

**1. In terms of the cited benefits of e-business, discuss how these apply to the entertainment sector.**

The ten classic benefits of e-business are:

- 1) Product Promotion
- 2) New Sales Channel
- 3) Direct Cost Saving
- 4) Reduced time to market
- 5) Improved customer service
- 6) Brand or corporate image
- 7) Technology learning and organisational laboratory
- 8) Closer customer relationships
- 9) New product capabilities
- 10) New business models

These benefits, while not being a complete list, as the list is constantly evolving due to the rapid growth of online business, are applicable to the entertainment sector. Taking each benefit in turn lets consider its benefit and application to the movie industry and the music industry.

Product Promotion

With the capabilities and speed of the modern Internet products can be promoted more effectively online. When any product is released, it is expected that there will be an accompanying website. So when a film studio starts a film, a website is immediately put up (e.g. Current Sony have a Da Vinci Code website at: <http://www.sonypictures.com/movies/davincicode/site/>, which only has a “Teaser” trailer available), then when the movie is released, there will be full trailers available. The same is true of bands, having downloadable snippets of music from current or forthcoming albums.

New Sales Channels

Entertainment is one of the primary uses of the Internet. Entertainment is sold to a worldwide audience from a single place. When a movie is available on DVD, the movie website is updated with a direct link to purchase the DVD (e.g. Oceans 11: <http://oceans11.warnerbros.com/cmp/main.html>). Bands also have a buy album, or sometimes a digital (MP3) purchase available.

Direct Cost Savings

One online store selling worldwide is infinitely cheaper than having local store in all the regions that you wish to sell your product. Also, re-sellers (e.g. HMV) are cut out of the supply chain, allowing a greater portion of the sales price to go to the supplier and then this saving can be passed onto the customer in the form of cheaper items. For example, iTunes can sell the latest single for 99c, while it will cost €5 in HMV, plus there is no stock to maintain.

Reduced Time to Market

Once a band has finished recording an album, it can be made available online in a matter of minutes. All it takes is a website update to make a product available worldwide.

### Improved Customer Care

When a product is sold online, its natural that customer support would be delivered in the same way. An e-mail or feedback form can be completed online at any time, automated responses and incident tracking numbers assigned to all feedback gives the perception of better customer care.

### Brand or Corporate Image

By promoting the latest movie or band, companies in the entertainment sector can put out an image that they are the producer of superior content, by referencing other bands or movies that have also been produced by them.

### Technology learning and organisational laboratory

With the nature of the Internet and how quickly products can be made available, this allows companies to experiment and release products on a trail basis. Products can be recalled or replaced extremely quickly also. So a band could make some MP3's available for download, but then survey the downloaders to evaluate the track and possible decide to then alter it.

### Closer customer Relations

More personal relationships can be developed between customers and online sales merchants. Once a customer logs in to a site, their personal buying history can be analysed and new products (e.g. CD's and DVD's) can be recommended to them. Amazon.com does this particularly well.

### New Product Capabilities

New products can be customised online and people can only buy exactly what they want. For example if a customer only wants a couple of tracks from an album, they can buy these from iTunes. When selling DVD's, a movie only DVD is often sold as well as an "Extended Edition" that may have a huge amount of extra's. Some customers would only be interested in the movie, while others may be interested in the special features.

### New Business Models

Given that the Internet is worldwide, and a single point of sales is available worldwide, products are available everywhere, where previously they were not. New business models evolve when music gains popularity in regions (For example, an American band touring Australia, because of increased popularity there. Also, movies are now generally released worldwide at the same time, rather than with large gaps between EU and US releases.

## **2. Using the framework of porter's five-forces model of competition in the context of e-business, outline for the management of the firm how the following issues apply to the entertainment sector.**

Blockbusters is an established firm with a strong presence in the national entertainment sector. However, their current position is under threat from new entrants into the sector that are offering similar products. This increased competition is largely appearing from online organisations that are operating e-business business models. In recent years the increased Internet capacity as well as broadband coverage in the country has meant that more and more individuals have ready access to the Internet, thus making e-business a must for all companies operating in the entertainment sector. To this end, Blockbusters must now re-evaluate its existing e-business operations to address this new competition and compete effectively.

Blockbusters rentals business has remained quite steady, but they have suffered a fall in sales, this is most likely because customers are finding cheaper alternatives, usually from online stores. The most obvious way to combat this is to totally re-vamp the online operations of the company. To do this, the website should be turned into a virtual store, that initially offers Video/DVD/Games sales, both of brand new titles and slightly cheaper "Pre-Viewed" items, then going forward, the website can be upgraded again into an online rental store. To back this statement up, lets look at Porter's Five-Forces model of competition in the term of e-business.

Porter's Five-Forces model of competition outlines three generic competitive strategies. These are Cost, Product Differentiation and Focus.

### Cost

E-Business is a much cheaper business model than conventional ones. When you have an online store, there are none of the costs associated with a standard store such as rent, bills or wages, which the operation of a regular store incurs. Online stores are cheaper to promote, distribute and the cost per transaction is a fraction of what it is for regular stores. If a big new movie were released on DVD (e.g. The Latest Harry Potter movie), then to promote this in-store would require the printing of posters and building of stands, online all that has to be done is the styling on the website altered slightly. With online stores the distribution is extremely cheap, given that public shared infrastructure (Internet connections and Postal delivery) is used to fulfil the transactions. So, after an initial start-up cost that is associated with any enterprise, in this case that would entail website development and hardware purchasing, the ongoing cost of keeping the store running is minimal. This allows for direct cost savings on each item sold, thus allowing for the savings to be passed onto the customers.

### Product Differentiation

When dealing with Video/DVD/Games, there is no real differentiation between the product that one company sells and another one. The major differentiator is and always will be price. So in order to differentiate themselves from other online retailers (or e-tailers), blockbusters will have to focus on differentiating their service from the service that other companies offer. Getting items on sale as soon as possible and reducing the time to market on new releases, perhaps by offering items for sale in advance of their release will help differentiate them from competition. The 24/7

nature of website availability and a “We’re always open” message is also a differentiator. Levels of Customer service achieved through the website, by remembering a customers purchasing history and making recommendations is a greatly useful feature.

### Focus

In order for any company to succeed, they must identify their target market, focussing on a specific customer set, then set about delivering the best products or services to those potential customers. The focus of any online store is largely at the technology-savvy market. Customer service is again hugely important here (Notice the direct link to customer satisfaction ratings on NetFlicks.com). The favourite items or recommendations feature on the website is also of benefit here (There is a particularly good version of this on Amazon.com). Online selling also gives the option of mass-customisation, whereby orders can be discounted when certain items are combined. Complex systems to determine discounts can be applied behind the scenes, which sometimes may not be possible in real stores.

Porter’s Five Forces model continues, by looking at new Entrants to the market, with particular focus on their substitute products.

### New Entrants & Substitute Products

New entrants to any marketplace are always a huge threat to the existing companies operating in that market. This is especially so when the new entrant is a large existing company branching out into a new market (e.g. Google moving into Maps). The entertainment sector is no different. Now, with e-business market entry is extremely easy, there are no barriers to entry, once a website is up and running it can sell its items to a worldwide customer base. New entrants selling Videos, DVD’s and games online are in competition with Blockbusters, however, looking at the even more directed market of online sales, when Blockbusters open their online store, they will be in direct competition with these online companies as a new entrant.

Once a customer begins using the Blockbusters website, they can be tied in to the site, by offering customisation, recommendations or a rewards systems (e.g. Points per purchase), this will act as a barrier to customers leaving the online store.

New entrants to any market will have slightly different products, even in the entertainment sector, where the base products are the same basic DVD’s. The separate packages or box set combinations act as substitute products.

Porter’s Five Forces model concludes, by looking at the value chain.

### Value Chain

With online virtual stores it becomes extremely easy for producers to sell their products directly to customers, thus suppressing intermediary’s (e.g. Dell). This in turn makes it less attractive for new entrants to enter the marketplace. However, there is potentially a threat to Blockbusters sales business from the movie studio’s selling their products directly (e.g. Warner brothers online store <http://whv.warnerbros.com/>). Handling and managing the complexity of customer ordering and service, was previously the job of these intermediary’s, this can now be handled by the website. This process is known as disintermediation.

On the other hand with online stores, it can become easier to become an intermediary. An online store can be set-up as an intermediary with very little expense

and operate between the supplier and customers in a specific way (e.g. <http://www.shopireland.ie/> selling Amazon.co.uk products to Ireland in Euro).

Online stores also make it easier to catch up with competitors, by operating in markets larger than they would previously been able to operate in.

In conclusion, online stores are almost essential in modern business. Blockbusters should get a website operational as soon as possible, selling Video's DVD's and Games. Then, depending on the success and traffic through the site, online rental, achieved through postal delivery can be rolled out. Online rental would entail selection of rentals from the website, then the DVD's would be posted to the customer along with a return envelope. When the customer has watched the DVD's they are posted back to a central location, before the customer can rent out another DVD. This e-business model has been in operation for many years by NetFlicks.com and recently by Amazon.com. However, since this business is based purely around the company's website, generated traffic from the initial Blockbusters website upgrade is required to gauge the potential for offering this service.

**3. With the increasing availability of broadband, the potential of on-line rental downloads needs to be explored. The firm is concerned that e-business may impact on its rental revenue in the future. Discuss the advantages and disadvantages associated with electronic rental for the entertainment sector.**

Broadband availability has reached 95% in recent months and the number of connected users is growing every month is growing at a huge rate. With this kind of online connected group of potential customers, organizations are targeting online sales more and more, not only with standard item purchasing, but also with online entertainment items such as music sales (both MP3 digital downloads and streaming music) becoming increasingly available.

In the future movies will obviously be available for digital download, but is that time here yet? There are a number of advantages and disadvantages to electronic rental.

Advantages

- 1) Broadband – The infrastructure is currently in place to technically deliver the electronic rentals, and this is only improving. With Be Unlimited currently rolling out a 24 MB/sec broadband service in London
- 2) Charging – Its extremely easy to charge for online rentals, its almost a click to buy operation.
- 3) No Stock – Since no discs or tapes will ever be actually provided to the customers they cannot be damaged, and one single DVD is only required to allow for digital distribution.
- 4) Impulse Buying – With a connected shop offering electronic rental, options to buy other rentals at discounted rates, simply by checking another box can be introduced.
- 5) Ancillary Selling – During a purchase, customers can be asked if they would like to rent other movies that are similar to their selected one.

### Disadvantages

- 1) Copyright – Piracy on the Internet is a huge concern for the people that hold both Music and Film Copyrights. If electronic rentals were made available what is to stop the renter's saving a copy of the movie for themselves, or even worse, then re-distributing it. A mechanism would have to be put in place that would restrict this possibility, which would probably have to be a hardware device and could be extremely expensive to implement.
- 2) Licensing – If someone rents a movie electronically, how long do they have it for? A night? A week? Forever? The duration of the rental could cause problems.
- 3) Technical Problems – How are the movies to be obtained? The options are to download the full film and they play it when finished, or to stream the movie live from the online store to the TV / PC where the customer will watch it. Neither of these options is completely correct. Because if there is a break in the communications line or even a drop in speed due to increased demand then movie becomes unavailable. In the case where you are downloading the movie first before watching, then customers will get impatient and not wait for the download and in the case where the movie is streaming down the viewer's movie is interrupted, which is also not desirable.

In conclusion, electronic downloads are probably the “next big thing” with regard to online entertainment. But at this point in time there are just too many unanswered questions. Above all, the potential piracy would leave any system far too open and the movie studios will not sanction this kind of content delivery in the short term.

### **Resources**

Course Notes

Electronic Commerce - A Managerial Perspective (2000)  
E. Turban

Net Flicks Online DVD Rental Site  
<http://www.NetFlicks.com/>

Product Differentiation  
[http://en.wikipedia.org/wiki/Product\\_differentiation](http://en.wikipedia.org/wiki/Product_differentiation)  
<http://www.economicwebinstitute.org/glossary/product.htm>

Warner Brothers online Store  
<http://whv.warnerbros.com/>

Amazon.co.uk in Euro for Ireland  
<http://www.shopireland.ie/>

Be Unlimited 24 MB/Sec Broadband  
[http://www.theregister.co.uk/2005/07/01/broadband\\_be/](http://www.theregister.co.uk/2005/07/01/broadband_be/)