Digital Media Industry Convergence: A Game of Musical Chairs

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The world is full of magazines, newspapers, information, music, movies, games, software, and online transaction-based services, but what is their common characteristic? One feature they all share is that they can be created and accessed in a digital form. This common characteristic leads to the potential for firms in each of these industries to take advantage of digital (media) industry convergence where combining complementary digital goods and services can be done relatively easily, quickly, and cheaply with the potential for offering greater overall value to their consumers. But if many firms are hoping to grow through these convergence strategies, how will they differentiate themselves from each other and achieve some form of competitive advantage?

The answer appears to be that they need to grab their partners early and hang on until the dust settles. If partners are the chairs in a game of musical chairs, each player must grab one when it becomes available or potentially lose the game. The stakes are high and three recent examples from Facebook, Google, and America Online (AOL) illustrate this point.

Facebook

In September 2011, Facebook Inc. unveiled a series of partnerships that indicate a shift in their Web strategy and in their competition with Google[1]. The partners are in three unique industries – newspapers, music, and movies. One partner is the Washington Post which will enable users to be able to read articles from the newspaper within Facebook, as opposed to accessing stories through links on the newspaper's site. The Washington Post hopes to increase their audience of younger readers through this arrangement. Another partner is online music service Spotify AB. This partnership allows them to more directly compete against Apple iTunes music store. The unique feature will be that users will be able to see music being listened to by contacts and would let members listen to music together. The final partnership is with Netflix. Facebook will allow users to share their movie experiences and the hope is that this will draw more users to Netflix. Each arrangement hopes to enhance each user's social network experience and grow the overall number of users.

Google

Also in September 2011, Google bought restaurant review company Zagat Survey LLC[2]. This enables Google to expand into new roles as content creator and print publisher. Zagat includes restaurant, hotel, and other local attraction reviews coming from 350,000 contributors world-wide. The firms converge by integrating the company's reviews with the business listings from Google Maps and Google Places. Google picks up Zagat's employees and could benefit from relationships with the hundreds of thousands of reviewers as well as thousands of local businesses. Google has made a number of acquisitions in past years and will likely continue to grow by adding additional online content and services that complement their primary business. As with the Facebook example, Google hopes that these acquisitions will enhance the overall user experience on their site leading a growth in various revenue sources including advertising.

America Online (AOL)

America Online has also made a series of acquisitions to add to its breadth of online content and services. Earlier in 2011, AOL acquired online news and commentary site the Huffington Post. And in late 2010, they spent just under $100 million to acquire TechCrunch, 5min Media, and Thing Labs, Inc.[3] Despite the acquisitions, intense competition for online ad revenues is expected to reduce AOL's share of display ad revenue in 2011 to 4.2% from 4.8% in 2010 and 6.4% in 2009. So growth strategies may produce some improvements for the value customers receive from an online site, but are no guarantee of improvements in the bottom line.

These are just three of many examples where online firms have grown through acquisition of other digital content and services in the past few years. Analysis of these examples and others leads to a list of potential benefits and risks and predictions for the future[4].

Digital Media Industry Convergence Benefits

A number of monetary, consumer value, and strategic benefits may result from the convergence of digital content and services.

- Partners may see a growth in overall revenue
- Complementary content synergy may increase value received by the consumer
- Enables firms to control unique content
- Reach a larger market with minimal additional cost
- Each partner can focus on their core competency
- May adopt partner's business model and revenue sources
- Product extensions may involve less additional cost
- May raise entry barriers for potential competitors

Digital Media Industry Convergence Risks

But these partnerships may also produce some unintended consequences and risks.

- Problems can arise over the issue of revenue sharing between partners
- May pull focus away from core competencies
- Potential for loss of control over content for one partner firm
- Partner ethical and financial issues impact all horizontally integrated partners
- Mixing business models, revenue sources, and brands may confuse customers

The overall result is that firms have increasing incentives to identify the best content and service providers which complement their current offerings. Viewing this as a game of musical chairs, once a unique firm has been acquired then that chair is out of the game and the music begins again. These growth strategies come with an array of benefits and risks, but ultimately they know that there may not be a chair left when the music stops if they are not continually assessing these digital media industry opportunities.

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[1] Raice, S. (2011, September 23). Facebook Flexes for Rivals. *Wall Street Journal*.

[2] Efrati, A. (2011, September 9). Zagat Deal Extends Google's Influence. *Wall Street Journal.*

[3] Steel, E. (2011, August 15). AOL Growth Comes at a Cost. *Wall Street Journal.*

[4] Strader, T. J. (Ed.) (2011). *Digital Product Management, Technology and Practice: Interdisciplinary Perspectives*. Hershey, PA: IGI Global.