

Digital Transformation of Television Companies in Russia

Andrey Vyrkovsky, Daria Vyugina and Elena Vartanova

Keywords

Digital transformation, online strategy, Russian broadcasting, business models, audiovisual media companies

Abstract

Television has been dominating the Russian media system with large audiences and attracting the major advertisers in recent decades. The digital transformation as an inevitable process affects all media companies, advertising market and media regulation. That is why the transformation of the traditional broadcasting is of particular interest of the researchers. The aim of this paper is to understand how the process of digitalization influenced the business strategies of the main television companies in Russia. Based on the eight in-depth interviews conducted with the top managers of the TV companies the authors came to the conclusion that the development of digital strategies is a priority for most television companies, but the processes are very slow and their understanding is still at a low level.

The world is undergoing digital transformation. The essence of the digitalization process is to change the structure of the industry: the flow of money is redistributed, new technologies do not improve existing ones, but create new ones on the ruins of the old.

In Russia, digitalization as a process is being developed and monitored at the legislative level: there is a national project called "Digital Economy", which was started at the end of last year. However, today it is one of the most poorly implemented projects: the cash execution rate was about 7%, as of mid-June, 2019, according to the report of the First Deputy Prime Minister Anton Siluanov. Most companies are in the early stages of digital transformation, 48% of respondents noted its importance, but only 4% have a strategy on how to do this, and 17% do not consider digital transformation a priority in business development at all (Digital Transformation in Russia, 2019). Overall, 91% of Russian companies use an aging business model, and only 4% have a digital transformation strategy, according to the data presented by Ministry of the Economy.

According to a survey conducted by the consulting company Strategy Partners, Russian companies are in no hurry to transform and use the latest technology in their business model: 35% of respondents consider it necessary to create specialized educational programs; 17% - increase the efficiency of public procurement in the field of innovative technologies; another 17% - to reduce trade barriers in the field of international technology.

At the same time, the media industry is always at the forefront of technology development, and the digitalization process is no

exception, therefore this industry is the first one to take steps towards the development of digital strategies. The present state of the Russian media industry is characterized by such trends and processes as commercialization, re-regulation, and digitalization, though all these processes have taken place in the context of national economic and sociopolitical circumstances.

The research attempted to analyze and discuss the nature of economic change in Russian media under the influence of the digital transformation. It continues the foresight research project carried out by the Faculty of Journalism at Lomonosov Moscow State University in 2015-2017. The latter was based on 49 in-depth semi-structured interviews with media managers and experts of the top companies in four segments of the media industry. Although the majority of managers considered the digitalization as the main driver of modern Russian media business, the study has revealed that the Russian media industry in the next ten years is unlikely to fundamentally change. According to the findings the basic business model in the Russia media in the next ten years will remain the advertising-driven model. At the same time the level of customization of media content will rapidly increase. The majority of interviewed experts confirmed that two factors were likely to sustain the significant level of uncertainty in the Russia media business; firstly, new practices of media consumption, especially of the young audiences, and, secondly, the ongoing shifts in media business models.

The present stage of the research has proven that the trends and features highlighted two years ago have been intensified in the new decade. The process of adapting

the economic models of the media companies to the conditions of digital reality is called "digital transformation". "Digital" in this context can be interpreted broadly: as an "alternative to analog", that is, it has moved to the next technological level. "Transformation" as a concept means that the business is in the process of development, change and can undergo changes at all stages: from technology to sales, that is, it affects all stages of the value chain.

According to Howard King, head of analytics at the creative agency Rufus Leonard, there are three key drivers of transformation (King H., 2013): changing technology, changing competition, and changing consumer demand. Changes in the market always occur due to the interaction of these three factors, albeit in different configurations.

Any business is customer-oriented, but leading media companies put the audience at the heart of the changes. They begin by examining the data (the so-called "digital fingerprints" - consumer behavior on the Internet and their preferences) in order to understand which technologies, resources and investments are priorities. Digital transformation puts a person at the center, it shifts focus to the consumer and his role in business.

A business can undergo radical changes and notable restructuring, but only such a phenomenon as transformation is noticeable from the outside, including those it affects, and is triggered by external factors, such as increasing competition or a radical change in the rules on the players' market. The digital transformation is noteworthy in that it leads to real changes in the media business: it begins to develop new business models.

Media experts have long established: digital media manufacturers rely on two business models borrowed from traditional media: advertising and consumer finance - as well as their various combinations, the so-called mixed business model (Vartanova, 2012).

Digital technologies are changing the principles of media work, but also consumer perceptions of how media should work. Due to digitalization, there are many opportunities to profit using the latest business models. But radical changes can be very costly, complex and risky, so perhaps less revolutionary but more valuable opportunities to develop business models using digital technologies come to the fore. And the main role in them is played not by technology, but by the desire to be as valuable as possible for their audience (Bonnet, Westerman, 2015).

According to global media practices, there are two key areas to help media companies digitalize. The first one is an "evolution" of media, developed in close collaboration with a direct audience, and its alternative, according to experts, is global transformation - a risky and very expensive process.

Digitalization processes have opened up a number of opportunities for media companies to monetize the audience, however, the transition from old business models to new ones is fraught with a lot of difficulties. This study is devoted to the study of the main ways of introducing business models in digital space by domestic media companies in Russia.

The object of this study is the process of production and distribution of content by the largest domestic media companies in traditional ways and in digital environment. It is important to understand the

features of the most common (effective) business models used by the largest Russian media companies in the context of digitalization.

This research aims:

1. To identify the most common digital content production models;
2. To identify the most common digital content distribution models;
3. To evaluate the financial efficiency of the production and distribution of digital content for media companies;
4. To evaluate the dynamics and prospects of development of business models in the digital environment in the next 5-10 years;
5. To determine the value of traditional business models for media companies in the digital transition.

Methodology. The main method of the research is an elite interview that has both advantages and limitations (Odendahl, Shaw, 2001). Since top managers are in charge of making strategic decisions and long-term plans they are of particular interest for understanding digital transformation of the companies they represent. As part of the first stage, 8 semi-structured interviews were conducted with the owners and top managers (4 CEOs, Deputy Director, General manager, Head of coordination department and Digital Product Director) in the largest domestic TV companies: one state, one private company and 6 private channels having strong links to private companies associated with the state. All results and citations are presented anonymously.

Findings. The transition to digital television in Russia has been among recent

crucial media developments, because the switch over of the analog transmitters and transferring Russian television viewers to the digital broadcast signal (the digital switchover) finished to in 2019 (Television in Russia, 2020). The study of the transition of television to digital was the first step in the overall study.

During the first stage of the study, intermediate conclusions regarding the development of the television companies were obtained.

Advertising revenue has been decreasing every year. Digitalization became a part of the reality when digital consumption was growing not every year, but every day, and media managers have understood that sooner or later the format of traditional television viewing would be gone forever. A key confirmation of this is the opinion of one of the respondents *"the so-called "total": the audience is simply shrinking at some catastrophic pace"*.

According to the interviews, digitalization has been a concept that everyone used, and all TV companies have officially started digitalization processes within a broader process of the digital switch over. One of the managers of the studied global media holdings argues, *"first of all think about getting to some kind of total digitalization in order to enter the market and produce products, services and so on"*. However, not a single media manager could accurately formulate what digitalization means in relation to television.

The most obvious result of digitalization for the media managers has been the launch of the web sites, as well as the development of the social networks. Television channels announce all the projects that appear on the air online, and after

the premiere, in most cases, publish them in the public domain: *"Everything that we produce for daytime broadcast, for evening prime, almost without exception, is freely available on our TV channel website and in our social networks"*.

In most media companies, the SMM department is responsible for digital products and each SMM department serves and is actually a digital representative of the TV channel on the Internet. However, there are companies in which digital departments work on the development of digital strategies and interaction with the direct target audience of the channel.

Most media managers are convinced that the Internet cannot bring so much profit on the advertising model that might be enough for further development: *"The profit digitalization brings to both the channel and the holding in global as a whole, is even impossible to calculate, because, the bulk of the revenue comes from television advertising. Digital content certainly brings some profit, but "some" is the key word, because so far it is, to put it mildly, insignificant. In the income of the channel it is one thousandth, one ten thousandth"*.

Globally, media companies *diverge in two directions* according to the existing business models, and some believe that the development path would be a subscription model: *"This can be called beautiful words, e.g. paywall and so on. I would rather call it is a lock and a dog house. And I think this should be done as quickly as possible. The content that we have - we just scatter it."* Another media manager underline that they believe in the development of Internet paid TV viewing financed by subscription: *If we talk about specific*

terms, then what I also called is a figure of five years. These media companies plan to switch to the subscription model no earlier than in 5 years. Still, all the media with the subscription are yet only investment projects.

Some other managers believe that the progress of the subscription model in Russia is not yet possible: they do not believe in its financial feasibility: *"Firstly, Russia is a poor country. Nobody earns too much. Secondly, everyone is used to piracy"*. One of the options is to offer users to avoid advertising for a minimal fee, but this fee can only be very low, it is unlikely that this will be the revenue part of the budget of the media companies.

Among our respondents there is one manager of the advanced broadcasting company who said that the channel has been trying to completely change the structure of production. Firstly, by not to using the term "TV channel", as it was replaced by *"a large production studio in which they come up with, develop, adapt and set up and release hit projects"*. This channel, existing both on TV and online, primarily makes money on sponsorship advertising. Though the traditional broadcasting television still earns more in Russia, in this case already 20% of all income is been generated by digital platforms, digital resources and so on. This becomes a relatively high share compared to other television companies. Also, for the management of this company a new key indicator has been considered, and this was an engagement rate, which measured the audience involvement. Within the company's marketing department there has been established a digital section embracing people from the social

media industry and digital marketing. The company also refused to produce PR products in 'paper', and all invitations and press releases exist in digital.

Thus, the first stage of the study showed that the development of digital strategies is a priority for most television companies because the advertising market is decreasing and the state agenda supports this idea.

However, large-scale changes in the Russian media business have not yet occurred. Yet, digital activities of television companies still are based on familiar, conservative and limited measures, thus forcing broadcasting television to remain a key instrument of profit generation. Media companies in Russia are choosing the path of moderate evolution, since radical changes involve too much risk, and broadcasting companies either develop digital strategies for the long run, or wait for the changing conditions in which it would be impossible not to transform.

References:

- Bonnet D., Westerman G. (2015) The Best Digital Business Models Put Evolution Before Revolution. *Harvard Business Review*, 20 January. URL: <https://hbr.org/2015/01/the-best-digital-business-models-put-evolution-before-revolution>
- Digital transformation in Russia: keeping competitive. DT – Global Business Consulting Report – 2019 URL: https://www.bakermckenzie.com/-/media/files/insight/publications/2019/05/digital_transformation_in_russia_keeping_competitive.pdf?la=en
- Digital economy. National project in figures. (2018) URL: <https://cdn.tass.ru/data/files/ru/cifrovaya-ekonomika.pdf>
- Digitalization of the Russian Industries (2019) Report by Strategy Partners URL: <https://ict-online.ru/news/n168088/>
- King H.(2013) What is digital transformation? *The Guardian*, 21 November. URL: <http://www.theguardian.com/media-network/media-network-blog/2013/nov/21/digital-transformation>
- Ondendahl, T, Shaw, AM (2001) Interviewing elites. In: Gubrium, JF, Holstein, JA (eds) *Handbook of Interview Research: Context and Methodology*. Thousand Oaks, CA: SAGE, pp. 299–316
- Picard R. (2011) Mapping digital media: digitalization and media business models. *Open Society Foundations*. URL: <https://www.opensocietyfoundations.org/sites/default/files/digitization-media-business-models-20110721.pdf>
- Televideniye v Rossiji v 2019 godu: Sostojanije, tendentsiji i perspektivy razvitiya (in Russian: Television in Russia in 2019. Status, trends and development prospect. (2020). Industry report. Lomonosov Moscow State University, Federal Agency on Press and Mass Communications of the Russian Federation.
- Vartanova, E. (2012). The Russian media model in the context of post-soviet dynamics In: Hallin, D. and Mancini, P. eds. *Comparing Media Systems Beyond the Western World*. Cambridge: Cambridge University Press.
- Vyrkovsky A., Vartanova E, Smirnov S., Makeenko M. (2016) The Russian media industry in ten years: Industrial forecasts // *Westminster Papers in Communication and Culture*. — Vol. 11, no. 1. — P. 65–84.

About the Author

Elena Vartanova

(Lomonosov Moscow State University, Russia)
eva@smi.msu.ru

Elena Vartanova, PhD, Full Professor, Dean and Chair in Media Theory and Media Economics at the Faculty of Journalism. Elena is a Corresponding Member of the Russian Academy of Education since 2016 and Member of the Presidential Council on the Russian Language. Board member of the Higher Attestation Commission. President of the Russian National Association of Media Researchers that aims at discussing significant transformations of media under the influence of digitalization, media convergence, mediatization of the society. Her research focuses on Russian and foreign media systems, media economics, digital transformation, digital divide, journalism and media studies in Russia in a global context.

ORCID: [0000-0002-7716-4383](https://orcid.org/0000-0002-7716-4383)

Andrey Vyrkovsky

(Lomonosov Moscow State University, Russia)
a.vyrkovsky@gmail.com

Andrey Vyrkovsky, PhD, Associate Professor of media theory and economics, Faculty of journalism. He is teaching business journalism and media management. He has authored several books, including "Редакционный менеджмент в печатных и онлайн-массмедиа: процессный подход" ("Editorial management in print and online media: A process approach", MediaMir, 2016). His fields of interest are newsroom management, digital transformations, social media development. Executive secretary of Vestnik Moskovskogo Universiteta. Zhurnalistika (Lomonosov Moscow University Bulletin. Journalism).

ORCID: [0000-0002-2798-7592](https://orcid.org/0000-0002-2798-7592)

Daria Vyugina

(Lomonosov Moscow State University, Russia)
vyugina.msu@mail.ru

Daria Vyugina, PhD, is a Lecturer and Researcher at the Chair of Media Theory and Economics, Faculty of Journalism. Graduated from Lomonosov Moscow State University in 2013, studied at Humboldt Universität, MA Medienstudien Programme in 2014-2015. Her academic interests include generation Z in Russia, digital economy, media sociology, media consumption, the interdependence of modern media and cultural practices.

ORCID: [0000-0002-2227-6804](https://orcid.org/0000-0002-2227-6804)