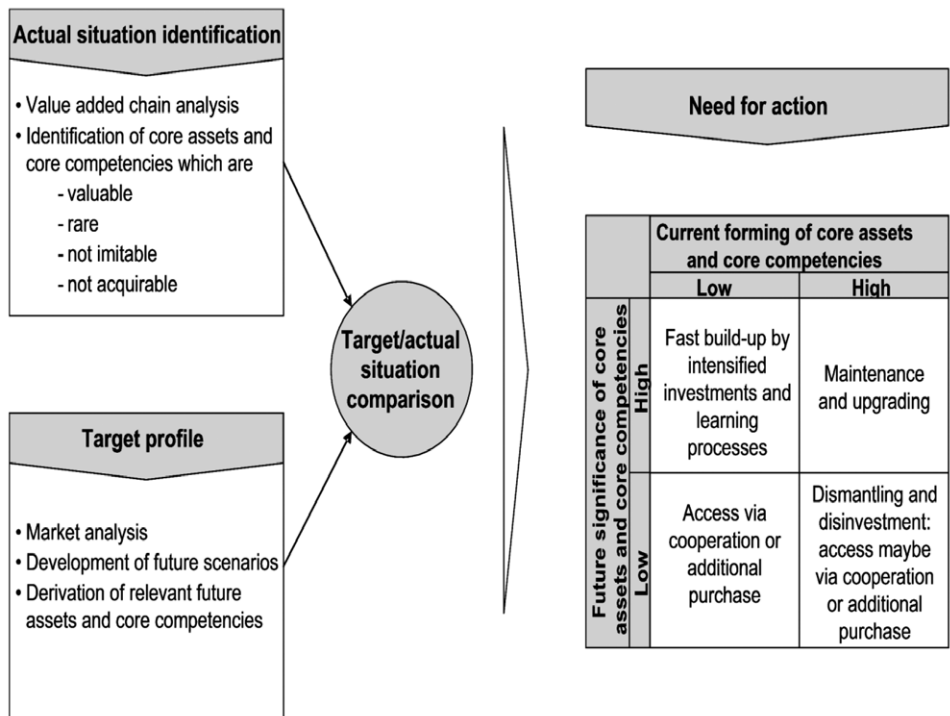
A comparison of the current asset and competence profile with the profile relevant for the future helps identify where action needs to be taken. Accordingly, an enterprise which does not yet have access to the competencies that will be necessary in the future should ensure them through active development and expansion of its asset and competence basis. Here the strategic thinking within the framework of a competence analysis also pertains to the possible cutback of present assets and competencies.

Thus, asset and competence areas can be dropped if they do not count as the core areas of an enterprise, and if it can be assumed that they have no strategic importance for the media enterprise in the future. Only in this way can all available resources and competencies of an enterprise be focused on the fulfilment of the core tasks in a goal-oriented fashion. In Figure 4, the analytic processes and the strategic course of action are presented in an overview.

## Business models

In the literature, the business model concept is used rather inconsistently. However, it can be concluded from the frequent use of the term “business model” that it is usually limited to the focus of business activities and revenue acquisition. “A business model is defined as the organization (or ‘architecture’) of product, service and information flows, and the sources of revenues and benefits for suppliers and customers” (Timmers, 2001, p. 31). Accordingly, a business model illustrates the material, work, information and finance flow both between the enterprise and its environment as well as within the enterprise itself. According to Wirtz, a business model can be defined as follows: “A business model is a simplified and aggregated representation of the relevant activities of a company. It describes how mar-

**Figure 4. Analysis and management of core assets and core competencies**



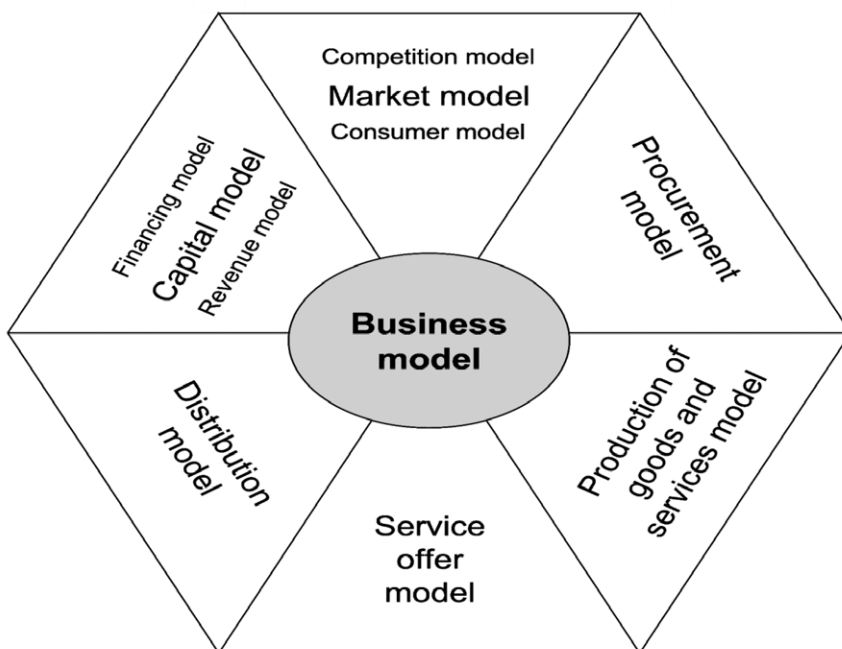
ketable information, products and/or services are generated by means of a company's value-added component. In addition to the architecture of value creation, strategic as well as customer and market components are considered in order to realize the overriding objective of generating and preserving a competitive advantage" (Wirtz, 2000, p. 81).

The business model thus goes beyond the concept of the value chain because it is not limited to a physical production process, but also mirrors service processes. A business model contains statements about the combinations of production factors through which the business strategy of an enterprise is implemented, and about which functions are adopted by the corresponding actors. It explicitly involves the suppliers or strategic partners because "the unit of strategic analysis has moved from the single company [...] to an enhanced network" (Prahalad & Ramaswamy, 2000, p. 81).



In this process, business models fall back on the teachings of the relevant, specific disciplines of business administration. The intent of the business model portrayal lies in its aggregation of essential aspects of business administration sub-disciplines in order to obtain a simplified, condensed overview of the business activities in a graphic model form. Figure 5 presents an integrated business model with its partial models.

**Figure 5. Partial models of an integrated business model**



The market model shows which actors the enterprise faces and in which markets. The structure of the markets is also presented in simplified form. With respect to the actors, one can distinguish between consumers and competitors. According to this differentiation, the market model can be subdivided into a consumer and a competition model. The consumer model provides information about which consumers demand which services in which amounts and to what extent they are willing to pay. The competition model takes the competitive environment of the enterprise into consideration.



The market structure as well as market behaviour in the enterprise's selling markets are highly relevant. The procurement model portrays the input factors that are procured from external suppliers or partners. For this model, the type and amount of necessary input factors are determined based on the products to be produced and services to be performed. The in-house processes and structures are portrayed in the production of goods and services model. Here it is not necessary to portray each individual process in the enterprise. Rather, core processes must be defined that generate an added value for the customers and are of primary importance for the service creation.

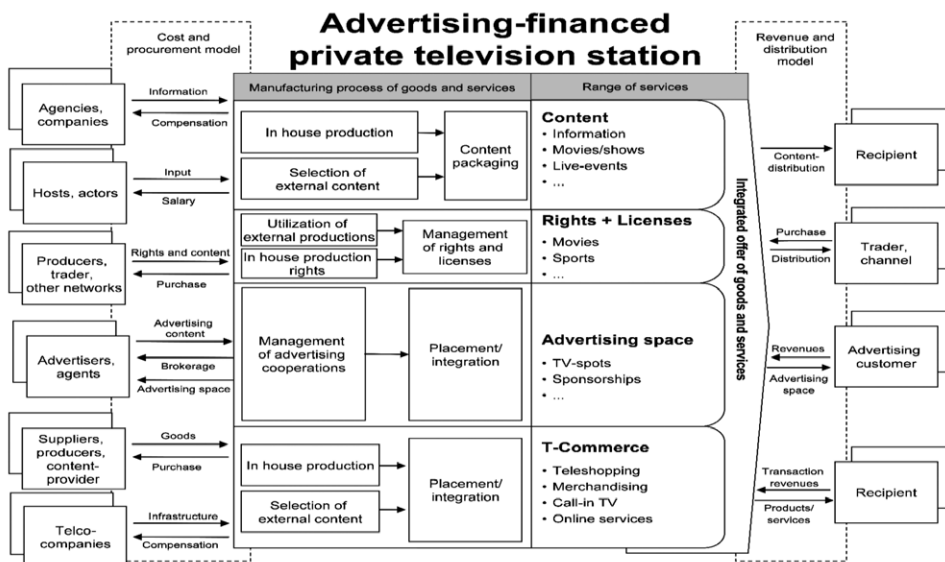
The service offer model specifies which range of services should be offered to which consumers or customer group. The customers differ, sometimes considerably, in their demands. In order to satisfy the wants of the customer, one must attempt to cater the range of services to the special needs of the individual customer. One of the things that help in this process is the segmentation of the consumer portrayed in the consumer model. For each individual consumer group, a segment-specific proposal is provided that is tuned to the consumer's needs.

The distribution model describes the type of goods that are transferred from the media enterprise to the recipients and the manner in which this is done. This process distinguishes between acquisition-driven and logistical distribution. Acquisition-driven distribution is understood as the formation of the relationship to the marketing intermediaries. Logistical distribution is concerned with the question of how the physical transfer of media products to the recipients takes place. The form of the distribution model is especially important if the medium is tied to physical storage medium and marketing intermediaries or assistants are necessary for distribution.

An enterprise's capital model shows which of the enterprise's financial resources are tapped and which forms of refinancing are available to the enterprise. Consequently, the capital model can be subdivided into a financing and a revenue model. The financing model provides information about the sources from which the financing used for the enterprise activi-

ty originates. Figure 6 presents an example of an integrated business model with its partial models.

**Figure 6. Example TV business model**



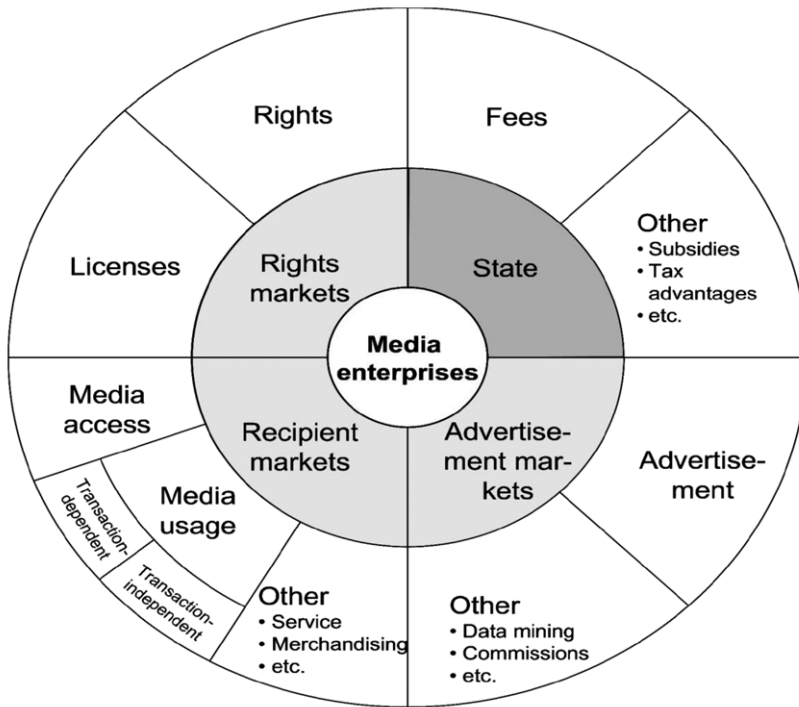
The revenue model is of special importance and is systematized below with respect to the media sector.

## Revenue model

The revenue model constitutes an essential component of an enterprise's business model but cannot be equated with it. Regarding the question of what type of revenues should be realized and in what manner, numerous differing forms of revenue are conceivable in the media sector. In order to be able to make a basic decision about the possible forms of revenue within the context of strategic management, a systematization of the forms of revenue is necessary. Figure 7 presents a systematization of the forms of revenue.

To this end, the enterprise is portrayed in its economic environment in which, the enterprise has to deal with differing private and governmental persons or corporate entities that are active in the markets or in the form of governmental institutions. The enterprise's incoming cash flow alone is decisive in this portrayal. Cash flows between external actors are not relevant

**Figure 7. System of forms of revenue**



here. Since media products are addressed to the recipients, it is primarily the recipient markets that are portrayed as the source of revenue acquisition.

For remuneration which is dependent on transactions, the user pay only for the use of a media product, although the amount of the remuneration conforms to the volume of service (e. g. price per newspaper, price per film for pay-per-view TV) or the duration of the service (e. g. price per minute for online media).

In contrast, with respect to remuneration that is independent of transactions, the recipient does not pay for the actual use of the media product, but rather only for the opportunity to use it. Remuneration that is independent of transactions is, as a rule, paid periodically (e. g. newspaper subscription, pay-TV subscription). To what extent an actual use then occurs is irrelevant for the remuneration. The use is frequently limited by natural and technical restrictions. A recipient's television consumption, for exam-

ple, is limited by time and data transfer of online media by broadband or server capacity.

Aside from remuneration for media usage, fees can also be charged for media access. For this form of remuneration, which is usually paid only once, the customer receives the technical and administrative prerequisites for using a media product. The customer, however, is thereby usually not authorized for actual use. Remuneration for media access can be charged through registration fees, for example. Even the acquisition of a technical device falls into this category provided that payment to a media enterprise occurs (e. g. decoders for pay-TV).

In both cases, however, an additional remuneration for the media use is usually paid. In the recipient markets, other revenues, aside from remuneration for media access and media use, can be realized. Revenue from archive services offered by newspapers or television broadcasters can be cited as an example. Even the increasing marketing of merchandising products falls into this category.

For a few media, a significant portion of the revenue is realized in the advertising market. Advertising companies pay for advertising space services of media enterprises. Advertising space services, for example, include newspaper ads, TV spots or internet banners. Furthermore, additional advertising forms are marketed e. g. within the framework of product placement and sponsorships. Aside from the advertising revenue, other revenue can accrue in the advertising market. The sale of user data is an example. Not to mention that, commissions are increasingly being paid to media enterprises, primarily in the internet, if transactions with a customer materialize via a link provided by the media enterprise (e. g. the affiliate program of Amazon).

Utilization rights and licenses are relevant as a third form of revenue. In this context, utilization rights mean original rights, which allow the owner the discretionary utilization of the content. Licenses are derived rights that may only be used to the extent that the owner of the ori-

ginal rights permits. Book publishers who own the utilization rights to a bestseller and assign a license for paperback editions can be cited as an example. In the market for rights, media enterprises act as both consumers and suppliers. The revenues are realized primarily through the utilization of the enterprise's own productions, but also through the resale of previously acquired utilization rights and licenses.

Aside from the revenue forms described above, Figure 7 lists the government as a fourth source of revenue. Even if the fees realized here are not revenues in the business administrative sense of the word, they are significant to media enterprise management due to their great volume in certain media sectors. The forms of revenue portrayed here take a special position in the system of revenue forms because they are regulated by the government and hence cannot be seen as part of the action parameters of media enterprise's management.

No general conclusions can be made about the here discussed revenue forms' relevance for the financing of media enterprises. That is partially due to the fact that the combination of revenues is branch-specific. Above all, even within the individual media branches, no general conclusions are possible, because the selection of the revenue forms depends on the chosen business model. Two important aspects, however, need to be noted in the decision about the architecture of the revenue model.

On the one hand, the selection of the forms of revenue should be oriented towards the cost situation in the enterprise. In the case of predominantly continuous costs, regular remuneration can be favoured, whereas in the case of high development costs, lump sum payments for media access make more sense. On the other hand, the recipients' appreciation of usefulness also needs to be taken into account. That is particularly problematic if the high development costs of a new product need to justify a high payment for media access, but the recipients, due to the novelty of the product, cannot assess its usefulness beforehand.

For the comparison of enterprises and branches, it is advisable to classify the various business models of media enterprises. This includes

the classification of business models by means of selected characteristics. A clear demarcation is not always possible. Overlaps between the groups are possible. It is decisive, however, that the business models are relatively homogeneous within a group and are as heterogeneous as possible between the groups. The selection of demarcation criteria must be tuned to this requirement.

### **Production of goods and services model**

The production of goods and services model portrays the media enterprises' core activities that are necessary for the production and delivery of media products. Cost drivers and approaches to cost reduction measures can be identified through an analysis of the most important processes and procedures. The comparison of the production of goods and services models of different enterprises further allows the identification of competitive advantages that are based on a superior process structure or the elimination of specific processes. For instance, in several branches direct distribution is the rule, whereas in other branches there are complex multichannel systems involving intermediaries.

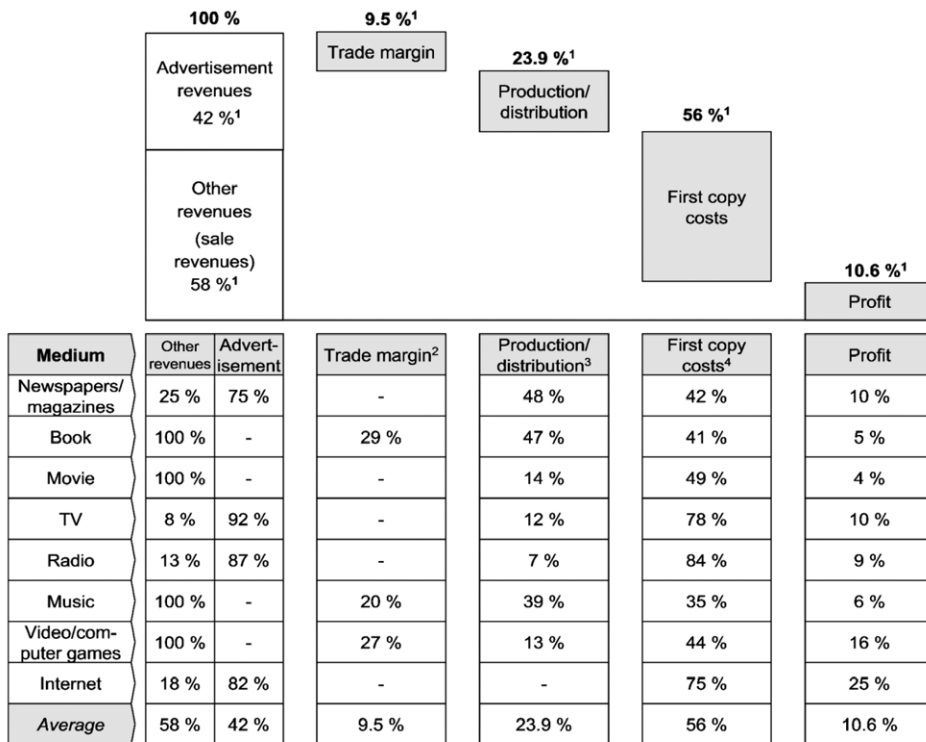
For the illustration of the production of goods and services models, the cost and revenue structure of service creation can be consulted. Figure 8 portrays the typical cost and revenue structure of media enterprises. The starting point for the portrayal is the revenue that flows into the media enterprise from sales of its media products. The revenue is structured according to its different revenue sources, e. g. according to advertising and sales revenue. The breakdown of costs and cost fractions that accrue during the production and delivery of a media product follows the individual cost pools can be summarized as first copy costs, production and distribution costs as well as profit margins.

First copy costs refer to all costs that accrue in the context of creating the first sample of a media product (first copy). They include, for example, the answer print of a film or the master tape of a music production. The composition of first copy costs depends on the type of media. In every media branch, the costs for marketing and administration, in addition to the

costs for the production of the media product (content production), are included in the first copy costs.

In a few media branches, further costs for advertising acquisition and licenses accrue. The average share of the first copy costs in proportion to the total turnover for a media production is around 56 %, but varies significantly between the individual types of media. The higher the share of first copy costs in comparison to the total turnover, the stronger the economy of scale effects for the media product's duplication.

**Figure 8. Cost and revenue structure of manufacturing in media economics**



1) Average of below mentioned media branches 2) Profit margin = Intermediation costs

3) Copy costs and delivery to the intermediaries 4) Including content production costs, licensing costs, advertisement acquisition costs, marketing and administration costs

The production and distribution costs include all costs that accrue in the duplication of the first copy (production) and delivery of the duplication to possible intermediaries (distribution). The costs of printing a newspaper or pressing CDs, DVDs and Blu-ray discs, for example, count



as production costs. The share of the production and distribution costs in media economics averages 23.9 %. Yet, there are major differences regarding the share of production and distribution costs in the total turnover, according to the subsector. Media that are dependent on a physical storage medium such as paper and on expensive production procedures have a very high percentage of production and distribution costs, whereas especially with digital products, the share of duplication costs is quite minimal.

If the delivery of the media products to the recipient is not directly carried out by the producer, then the costs of the individual, external distribution stages (intermediaries) must also be taken into account. The trade margin averages 9.5 % because it comprises a major share of the retail price in several branches, the circumvention of the distribution stages via direct distribution constitutes an interesting strategic alternative for many media enterprises. This applies to the book sector, for example, since the share of the trade margin here is around 29 % of the total turnover.

## Summary

In the past years the media industry has undergone considerable change. Due to the deregulation of media markets, new information and communication technology, increasing globalisation as well as the changing behaviour of recipients, traditional media companies have to adapt to basic changes all the more quickly. The deregulation of media markets has lowered market entry barriers, making the established local markets lose significance through the entry of new market participants and progressive globalisation. The widespread use of the Internet has created new possibilities of media use. On the whole, the media industry is portrayed as very dynamic through these diverse developments. Considerable importance is attached to this development, not only in business practice but also in science.

Against this background, during the last two decades three management approaches have proven to be particularly important for the successful management of dynamic changes in media management. In this very dynamic environment business models, value chains and competencies are of paramount importance for the achievement of competitive ad-



vantages in media companies. However, all three approaches need to be applied within an integrated media management approach to develop appropriate success potentials. In the future a strong link between the value chain, the core competencies and the business model of media companies will gain in importance.

## References

- Barney, J. B. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, 17 (1), 99-120.
- European Communication Council (2000). *E-economics: Strategies for the Digital Marketplace*. Berlin, Heidelberg, New York.
- Fahy, J., & Smithee, A. (1999). Strategic Marketing and the Resource Based View of the Firm. *Academy of Marketing Science Review*, 10 (1), 1-20.
- Porter, M. E. (1985). *Competitive advantage: creating and sustaining superior Performance*. New York.
- Prahalad, C., & Hamel, G. (1990). The Core Competence of the Corporation. *Harvard Business Review*, 68 (3), 79-91.
- Prahalad, C., & Ramaswamy, V. (2000), Co-opting Customer Competence. *Harvard Business Review*, 78 (1), 79-87.
- Timmers, P. (2001). *Electronic Commerce: Strategies and Models for Business-to-Business Trading*. Sussex.
- Wirtz, B. W. (1999). Convergence Processes, Value Constellations and Integration Strategies in the Multimedia Business. *The International Media Management Journal*, 1 (1), 14-22.
- Wirtz, B. W. (2000). *Electronic Business*. Wiesbaden.

- Wirtz, B. W. (2001). Reconfiguration of Value Chains in Converging Media and Communication Markets. *Long Range Planning*, 34 (4), 489-506.
- Wirtz, B.W. (2011a), Business Model Management: Design - Instruments - Success Factors, Wiesbaden 2011.
- Wirtz, B.W. (2011b), Media and Internet Management, Wiesbaden 2011.
- Wirtz, B. W., Pelz, R., & Ullrich, S. (2011). Marketing competencies of publishers and ad sales success - An empirical analysis. *Journal of Media Business Studies*, 8, (1), 23-46.
- Wirtz, B. W., Pistoia, A., & Mory, L. (2013). Current state and development perspectives of international media economics / media management research. *Journal of Media Business Studies*, 10 (2), 63-91.

