

A Discussion about Industrial Structure Model of Television Channels in China

Yang Ting, Wan Xiao

School of Economics and Management, Beijing Jiaotong University, Beijing, P.R.China, 100044
(E-mail: stephanieyt@163.com, wanx23@sina.com)

Abstract The competition of medias is fiercer. If they want to differentiate themselves from competitors, brand strategy is a good choice. The article uses means of data analysis and logic methods. First it analyzes the TV industry environment based on the “five competitive forces reasoning”. Then it analyzes the limitations of “five competitive forces model”. Finally the author rebuilds a model of industrial structure of Chinese TV channels according to the unique characteristics of Chinese TV channels.

Key words Television channel; Industrial environment; Five competitive forces Model; The Model of industrial structure

1 Introduction

Along with the rapid development of social economy, Chinese TV medias are facing unprecedented opportunities and challenges: the increasing number of channels; the fierce competition; the industrialization and specialization of TV channel has not been settled, the challenge from digital TV; economic globalization and the WTO brings the huge impact of the strength international media. If they want to differentiate themselves from many competitors, brand strategy is a good choice. Michael Porter who is the representative men of the industry organization thinks that industrial structure is the determining factor influencing corporate strategy and performance. Therefore the author expects that it can be helpful to the development of brand strategy of our television through this article that studied on the model of the industrial organization of television channels.

2 The Characteristics of Chinese TV Industry and TV Channels

In 1985, the TV industry was divided into the tertiary industry. Since TV industry is sub-industry of the information industry, it has the basic characteristics of information industry, such as anaclisis, sharing, timeliness, compressibility and so on. However, because of specialties of TV products, TV functions and TV resources, it determines that TV industry and TV channels have some distinctive features different from other information industries.

TV industry is under government’s control. TV channels have wider audience, more coverage, more proactive dissemination of information than other medias. The content is more abundant, the audience is more receptive. So the government stipulated that only certain television operators and TV networks can broadcast. Rules are formulated by the government. So does TV channel’s management. Even in the well-developed western countries, medias are bound by national laws and regulations.

TV industry is capital-intensive industry, labor-intensive industry and knowledge-intensive industry. A successful operation of TV channels couldn’t work without its capital. Labor is expensive input in the media product’s production. The labor force is more important in the media than other industries, especially the knowledge based human resources. TV show is created by a group of high-level expertise. It is creation and reproduction of knowledge. Therefore the major TV companies often want to have the high-level expertise.

It is more convenient that consumers choose products. Audience can browse many channels in a short time. They can just press the remote control to select easily. It is more convenient and free compared with purchasing in the market. Switching cost is nearly zero. Therefore, TV channels should establish a “customer-oriented” or “demand-oriented” business philosophy and try their best to attract customers’ attention and scramble for time resources.

The profit model of TV channels is diverse. Advertising is not the only way. It can also benefit from pay-as-you TV channel, selling the broadcasting right or copyright and interacting with the audience through SMS. Although multiple profit models don’t affect the operating principle, it makes difference in the value chain and the brand.

China TV system including broadcast is one of the latest market-oriented industries in the transformation of market economy. Coupled with Chinese cultural background, economic development

and so on, these factors determine that Chinese TV industry has its own unique distinctive characteristics except the above features.

Government involvement is high. Over the years, the mass media in our country has been the mouthpiece of the party and the government. As a natural monopoly industry, it's under strict management and control of the government. All expenditures are in the budget allocations of the state and all levels of government, there is no operating income. In China, TV stations belong to the state. It isn't allowed to invest TV stations no matter state-owned enterprise or private enterprise. TV station is not only executive organization, but also enterprising organization. After 1999, Chinese TV industry started to reform. Ownership and managerial authority separated gradually. The state's control of main media is macro-control based on respecting the rule of business entity. It uses specification to replace interference, accommodation to replace arrangement. In the end, its evaluating standard is the effect of the market performance. But Chinese social system and cultural environment determine that the eased controls on the TV channels can't be the same level of the western countries. Currently the imperfect market economy and incompleteness of industrial reform make the high government involvement of media.

Industrial development is immature. First, our TV industry is not the result of the law of supply and demand, it is the result of central "4 levels, 4 mixed-cover" policy. Secondly, national capital is the main control of media. What shames the state-owned media operators is that although they dominated the industry, the scale of the industry is very small. And this has brought many problems, including inadequate use of resources; bad manage performance, weak discursive power and transmission force in the international area. The traditional planned economy management system and the old reform ideas slow the process of industrialization.

Industrialization and specialization are inevitable trend. At present, extensive industrialization and collectivize are in progress. Not only profit model, resource integration, implementation issues of separating product and broadcast, but also market positioning, consumption concept, inherent cognitive psychology, channel positioning constrain and influence the development of channel specialization. Although there are difficulties in the developing process, the practice is proving that industrialization and specialization are inevitable trends and reasonable choices.

3 The Analysis of TV Industrial Environment Based on the "Five Forces Model"

Michael·Porter who is the representative of Industrial Organization Technology raised the five forces competitive model in his "competitive strategy" book published in 1980(Figure.1). He believed that industrial fierce competition is not coincidence; the cause is the internal economic structure. An industrial competition exists not only between competitors, but also in suppliers, buyers, potential entrants, substitute producers what are the "extended competitors". The five forces jointly determine the intensity of industry competition and industry profit. Other macro-environmental elements take effect through the industry environment.

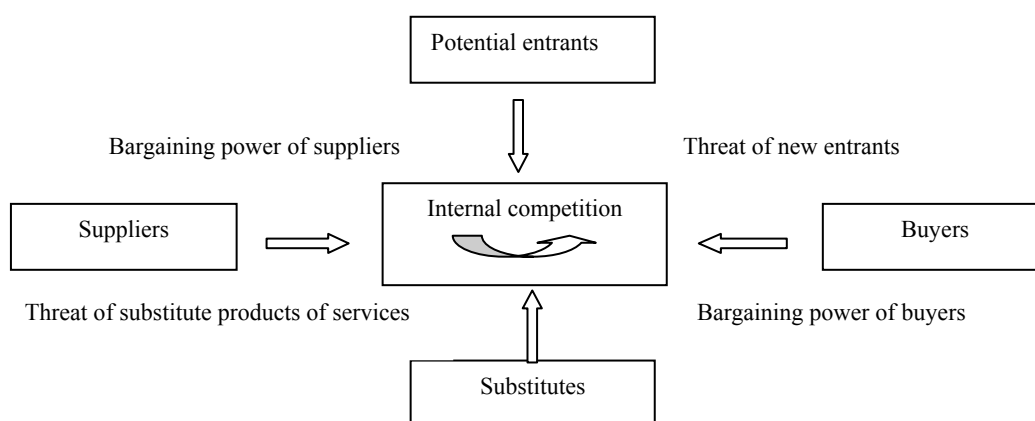


Figure 1 Five Competitive Forces Model

Threat of potential entrants. Potential TV entrants are serious threat to the existing TV media. The degree of barriers to entry has an important effect on profit. In China, TV stations belong to the state as

mouthpiece. Until now, TV stations can only be established by civil service (including the administrative department for education and TV). Foreign and private capitals are not allowed. Government restrictions on access form insurmountable barriers; other government departments, general enterprises and non-public TV channels are blocked outside. This forms the monopoly of channel resources; thereby monopoly profits may be high. But at the same time, policy barriers have led to single capital structure, narrow financing channel. This limits the industry's further development.

Internal competition. Competition between rivals is the most powerful force in the competitive structure. The factors that influence the degree of competition are mainly the number of competitors, industry growth, different products and exit barriers and so on. After 1990s, with the application of satellite communications and the spread of cable TV, TV entered multi-channel era. The scope of market grew rapidly. Until the end of 2006, there were 296 TV stations, 1935 radio stations and 46 education TV stations. By 2008, there are 3287 TV programs. A huge number of competitors will undoubtedly make the competition fierce. At present, TV media shows' innovation ability isn't strong. The program's content is uniform. It generally exists that a change in form but not in content. The homogenization of the program will make competition fierce.

Threat of substitute products or services. More fungible the product is, more intense the competition will be. Today is the information age, a large number of internet-based fourth-generation media and mobile communication-based fifth-generation media emerge and develop rapidly. The number of Chinese internet users exploded in recent years. The first media status of TV has been gradually replaced by the internet. The influence of internet information on social groups is also becoming increasing prominent. Since 2003, the outdoor advertising such as Focus Media has created a huge impact on traditional TV advertising. Many advertisers prefer advertise outdoor. New media forms continue to occur, such as internet TV, IPTV, mobile TV, building TV and so on. The threat of these medias promote traditional TV media to reformulate new effective strategies, take advantages of their advantages in resources, develop new market and find new sources of revenue.

Bargaining power of suppliers. TV media suppliers include the suppliers of all production factors such as programs, technology, information, consult and capital. The price and quality of products supplied by suppliers directly affect the profitability of the buyers. The competition between the suppliers and the TV media are mainly manifested in their bargaining power. TV media that has an excellent content and good influence has strong bargaining power. TV media should do something to improve their bargaining power, such as brand strategy and highlighting differentiation.

Bargaining power of buyers. TV media customers are audience and advertising clients. Competition between media and the buyers find expression in the mutual bargaining power. Buyers' bargaining power is affected by the following factors, the degree of homogeneity of products, the buyers' switching cost, and the share of the scope of purchase and so on. The advertising clients include advertisers and ad agencies. Diverse categories of media make the choice of advertisers increased. If the TV media's audience is valuable for advertisers, TV media will have a strong bargaining power. When media's brand can form differentiation, it can also enhance its competitiveness.

4 The Limitations of "Five Forces Model"

The "five forces model" can help enterprises understand the degree of the basic competitive forces and find out whether the competitive environment is beneficial or not. It guides enterprise to choose and design the strategy, so the enterprise can be immune to competitive forces. But the practice shows that the "five forces model" also has its limitations especially in Chinese national conditions. The demand growth and the government's macro control play a role in forming competition too.

Model is static. Model ignores the important environmental factor and its interaction with other five forces. Porter thinks that environment affects five competitive forces respectively. So he doesn't treat environmental factor as an independent force. But in fact, environment is always changing, and many environmental factors interactive with the existing five competitive forces. Five forces model assumes that in most competitive environments, demands are large enough so that enterprises in the market are profitable. It doesn't pay enough attention to the changes in demand. Five forces model also does not state the government's role in the interaction with the five competitive forces. Enterprise must government as a new force.

Five forces model assumes that strategy maker can understand the whole industry, including all potential entrants and substitute products, but this assumption does not exist in reality. For any enterprise, it is neither possible nor necessary that master the information of the whole industry when

making strategy. Competitor's information cannot obtain, nor inaccurate. Even if available, it past and lose its original value.

Five forces model underestimated that it is possible that enterprise build relationships with suppliers, customers, distributors and joint ventures to eliminate the threat of substitute products. In the real business world, win-win cooperation or strong-weak cooperation sometimes can make more profit. Different companies can form a strategic alliance which may prevent the threat of new entrants or reduce the bargaining power of suppliers. Enterprise can also reform the industrial environment through internal innovation. A successful change of a company must lead to appropriate strategic measures of the competitors. Single five forces model can no longer reflect the competition among enterprises.

5 Build the Model of Industrial Structure of Chinese TV Channels

According to the above limitations, the author rebuilds the model of industrial structure of Chinese TV channels combined with the unique characteristics of Chinese TV industry and TV channels. (Figure.2)

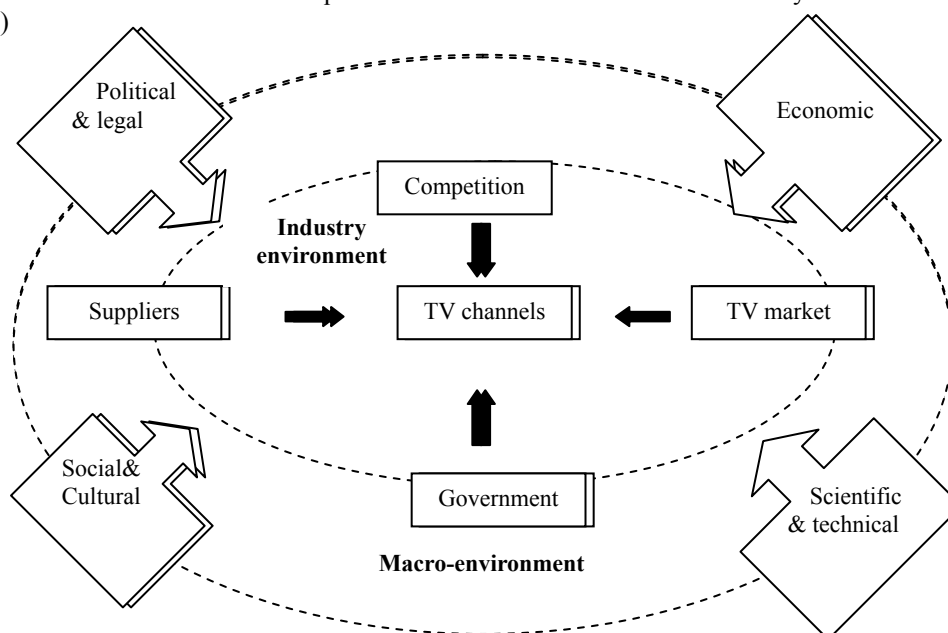


Figure 2 The Model of the Industrial Structure of Chinese TV Channels

The inner race is the industry environment of TV channels, including suppliers, competition, government and TV market. Four forces act on TV channels directly.

Competition. Competition here is generalized competition, including not only the traditional competition between competitors, but also the threat of potential entrants and substitute products or services. The form of media is changing constantly along with the rapid development of science and technology. It brings certain difficulties to the traditional classification of competitors. Take network TV for an example. It is originally the alternative of TV media. But when audiences recognize it as a member of main TV channels, it can be considered as trade competitor. Different types of strategic alliances make the types of competition change dynamically. It is difficult to analyze the competition faced by enterprises in accordance with the original method. Generalized competition is the effective way to analyze competitiveness integrally.

Government. The government here is also generalized government, including not only governments at all levels, but also public administrations which can exercise administrative power of all TV channels. Chinese social system and economic system determine that even if the TV industry completes the industrial reform, the governments still have a very strong constraint on the TV channels.

Suppliers. TV media's suppliers include the suppliers of all production factors such as programs, technology, information, consult and capital. As the demands of audiences increase, the whole industry chain need to work together to satisfy consumers' demand. TV channels should be closer to its suppliers to enhance their competitiveness.

TV market. TV markets mainly include advertising market and audience. TV channels gain profit

by the way of “selling” the audience’s attention to the advertisers. Audience’s demand should be the focus of TV channels’ concern with Chinese increasingly market-oriented channels. They should adjust the strategy to build their own brand and increase efforts to develop audiences.

The outer race is the macro-environment of TV channels, including political and legal environment, social and cultural environment, and economic environment, scientific and technical environment. These factors act on TV channels indirectly through affecting the elements of industry environment.

6 Conclusion

The new model is different from the traditional five forces model. It pays more attention to the relationship between environmental factors, including vertical relationship (macro-environmental effects on industrial environmental factors and industry environmental effects on TV channels) and horizontal relations (effects between macro-environment and effects between industry environments). These complicated relationships enable the external environments of TV channels being a complex system. External analysis’s center is actually the four elements of industry. It explores the direct reaction and the chain reaction of the four elements.

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