Convergence as Strategy for Value Creation

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From the point of view of the media firm, convergence is a strategy for value creation. Firms in traditional media industries, like books, film, records, newspapers, and broadcasting, converge with electronic, digital, computer-based, Internet activities because they fear declining profitability for the technology and the business idea underlying their present operations, and expect increasing profitability for the technology they will acquire, and the ideas they can develop, by converging. However, when entering a new field the traditional media may discover that not only are the technologies and the business ideas different, but the logic of value creation may also be different. Strategy is “the art of creating value” (Norman & Ramirez, 1993), but value is not created without an understanding of how to make money in the converged industrial sector. This article discusses a possible tool to obtain some clarification.

It may be argued that there is no need for further clarification, as Manuel Castells has already solved the problem in his trilogy about the information age (Castells, 1996, 1997, 1998). According to some reviewers, Castells alone has done for the information age what Adam Smith with Wealth of Nations (1776), Karl Marx with das Kapital (1867) and Max Weber with Wirtschaft und Gesellschaft (1922) did together for the age of industrial capitalism. Castells’ answer is The rise of the network society (1996). However, just like Marx denying being a Marxist, Castells is not responsible for his admirers. He himself “adamantly refused to indulge in futurology” (1998, p. 384), and he emphasized that his project merely was to describe the state of the art at the “End of Millennium” (1998).

The present article is in line with Castells’ statement. It takes the view that the concept of convergence belongs to a field of media research and practice that still is in embryo, or what Thomas S. Kuhn (1970) would call a pre-paradigmatic stage of development. Typical for “the absence of a paradigm,” is that “all of the facts that could possibly pertain to the development of a given science are likely to seem equally relevant... No wonder, then, that in the early stages of the development of any science different men confronting the same range of phenomena, but not usually all the same particular phenomena, describe and interpret them in different ways” (Kuhn, 1970, pp. 15, 17). A pre-paradigmatic stage suffers from the paradox of conceptualisation: “...the proper concepts are needed to formulate a good theory, but we need a good theory to arrive at the proper concepts” (Kaplan, 1964, p. 53). There is yet no good theory that gives the concept of convergence unequivocal meaning. As Abraham Kaplan says, “every conceptualisation involves us in an inductive risk. The concepts in terms of which we pose our scientific questions limit the range of possible answers” (Kaplan, 1964, p. 53).

The tool to be discussed here was developed by Charles B. Stabell and Øystein D. Fjeldstad at the Institute for Strategy of the Norwegian School of Management BI, and presented in their article Configuring Value for Competitive Advantage: On Chains, Shops, and Networks (Stabell & Fjeldstad, 1998). They do not relate to Castells, but like him they argue that traditional value chain is insufficient, and must be supplemented with the value network. However, they also advocate a third type of logic for the creation of value, the value shop.

The aim of this article is to present the typology of Stabell & Fjeldstad and to discuss its potential as an analytical tool for value creation in the age of convergence.

Abstract

For media firms, convergence is a strategy for value creation. However, the concept of convergence belongs to a field of media research and practice that still is in a pre-paradigmatic stage (Kuhn). The aim of the analysis is to contribute to the process towards “normal science,” where the paradox of conceptualisation is solved and the outcome is guiding research as well as business development. The article introduces the concept of “value creation convergence,” and discusses its potential as a sixth dimension of the convergence concept in relation to Miége’s typology of traditional media firms (editorial, press, and flow) and Stabell & Fjeldstad’s typology of value creation configurations (chain, shop, and network).

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Examples of Pre-Paradigmatic Business Confusion

The fact that convergence is still in a state of pre-paradigmatic confusion, and achieving profitability via convergence-based enterprises remains difficult, may be illustrated by some recent stories of Norwegian business failures. Hopefully, they do not merely tell stories about the Norwegians.

The first story is about Internet content suppliers. As in other countries, Norwegian traditional media and new online ventures entered the Internet with enthusiasm, only to discover that the costs were familiar but the revenue was quite different, as it failed to appear. In the Norwegian corporatist tradition, this called for an organization, and in February 2001 a pressure group of Internet content suppliers was established. Thus, old and new online papers had an acute demand for a business model that could generate income because advertisers and consumers were reluctant to pay anything for the online services they were delivering. It was also easy to see who did make money on Internet newspaper customers — the telecom companies. The initial goal of the pressure group was, therefore, to persuade the telcos to concede a share of their traffic income to the content suppliers. The initial goal of the research project. His analysis showed that the print newspaper accounted for nearly all the income of the media groups. Hence, they used the newspaper as a milk cow for convergence, with “milk cow” defined as in the Boston Consulting Group’s terminology for portfolio strategy - a former, falling star that still makes money. Because this strategy was carried out at the expense of the print newspaper (i.e., the product demanded by the market), the value of convergence would be a self-fulfilling prophecy if the media groups were to make money by converging. However, according to the media channel Propaganda, itself an online service, Norwegian online newspapers and portals had a combined loss of NOK 1 billion in 2001, and not a single one made money (Nissen-Lie, 2002). In contrast, the combined profit of the printed press in 2001 was NOK 943 million, plus NOK 177 million in state production subsidies (Mass Media Authority, 2002).

The second story is about the Internet milk cow as told by Professor Thorolf Helgesen at the Centre for Media Management, the Norwegian School of Management BI. Using yearly reports for 1999, Helgesen found that the three large Norwegian media groups – Schibsted, Orkla, and A-pressen – no longer believed “in further expansion for the traditional paper-based newspapers in Norway...” but rather prepared for profound changes in the media landscape, with the paper-based newspapers in full retreat” (Helgesen, 2000a, p.1). Helgesen failed to see the wisdom in this strategy. His analysis showed that the print newspaper accounted for nearly all the income of the media groups. Hence, they used the newspaper as a milk cow for convergence, with “milk cow” defined as in the Boston Consulting Group’s terminology for portfolio strategy – a former, falling star that still makes money. Because this strategy was carried out at the expense of the print newspaper (i.e., the product demanded by the market), the value of convergence would be a self-fulfilling prophecy if the media groups were to make money by converging. However, according to the media channel Propaganda, itself an online service, Norwegian online newspapers and portals had a combined loss of NOK 1 billion in 2001, and not a single one made money (Nissen-Lie, 2002). In contrast, the combined profit of the printed press in 2001 was NOK 943 million, plus NOK 177 million in state production subsidies (Mass Media Authority, 2002).

The third story is about the Internet portal Scandinavia Online (SOL). Founded by a group of university IT researchers in 1991, the company was bought by the Schibsted Group in 1995 for NOK 24 million. Two years later it merged with telecom subsidiary Telenor Online in an attempt to take control over the Norwegian Internet market. Then Swedish telecom Telia joined the owners, and a Swedish portal was taken over. At the time of a June 2000 Stock Exchange quotation, stock brokers estimated SOL’s value to be NOK 18 billion (Dagens Næringsliv, 2001, November 3-4). In November 2001, SOL’s value was estimated to be NOK 150 million. The value of each share had fallen from NOK 173 to NOK 3. Schibsted then decided to sell its 34.6%. The group solemnly declared that overall it would still sell with a profit, which it probably did since it was well paid from previous sales (Dagens Næringsliv, 2001, November 6). In the end, Schibsted got NOK 11.50 per share (Dagens Næringsliv, 2001, November 20).

Like the online newspapers, SOL’s problem was not lack of users. An average of 7 million Scandinavians passed through its portal each month. SOL’s problem (as with the online newspapers) was lack of an idea for value creation. In his speech at the Hamrin symposium on 31 May 2002 on the future of the media industry, Mr. Birger Magnus of the Schibsted Group admitted that “we simply had no business idea, no way that SOL could make money” (Magnus, 2002).

Examples of Pre-Paradigmatic Search for Clarification

Two recent JMM articles illustrate the need for classifications “into which things fall, as if it were, of themselves" (Kaplan, 1964, p. 50). Geissler & Einwiller (2001) discuss the communication of e-business entrepreneurs, in particular, the accusation that they had deceived the stakeholders before the collapse of the e-market in 2000. “Due to the topic’s novelty and a lack of academic research on corporate communication particularly of ventures,” the researchers had to employ “a mainly inductive and interpretative methodological approach” (Geissler & Einwiller, 2001, p. 155). As a result, developing a typology of e-business entrepreneurial communicators became a primary goal for the research project.

The other article, which also shows that the business community shares the need for conceptual clarification, is Dennis and Ash (2001). Their problem was that since “there are no universally accepted definitions of New Media ...[there is] need to foster a taxonomy for New Media outlets and firms within the larger media
From a technical point of view, the electronic mass media are the most likely to converge, as they use telecommunications for their distribution. Thus, OECD narrowed the media down to broadcasting, and the issue at stake to whether telecommunications and broadcasting were about to converge or collide.

However, as the fusion of telecommunications and information technology can be used for the transmission of text and pictures, even the printed media are strongly involved, with newspapers on the Internet as the first result. The newspapers envision a role as a main supplier of content to the amalgamated ICT sector. Still, it may be argued that media in general, and newspapers in particular, are the least amalgamated of the three parties emerging into the ICT sector. ICT is quite often described as merely the convergence of telecom and IT, with the media excluded. For instance, this is the demarcation used by The European Information Technology Observatory (EITO). A similar limitation underlies Statistics Norway’s calculations of value creation in Norwegian ICTs. Statistics Norway incidentally follows OECD’s recommendation, but, in agreement with the other Nordic statistical bureaus, the ICT sector is given a narrower definition, excluding wholesale trade (Lystad, 2002).

There is also a dimensional aspect to the concept. The Norwegian Convergence Committee identified four convergence dimensions: (1) service convergence, (2) network convergence, (3) terminal convergence, and (4) market convergence.

Service convergence was defined as an interchange between forms, formats, and interactivity.

Network convergence was defined as the integration of all electronic services in the same transmission network. Terminal convergence referred to the integration of user terminals like the PC, the TV set and the telephone. Market convergence implied that previously separate economic sectors were gradually becoming infiltrated into each other, resulting in a large number of mergers and acquisitions.

Chan-Olmsted (1998) has stated that mergers and acquisitions should be identified as a convergence dimension of its own, and that it should be labeled industrial convergence (thus adding a fifth dimension to the concept). She introduced this concept in an empirical investigation of broadcasting and telecom mergers, acquisitions, and convergence in the US (Chan-Olmsted, 1998).

Fransman, offers a slightly different dissolution of the concept (Fransman, 2000). He also identifies five aspects of convergence, but he labels them: (1) networks, (2) industries/markets, (3) products/services, (4) firms, and (5) technologies.

On the surface, Fransman’s approach appears to add another three or four dimensions to the five already detected. However, what Fransman refers to as products, is the same as terminals in the above listing. His concept of technology refers to digital technology as the “common currency” for convergence. In sum, although Fransman’s labels are different, they seem to provide a similar understanding of the underlying phenomenon.

This article introduces a sixth dimension of the convergence concept: Value creation convergence.
dustries produce works of art, like books, records, and films. Press industries produce newspapers, and flow industries produce broadcasting. Due to the differences between their products, these industries have different organizational forms and face different economic challenges. For editorial industries, the challenge is to produce a catalogue large enough to contain the hits that must pay for all the flops. For the press industries, the challenge is to collect readership and advertising revenue from a single highly time-sensitive product. For the flow industries, the challenge is to collect revenue when the product for the end consumer is a public good (i.e., it is available free of charge).

In commenting on Miège’s typology, Garnham argues that for all these media industry types “the crucial competition issue is where within the value chain strategic market power lies.” They are all now facing convergence (i.e., “the migration of both the production and distribution of all types of media goods or services to the digital mode and thus in principle the sharing of a common distribution infrastructure”). Hence, they will also be sharing strategic bottlenecks “where rents or supernormal profits can be raised” (Garnham, 2000, p. 52). One such bottleneck is rights to content with a high probability of success.

Garnham takes for granted that the three media industry types have the value chain in common. There exists only one value creation logic. This view is challenged by Stabell & Fjeldstad (1998). Their typology of different value creation configurations is a reaction to what they consider the unfounded authoritative status of Michael Porter’s value chain (1985) as a tool to understand value creation in firms. “According to Porter, the overall value-creating logic of the value chain with its generic categories of activities is valid in all industries” (Stabell & Fjeldstad, 1998, p. 413). Stabell and Fjeldstad “suggest that the value chain is but one of three generic value configurations” (1998, p. 414): the value chain, the value shop, and the value network.

Their typology is based on Thompson’s (1967) separation between long-linked, intensive, and mediating organizational technologies. Figure 1 contains Stabell and Fjeldstad’s overview of the three value configurations.

The three generic value creation technologies, with their associated distinctive value configuration models, provide the foundation for the theory and framework required for the analysis of competitive advantage.

The initial hypothesis of the project, from which this article stems (see below for acknowledgements), was that the three types of actors in the converged ICT sector — the mass media, the IT industry, and the telecom indu-
try — would be linked to a separate configuration of value creation, based on their relative competitive strength. It was assumed that value creation would be linked: to the value chain in mass media; to the value shop in IT; and to the value network in telecom. However, as Stabell & Fjeldstad also maintain, “value chain analysis needs to be transformed into value configuration analysis, which in turn helps us clarify critical analysis assumptions. Value configuration analysis is defined as an approach to the analysis of firm-level competitive advantage based on a theory of three value creation technologies and logistics” (1998, pp. 414-15). The need for configuration analysis to embrace all three categories of value creation was supported by the fact that “most firms are not pure instances of a single distinct value configuration. A single firm may employ more than one technology and hence have more than one configuration” (Stabell & Fjeldstad, 1998, p. 434).

We must therefore examine how traditional mass media companies might fit into each of the three configurations of value creation. Furthermore, we must take into consideration that there are different kinds of traditional media companies: editorial, press, and flow.

The value chain

In Porter’s value chain, value is created by transforming inputs into products, which are in turn vehicles for the transfer of value from producers to customers. What’s important for value creation in this configuration is the adaptation of supply to demand. In order to secure stable production and optimal capacity utilization, demand must be predictable and production standardized. Porter identified five generic primary activity categories of the value chain: inbound logistics, operations, outbound logistics, marketing and sales, and service. Of these, the sequence of inbound logistics-operation-outbound logistics particularly signifies the value chain. Following Porter (1985) and Thompson (1967), Stabell & Fjeldstad use “assembly line-based manufacturing as an example of a long-linked value chain creation technology. The assembly line is designed to produce standard products at a low cost per unit by exploiting cost economies of scale” (1998, p. 416).

When it initially seemed appropriate to link value creation in media companies to the chain, it was because the purpose of the project was to study the consequences of journalism’s professionalization. Journalism is industrialized creativity. The raw materials, particularly in news journalism, are events, sources, topics, and the product articles and programmes. For mass media companies, daily or even more frequent deadlines govern production. At each deadline, more or less worked up raw materials are taken off the conveyor belt of news for distribution to the customers. The degree of elaboration is frequently decided by fear of what competitors may publish at the same deadline.

The mode of production puts some imperative demands on journalism. Therefore, the project introduced a hypothesis that professionalization results in increased standardization, predictability, reproducibility, and replaceability of journalistic competence. The professional journalist is a skilled assembly line worker for information processing. The worker is making a standardized product at the lowest possible cost. Precisely because the reality is unpredictable and diverse, there must be standards that reduce uncertainty and ensure that products are made and distributed in the sequential rhythm that characterizes the mass media. There must be news criteria for the selection of raw materials (e.g., Galtung & Ruge, 1965; Gans, 1979) and work procedures, as well as product formats, that guarantee a reasonable level of manufacture before each deadline.

In or related to all three branches of the converged ICT sector, there will be companies producing hardware in the value chain manner (e.g., the instruments of terminal convergence). However, media companies seem to be alone in producing software in this way. Furthermore, the value chain seems most appropriate for the type of media production that led to the initial hypothesis. This implies that the chain describes the press type of media industry best, and the flow type better than the editorial type. For the flow type (broadcasting), it mainly describes the production of news, where software or information is concerned. Otherwise it describes the flow type of distribution, the continuous dissemination of programmes, or “outbound logistics” in the model terminology. For editorial media industries, the value chain assembly line seems adequate primarily for the physical production of books, records, cassettes, etc.

Even the drivers of cost and value in media seem to have characteristics of the value chain. Thus Stabell & Fjeldstad state that “the main drivers of value are the policy decisions that are made by product and segment choices when the firm is established or is repositioned [and] the major driver of cost is scale” (1998, p. 419). Information production is signified by high development costs, virtually no marginal costs, and virtually unlimited advantages for economies of scale (Collins, Garnham & Locksley, 1988). While most other industries are based on copying, the core activity for information producers is development, as the resulting product is a collective good that may be copied to serve an unlimited number of customers simultaneously. For information, as such, all costs are first copy costs. Thus when Picard, in a SWOT analysis for the EU, pointed to high distribution costs as a weakness of the printed newspaper to explain newspapers’ interest in online as an opportunity (Picard, 1999), his concern was the physical wrapping, copying, and dissemination, not the information as such.

With development as the main cost driver, and mainly sunk production...
costs, the decision to produce involves high risk. However, with negligible marginal costs, the decision to produce also has a virtually unlimited upside. Making the right policy decision, therefore, is crucial for success in the media value chain. Hence the decision must be crucial for the “diagnosis and improvement of competitive advantage, [which is] the purpose of value configuration analysis” according to Stabell & Fjeldstad (1998, p. 420). In the value chain, strategic positioning for competitive advantage is usually relative to the product and market segment scopes. The business value system scope should be added to these. This seems particularly important for convergence, as the business value systems of the interconnected firms may not be the same.

However, the adequacy of innovation, for the three types of media industries, seems the opposite of the one suggested for journalism. The editorial industries (books, records) appear to be most dependent on innovation, followed by the flow industries, where there is a strong arts component (products of culture and entertainment). Least dependent must be the press industries (and news production in the flow industries), where the main input is real events; the supply of events is unlimited, and the fabrication of events into products (news) is routinised. Even the editorial industries want to reduce risk, and costs, by copying success, but their options for this seem much more limited. Likewise, reputation or fame (i.e., the star system) seems more important for the editorial industries than for the flow and press industries (i.e., the order is the same as for innovation). According to Stabell & Fjeldstad (1998), reputation is the key value driver in the value shop, not the value chain. This indicates that one of the alleged value chain bottlenecks of convergence concerning Garnham (2000), the rights to valuable digital innovations – interchangeable and therefore equally available as editorial, press, and flow products – in reality concerns the products of value shops.

While the chain may provide adequate understanding of value creation in journalism, it seems less appropriate for advertising, which generally accounts for more than half of the media’s income. In the market for journalism, information is sold to the audience as actual consumers. Transfer of the product creates direct value for the audience, for which the media are rewarded in turn. In the market for advertising, the media produce value for the advertisers by selling them audiences as potential consumers. For the advertisers, as well as the audience, value transfer depends on this potential being actualised, (i.e., on whether the advertised goods and services are actually purchased and enjoyed by consumers). The only direct and certain transfer of value is from the advertisers to the media as payment for connecting them to potential consumers. The latter indicates that the network better explains the values created by advertising.

The value shop

In the value shop, solving customer problems is what creates value. Following Simon (1977), Stabell & Fjeldstad (1998) define a “problem” as the difference between the existing and the desired state. Problem solving is filling the gap.

Stabell & Fjeldstad (1998) describe the shop as almost the opposite of the chain. While the chain models a long-linked technology in Thompson’s (1967) terms, the shop relies on intensive technology. While the chain creates value by delivering a standardized product to all customers – the same newspaper or programme – the shop is organized to solve unique customer problems. This is the basic logic even when the problem and solution are the same for many customers (e.g., the same diagnosis and medicine). For example, the shop is the value creation form of the academic professions. The office of a medical practitioner is said to be a typical value shop.

The initial project postulate was that within the converged ICT sector, the value shop would most frequently appear in the IT branch. The present article is confined to examining the term’s applicability to the media industry.

The first point to be made is that in the advertising industry there seems to be a value shop present. The business idea of the industry is to bring advertisers from the existing to a more desired state when it comes to customers. The production format is ad hoc rather than continuous as in mass communication. However, advertising agencies typically rely on creative talent rather than formal education as a basis for problem solving. “In the advertising market, creativity is still the foremost performance criterion. Yes, it seems more important than ever” (Helgesen, 2000b).

Even in journalism it is common to consider talent to be more important than training. Thus in an article about the education of journalists, Ottosen notes that "many journalists have had, and still have, an image of themselves as artists. The philosophy is that talent for writing rather than knowledge based on research determines the quality of each journalist” (Ottosen, 1997, p.88).

Although the value chain seems appropriate to describe value creation in journalism, there also seems to be a value shop present. If the problem is missing information and the solution is to fill the information gap, journalism creates value for customers by solving their information problem. Because the organizational form is that of mass communication, this is an example of value creation by offering the same solution to a problem that is common for many customers. However, the more universal the problem and the more standardized the solution, the less is the need for competence to solve unique problems. Furthermore, “the single most important attribute of an intensive technology [is] a strong information asymmetry” between the value shop and its client (Stabell &
Fjeldstad, 1998, p. 421). Even this aspect of the value shop seems applicable to journalism, especially because of its relationship with the audience (cf: what was said above about high production costs). Thus, McQuail observes that “although the audience is, by conventional wisdom and in reality, the most important of the clients and influences in the environment of any media organization, most research tends to show the audience as having a low salience for many mass communicators, however closely ratings and sales figures are followed by management. Media professionals tend to show a high degree of autism, consistent perhaps with the attitude of other professionals, whose very status depends on their knowing better than their clients what is good for them” (McQuail, 1987, p. 160).

The editorial office may also be considered the value shop for sources whose problem is access to an audience. However, creating value for sources is not a journalistic business idea. The intention of journalism is to create value for the audience, under the assumption that value for the audience occurs when it obtains information that sources want to keep a secret. Journalists mainly create value for sources when the latter succeed in ruling them out as gatekeepers (i.e., as professional controllers ensuring that audiences only receive information that is of real value for them). The journalistic business idea presupposes that with the journalist on the sideline, the transfer of value between sources and audiences is a zero-sum game where audiences lose what the sources gain. Value creation for sources in the media is a business idea for advertising, not for journalism.

Convergence seems to open up business ideas based on the value shop concept. An illustration is the problem online newspapers have in making money. Online newspapers create value for their customers (more and faster information) and for telecom companies (increased traffic), but not for themselves, hence the formation of the pressure group of content suppliers discussed above. After the unsuccessful attempt to obtain a share of the traffic income, the pressure group took an initiative that for a while seemed to result in “the electronic wallet.” According to Aftenposten (2001, September 12), “tailor-made editorial products based on subscription” were among the services that were supposed to make the wallet attractive.

Aftenposten did not reveal the nature of these tailor-made products, but selection and assembly of information are two possible alternatives. If the media offer individual selection of information taken from the continuous stream of news on the conveyor belt, the service will be to select information that is relevant for each customer. If the media offer information that is not on the news conveyor belt, or that is there only as fragments that must be put together, and perhaps combined with additional information, in order to make a complete product, the service will be to assemble this product for the customer.

Both alternatives are based on the assumption that access to exclusive information creates value for the customers. Exclusive information provides customers with freedom to act, as it can be taken for granted that whoever is affected by the action will not react upon the same information. Thus it provides customers with control. It also provides them with editorial power if they find that their interests actually are better served by sharing some or all of the information with their allies, customers, or even with competitors affected by it. The Internet facilitates the execution of customer editorial power.

In the first alternative, selecting information, exclusiveness implies that the newspaper cannot offer the same selection to an existing customer’s competitor. If the newspaper nevertheless wants to do this, as it may be hard to individualize for a large number of customers, and unnecessary if they have approximately the same demand, the value for each customer is reduced to the savings made by having someone else select information for them. Given the enormous amounts of information available, this may still be a wise customer strategy. What then is being offered, however, is a standardized product. Obviously the customer will expect to pay considerably less for this, than for a truly exclusive selection. The more customers opt for the same selection, the more they appear as an ordinary media target group. Hence, the media are back to the issue of whether volume or exclusiveness is the best business idea.

The other alternative, however, assembling information, requires unique problem solving for the customer. If the customer is a bank wanting to know the risk of financing an investment abroad, for example, the product will be to gather, process, and interpret information about the economy, politics, culture, and social affairs in the country in question. Procurement of this information is not very different from a research project. This alternative seems to require increased professionalization, perhaps of journalism, but more likely of media companies, as it may become necessary for them to hire individual experts from other professions (e.g., economists, political scientists, sociologists, anthropologists, etc.) in order to deliver a high quality, customized information product.

A bank is not accidentally chosen to illustrate this matter. At the Hamrin Symposium 2002, Birger Magnus of Schibsted said that the three concepts of information, communication, and transaction governed the Group’s efforts to develop from being an information provider to a context provider for its customers, the latter implying the delivery of tailor-made solutions for them (Magnus, 2002). Thus, no institution can illustrate the transactional point better than a bank.

A third way to make the electronic wallet attractive, is to let the customers be
tailors themselves, which already happens when subscribers are invited to search in the media’s electronic archives via the Internet. Even this may be considered a value shop activity, as the customers pay for professionally made information products. However, it does not include consultation, but leaves the customers by themselves and, therefore, puts higher demands on their own professionalism. In this sense, it is contrary to the value shop.

The business idea that exclusiveness creates value for customers is, in a sense, contrary to the business idea otherwise underlying mass communication, (i.e., taking advantage of economies of scale to spread the same information to an anonymous mass audience). However, it appears as an attempt to exploit what creates value for the media themselves, presupposing that exclusiveness brings similar advantages to their customers.

Exclusiveness creates value for the media by enabling them to charge the audience for access to attractive information, for which the media themselves may have paid the sources. The value chain of the media is organized to produce and deliver time-sensitive information (typically news and events). Hence, for many information products, exclusiveness has only a temporal dimension—being one deadline ahead of the competitors and having exclusive right to the live transmission. For the typical mass communication product, the first release of the information has the highest value. Therefore, media with short intervals between the deadlines, like radio, have an advantage over media with longer intervals, like the printed newspaper. Still, the newspaper may be in possession of unique information, and, in order to release it before faster media obtain it, the newspaper may look for faster distribution itself such as the Internet. However, if readers are unwilling to pay for Internet news, the newspaper loses the value of the first release. Moreover, having disclosed the unique information it possesses, the newspaper may have handed the advantage over to fast media with better ability to exploit it commercially, like radio. Therefore, convergence raises a problem for the temporal dimension of exclusiveness.

Obviously, there are media products that are less time-sensitive. This is the case for all products of the editorial media industry, typically works of art, hereunder entertainment, where success may depend on the ability to capture the time spirit, but where value is still created after the first release as the product gains popularity with a growing audience. Works of art add a spatial dimension to exclusiveness, as the basic information (work of art) may be wrapped differently for sale in different markets (e.g., book, theatre play, movie, television, home video or DVD, record/CD, and so on). For works of art, digital online distribution and e-commerce, therefore, should be of great benefit. However, it seems that convergence also creates a problem for the spatial dimension of exclusiveness because it reduces the media’s ability to control effectively their exclusive rights. Convergence provides customers with opportunities to copy the works of art themselves for free, and pirates with the opportunity to set up services that function as virtual black markets, which are even worse, from the copyright owners’ point of view, than in a traditional black market where the copyright owner at least gets paid; it is the extra profit that goes to the black marketeer. In a recent article, Gaustad (2002) argued that there is no other solution to this problem than to secure the excludability of the content, which requires the enforcement of property rights.

As already stated, there is a strong innovative element in all media industries, traditional (editorial, press, flow) as well as converged (digitalized, online). Even the industry least dependent on artistic talent, the press, is more dependent on the novelty (the news) for value creation, than most industries, based on other products than information, as they rely more on the value of copying. The uniqueness of an innovation, or, of the original information in a temporal sense, as well as the intensive technology and dependency on skills that make reputation the key value driver, are features that lead the media industries to have more in common with the value shop than the value chain. Conversely, we may ask whether (re)solving unique customer problems is the only value creation logic of the value shop. The problem-solving terminology seems appropriate for causal as well as intentional information, but not for the creation of unique arts and entertainment products.

The value network

For Castells (1996) the network is the information economy. However, his concern is apparently not the value creation of networks as such, but the value created because networks like the Internet, literally and figuratively, link producers together, as well as producers and customers, on a global scale. Stabell & Fjeldstad’s (1998) concern is apparently not the value creation configuration. However, their network, too, creates value by linking customers together, and thus relies on mediating technology (Thompson, 1967). An obvious example is the telecom company. The company itself is not a value network, but it provides customers with a networking service. For the customer, the value of the network depends on the other customers connected, how many they are and who they are—customers that can be contacted for the collection and dissemination of information. Therefore, the value increases with the network’s expansion, in general, and, in the specific group within which each customer wants contact. The owners of networks get their income from connecting new customers (expanding the network), from fees for staying connected (i.e., having the right
and opportunity to communicate, and from customers actually communicating in the network (making phone calls). Usually the network owners take no part in this communication, which is exclusive for the customers. Rather, the network owners act as managers of clubs whose members may or may not have supplier-customer relationships between themselves, but who all are customers of the club. The club managers’ function is to mediate. In a sense, the managers are media for contact between customers.

For network owners such as the telecom companies, information suppliers like the mass media are “useful idiots,” as Lenin would have called them, as they create value of all three kinds for the network, at their own expense and with little or no value creation for themselves. Thus, it is not surprising that a pressure group was formed to attempt to obtain a portion of the telecom traffic income for the content suppliers.

In a sense, however, even traditional media companies create value for their customers by connecting them. The most obvious example is advertising. Here, the media connect customers who demand space and time for advertisements (the advertisers), with customers who potentially demand the advertised goods and services (the consumers). The media get connection income from selling space and time they control to advertisers.

Some media even generate “traffic income” from the actual use of the network for communication, as they measure the potential consumers being exposed to the advertisements and charge advertisers for their number. It is mainly for broadcasters that the actual “traffic” has an impact on income. However, the analogy with the traffic income of telecom companies is only partially correct. The income broadcasters make from the actual “traffic” (i.e., the measured contact between suppliers and consumers of the advertised goods) is normally a correction of the agreed amount for making the connection, and it does not necessarily increase the broadcasters’ income, as is always the case for the telcos. On the contrary, using the actual connection to correct the bill may reduce the income for broadcasters. The actual figure will result in a direct loss if failure to connect the advertiser to the agreed number of persons in the desired target group obliges the broadcaster to give advertisers a discount. It will result in an indirect loss if failure to connect obliges the broadcaster to repeat the advertisement until the agreed number of potential consumers is reached. Particularly in television, with the electronic meter system, this is a common method of correcting the advertising bill.

Media with “traffic income” may generate no additional income from the receivers of the information. Broadcasting, financed by advertising, is free for the audience. This is like the normal pricing of telecom services: the bill is paid by the person making the call and free for the receiver. Unlike commercial broadcasting, however, print media usually charge even the audience (or the receivers in network terminology), who must subscribe or pay per copy to obtain a newspaper.

Even when it comes to editorial matters it may be asserted that the media employ “mediating technology” to connect their customers. The most obvious example is the connection of independent writers to readers of newspaper articles. Print newspapers collect income from this connection exclusively from the receivers. Unlike advertisers, independent authors of articles may appear as an expenditure in a newspaper’s financial accounts. If the newspaper does not pay for articles, it can be said to exploit the need of free speech to obtain free labour—or to produce value for independent writers by offering free distribution of their expressions. Irrespective of this, independent writers may contribute to the newspaper’s income from readers, of whom there might have been fewer without the independent writers.

Internet newspapers often have open discussion pages where writers and readers communicate interactively. The content on these pages may be subject to their editorial responsibility, but otherwise the provision is similar to the telecom provision of a value network. Online newspapers do not offer writers a distribution service, but a computer site where readers know that by making the connection they will find information. Once the barrier against fees is broken, it may be possible to charge writers for submitting their articles, similar to charging for making phone calls. In addition, online papers may charge the readers, as do traditional newspapers. Online readers are actively seeking information and not passively and involuntarily receiving it, as is the case with incoming phone calls.

In a figurative sense, the media establish contact between all members of society, more specifically between governors and the governed, and the powerful and the powerless. This has at least one feature in common with the value network—the value increases with the number of persons on both sides that are connected. Furthermore, it seems that the more persons connected on the receiver side, the more will be connected on the sender or source side, and the greater the “traffic” will be. The media with the largest audience will have the greatest resources to obtain information from and about the sources, including greater ability to make the powerful speak. The greater the audience, the more important it is also for the powerful to be favourably exposed in the medium.

However, in contrast to the real value network, it is here the owner of the network (i.e., the Media Company) who creates the “traffic” between the members of society. The owner does not merely provide a networking service.
Without active interference from the owner, there would be no traffic at all in this network, and the contact among the members of society (i.e., the governors and the governed) would be through real value networks, like the telephone and the post. The contact would be individual and confidential, not general and open.

**Conclusion**

The analysis in this article supports the statement of Stabell & Fjeldstad (1998) that value chain analysis should be transformed into value configuration analysis, and that competitive advantage at the firm level is better understood by employing all the three value creation technologies and logics: the chain, the shop, and the network. However, it also suggests that the value shop is not merely characteristic of the value creation logic for solving customer problems. The term is also applicable to the creative and innovative part of information production in traditional media industries, and it is particularly characteristic of editorial organizations.

Miège’s distinction between the editorial, press, and flow types of media industries is based on differences between the commodities they produce, requiring different organizations and imposing different economic challenges on the firms. Digitalisation implies that their products become more similar and interchangeable. This calls for convergence of their organizational form, what Chan-Olmsted (1998) has labeled industrial convergence. However, it also implies convergence of the economic challenges they are facing. In this article, the latter has been called value creation convergence.

These are the implications for the three traditional types of media industries. They digitalize, merge, and become available as interchangeable commodities in the same transmission network. However, convergence is not merely the amalgamation of editorial, press, and flow operations. Rather, in terms of economic and political impact, the new ICT sector is formed by the convergence of telecom and IT, with the media involved merely to the extent that the other industries need content in order to attract a mass market for their own purposes. In Chan-Olmsted’s study (1998) leading to the concept of industrial convergence, information technology (IT) was not included. In the present article, neither telecom nor IT was included. However, the article does indicate where telecom and IT may fit into the value creation pattern of Stabell & Fjeldstad (1998). Further research should investigate these suggestions, and examine whether they, too, have an impact upon the outcome of convergence for the traditional media industries.

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