PERGAMON International Journal of Information Management 22 (2002) 307–322

International Journal of
Information
Management

www.elsevier.com/locate/ijinfomgt

E-business in the entertainment sector: the Egmont case

Claudia Loebbecke[a], Philip Powell[b,*]

[a] *Department of Media Management, University of Cologne, 50931 Koeln, Germany*
[b] *Centre for Information Management, School of Management, University of Bath, Claverton Down, Bath BA2 7AY, UK*

Abstract

The new millennium has seen the rise and the fall of 'dotcom' firms, coupled with hype and disappointment over what the Internet will bring to business. While investors may have taken a dislike to web-based firms, problems of embracing or responding to the Internet challenge remain for managers of established firms. For instance, Gartner (2001, quoted after The Economist 2002) predicts that 70% of firms will have an incoherent e-business strategy within a year. For existing players it may be simple to set up a web-presence, but it is difficult to create a sustainable business model. This is especially true for industries in which many large, established firms face tremendous changes in both product design and business processes; for instance, those that deliver digital, or digitisable, goods. The media sector, and more specifically the entertainment sector, are prime examples. This paper investigates challenges and issues for entertainment firms active in different stages of the entertainment value chain. While they operate in a growing market, the digital character of their products places them at the centre of industrial changes triggered by the Internet and other new media. The paper provides an analysis of the changing business environment for media firms, investigates the specific approach chosen by one major player, Egmont, and concludes by assessing the important factors for media firms doing successful and profitable business in the new era. While the focus of this case is retrospective—considering the market at the time of Egmont's deliberations—the paper has the benefit of hindsight in terms of e-business developments and outcomes.

Keywords: E-business; Entertainment; Strategy

1. Background

Firms in most sectors are grappling with their response to the coming of the Internet. While the pressure may have eased as the frenzy of 'dotcom' activities has subsided, the search for business

*Corresponding author. Tel.: +44-171-919-7959.
E-mail addresses: claudia.loebbecke@uni-koeln.de (C. Loebbecke), mnspp@management.bath.ac.uk (P. Powell).

0268-4012/02/$ - see front matter
PII: S0268-4012(02)00015-4

models and for profit from the Internet continues. Media firms were touted as being at the forefront of change—either grabbing opportunities presented by the web or fending off new competitors to their established activities. Yet, change has been slower than expected and the outcomes less dramatic than foretold. Surveying E-entertainment, the Economist notes, 'The Internet offered much more to media companies than it did to most consumer businesses… The factories, the distribution networks and the shops should become redundant, leading to huge cost savings for the Internet companies. What is more, advertising on the Internet should become more valuable than in the old media world…But the reality has not matched up to the vision. The Internet is a zero-revenue business for traditional media companies' (Economist, October 2000, p. 5).

This paper follows one established media firm, Egmont, as it deliberated its response to the Internet. It shows that the firm was right to eschew the frenzy of change in the sector while positioning itself for the many potential futures that the web may enable. The paper first outlines the background to the sector, detailing the drivers of change in the media business. It analyses the value chain in the media industry, assessing where the value lies and how this may change in an Internet world and how the major players react. The paper then outlines the case firm and describes the development of its web activities. These are then placed in the context of the sector changes to assess how Egmont may extract value in the new media environment.

The past 50 years have seen entertainment consumption grow independent of dips in economic growth, and this trend is expected to continue. However, competition in the entertainment industry is fierce and the competitive forces are changing fast (see Fig. 1). For instance, the industry faces rapid developments in both delivery formats and business models (European Commission, 1996). Digital media products (games and music) are gaining ground and the life cycle of most media products (magazines, film, games, etc.) is decreasing rapidly. Consumers are becoming more demanding, expecting real-time changes in content (Ellsworth & Ellsworth, 1996; Kalakota & Whinston, 1997; Yoffie & Cusumano, 1999).

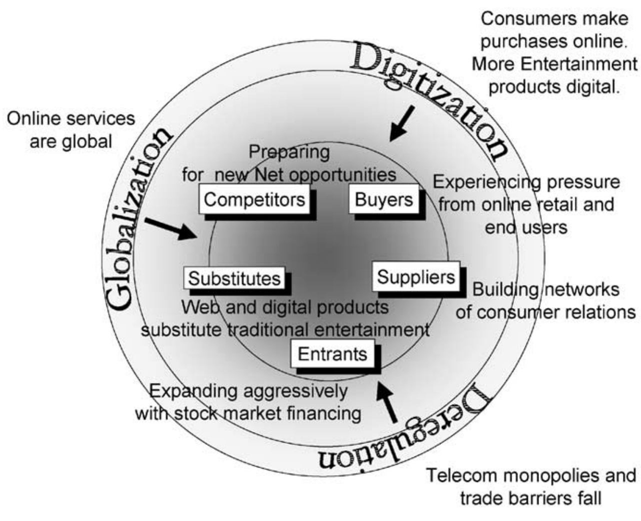

Fig. 1. Competitive forces in the electronic entertainment business (after Negroponte, 1995).