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HYBRID BUSINESS MODELS VIABILITY IN RESPONSE TO DIGITAL DISRUPTIVE INNOVATION: THE CASE OF OVER-THE-TOP MEDIA DISTRIBUTION AND PROFESSIONAL SPORTS¹

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**HYBRID BUSINESS MODELS VIABILITY IN RESPONSE TO DIGITAL
DISRUPTIVE INNOVATION: THE CASE OF OVER-THE-TOP MEDIA
DISTRIBUTION AND PROFESSIONAL SPORTS**

**Master Thesis by Oscar Ugaz
Supervised by Prof. Dr Juan Carlos Salazar.**

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Abstract: Recent efforts have been made to enhance the prescriptive nature of disruptive innovation theory for the benefit of practitioners and the theory's applicability. As part of these efforts, it was suggested that scholarly attention be paid to response strategies. In light of this, we discuss the demand-based viability of hybrid business models (BMs) as responses, particularly the BM transformation strategy. We examine this possibility by addressing the nature and performance of Over-the-Top (OTT) media distribution and how it integrates with legacy models to produce a seamless substitution process. We illustrate this by describing how professional sports properties with diverse organisational structures and business philosophies attempt to implement this media strategy. We observed that while digitalisation enabled concepts and frameworks related to value sensing, creation, delivery, and appropriation that enhance the viability of a hybrid business model approach, it also generated other demand dynamics related to unbundling, personalisation, and highly flexible consumption patterns. These notions and frameworks proliferate like anomalies that accentuate traditional consumer behaviours and cast doubt on the economic viability of the hybrid approximation. These observations permit us to propose the incorporation of these digitally enabled dynamics as new constructs and categories that supplement those previously identified and are related to the demand-based perspective of disruptive innovation and how it interacts with potential response strategies. In this sense, this procedure is an additional potential refinement step for the theory and its predictive capacity concerning novel and unexpected digital outcomes.

Keywords: disruptive innovation, hybrid business models, digitalization, long-tail, over-the-top (OTT) platforms, digital media, professional sports.

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1. Introduction

Despite criticism from more pure strategic approximations (Porter 1980; Porter 1985; Thornhill et al., 2021), hybrid responses to disruptive innovation (Christensen & Bower, 1996; Christensen, 1997) have benefited from theoretical and empirical inquiries on firms' ambidextrous capacities to create, deliver, and capture value by operating concurrently on the exploitation of the incumbent business and exploring new innovative opportunities (Markides 2013). In addition, the technological advancements of the last thirty years and the proliferation of new paradigms in digitalization and digital economy (Gupta, 2018; Iansiti & Lakhani, 2020) have improved the integrating mechanisms that make these dual strategies feasible (Barenfanger & Otto, 2015; Keen & Williams, 2013; Li, 2020).

These more complicated and paradoxical approaches stray from the structural separation of exploitation and exploration inside businesses and have materialized as hybrid business models (BMs) and, more recently, the concept of BM transformation. The latter proposes an ambidextrous balance between stabilizing the incumbent BM and its market while simultaneously shaping new opportunities regarding value propositions and demand conditions (Carlborg et al., 2021). In this sense, BM transformation presents itself as a more seamless and sensible response to disruptive innovation.

Aside from this theoretical evolution, we must not ignore the connection between demand and disruptive innovation and its influence on the viability of potential responses. The demand side structure and its perceptions of quality, utility, and willingness to pay (Adner & Zemsky, 2006; Adner & Snow, 2010) interact with the supply side approach notions of value proposition, distribution and capture (e.g., a digital-enabled hybrid BM strategy) making it viable or not (Christensen, 1993; Christensen & Bower, 1996; Adner & Zemsky, 2006). However, the demand side structure and its perceptions are not immutable: the same digital technological progress that enhances the supply side also generates a new set of needs, conditions and consumption patterns that change the structure of demand and the perception of value, quality and the consumers' willingness to pay. Following the increasing interest in improving the prescriptive character of disruptive innovation theory, it is appropriate to evaluate the viability of digitally enhanced hybrid responses (Bazerman, 2005; Christensen et al., 2018) such as BM transformation, considering the demand conditions created by those same digitalization advancements.

This digitally enhanced symbiotic interaction of supply and demand has been more prevalent in the case of intangible products and services, which are more susceptible to digitalization in terms of their creation, distribution, and consumption. An illustrative example is the entertainment industry which commercializes content and intellectual property (Ansari et al., 2016; Benton, 2014) and is susceptible to new demand patterns of digital consumption based on personalization and the unbundling of traditional media offers (Elberse, 2013; Dawson et al., 2016). The objective of such firms is to respond in a way that allows for a seamless transition between incumbent and new media distribution paradigms to minimize potential negative consequences in their revenues or even the continuity of the firm itself.

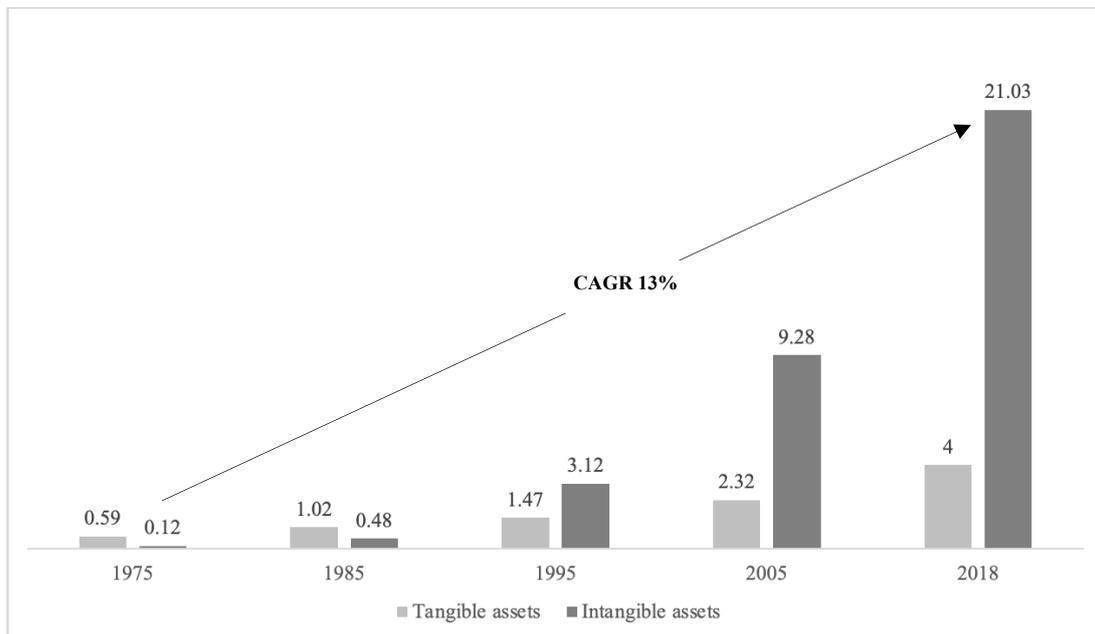
Taking into account the growing importance of the intangible sector¹ (Figure 1) and the possibility of extrapolating their practices to other industries susceptible to experiencing pervasive digitalization processes (Lampel & Germain, 2016), we consider that a discussion regarding the viability of response strategies related to this specific sector would be pertinent. Consequently, we propose the following hypothesis:

A hybrid response strategy such as BM transformation will be untenable in the context of disruptive digital innovation in the intangible sector due to digitally induced demand dynamics

In order to confirm or reject such a proposition, we will focus on the specific case of Over the Top (OTT) media distribution and its role as a component of the hybrid distribution strategy of professional sports leagues both in the United States and Europe as major producers and distributors of content. We understand OTT as a media service offered directly to consumers via digital distribution (internet), bypassing traditional content distributors like linear broadcasters, satellite television or cable companies. This service is also associated with flexible subscriptions and payment models that grant time-bound access to an audiovisual content catalogue or the permanent acquisition of a particular piece of content without the need to acquire a bundle of associated items.

¹ In 1975, the five biggest companies were: IBM, Exxon Mobil, Procter & Gamble, GE and 3M. In 1985, the five biggest companies were: IBM, Exxon Mobil, GE, Schlumberger and Chevron. In 1995, the five biggest companies were: GE, Exxon Mobil, Coca-Cola, Attria and Walmart. In 2005, the five biggest companies were: GE, Exxon Mobil, Microsoft, Citigroup and Walmart. In 2018, the five biggest companies were: apple, Alphabet, Microsoft, Amazon and Facebook (Statista, n.d. 1)

Figure 1. Value of the tangible and intangible assets of the five biggest companies on the S&P 500 worldwide from 1975 to 2018



Source: Raconteur, Brand Finance, Ponemon Institute. Via (Statista, n.d. 1)

The present document is structured as follows. Section 2 provides background for the justification of response strategies in the face of disruptive innovation, their ambidextrous and hybrid characteristics, their evolution toward a BM transformation approach, and the impact of digitally enabled demand on them. Section 3 will present the methodological approach based on a case study of OTT distribution and its application as a hybrid solution in the professional sports industry. This study will be conducted through a literature review of the case elements, secondary research, and practitioner interviews. Section 4 will showcase and analyze the case study. Section 5 will further discuss the case against the reviewed background. Section 6 describes the theoretical contribution of the discussion, its limitations, and future research possibilities. Section 7 lists the references used.

2. Background.

2.1. Initial responses to disruptive innovation.

The theory of disruptive innovation originates from a particular management phenomenon: the inability of established and apparently well-managed firms to maintain their position in their respective markets in the face of change that was initially thought to be technological.

(Henderson & Clark, 1990; Henderson, 1993). Early research on the reasons for these failures includes the dependence on external resources and the idea that strategic responses are strongly influenced by demand in the form of customers that assign different values to different performance trajectories (Christensen, 1993; Christensen and Bower, 1996).

These early explanations inform the initial responses to disruptive innovation. Firms confronted with this situation are recommended to implement business structures separate from the incumbent one and dedicate the former to exclusively working with the segments, dynamics, returns and margins posed by the disruption (Tushman & O'Reilly, 1996). The separation into autonomous units originates from the argumentation that firms can gain an advantage in new markets and new value chains generated by radical technologic change if these separate units can exploit flexible, independent, and entrepreneurial approaches (Utterback, 1994).

Structural separation is also rooted in the initial propositions of corporate ambidexterity: the existence of incompatible corporate objectives and activities prone to generate tensions due to competing acts (Simsek et al., 2009). In the case of disruptive innovation, these tensions result from the incompatibility of activities associated with innovation, such as exploration, search, variation, risk-taking, experimentation, flexibility, and discovery, and those associated with the exploitation of incumbent businesses, such as refinement, selection, production, efficiency, implementation, and execution (March, 1991).

2.2. Disruptive theory evolves: hybrids as a response to disruption.

The increasing importance of disruptive innovation around BMs, their particularisms and their more dynamic nature raised concerns about structural separation as the only possible response and grew the interest in other options (Markides, 2006). This situation coincides with criticism of structural separation from ambidexterity theory which points out that firms following this option can limit their capacity to exploit any potential synergies between separate structures (Markides, 2013). As a result, the concept of ambidexterity evolved from a structural separation approach to a contextual one that accepts the paradox of operating both exploration and exploitation inside the same organizational unit or to a temporal one that suggests that organizations alternate between periods of exploitation and exploration (Tushman & O'Reilly,

1996). This evolution towards a hybrid approach was possible not because the tensions between activities were eliminated but because behavioural capacities and strategic integrating mechanisms between BMs allow individuals to allocate time between them (Markides 2013).

The hybrid approach has not been oblivious to theoretical criticism. Early approximations to dual strategies considered “pure” ones (prone to structural separation) as superior in opposition to becoming “stuck in the middle” between cost and differentiation (Porter, 1980). As a result, hybrid efforts (like hybrid BMs) try different means to generate competitive advantage without achieving none because they demand inconsistent actions (Porter, 1985, p 17). Other reasons to present hybrids as an inferior strategic approach are their vulnerability to attacks from competitors with purer strategies, or the organizational complexity they generate in resource allocation and subsequent confusion and loss of direction (Thornhill, 2021). However, research also found that hybrid BMs can be favourable when a differentiated strategy can expand market share while capturing economies of scale and scope. The results of such approaches were firm-specific and determined by the market and demand dynamics around them (Shinkle et al., 2013; Thornhill, 2021).

This process of theory refinement around strategic responses and the importance of context also informed the evolution of the BM concept related to disruptive innovation. An initial “static” perspective presents BMs as a blueprint of a particular firm prone to “purer” structural separation (Mason and Spring, 2011; Demil and Lecocq, 2019). The evolving definition of BMs presents them as more dynamic concepts prone to contextual and temporal solutions influenced by the flows of value creation, delivery and capture inherent to the market and demand dynamic in which the firm operates (Carlborg et al., 2021).

2.3. Business model transformation as a hybrid: search for equilibrium.

The ambidextrous nature of hybrid BMs and their potential as a dynamic response strategy to disruptive innovation have raised a concept refinement that goes from BM innovation to BM transformation (Carlborg et al., 2021). BM innovation is related to discovering a fundamentally different BM within an incumbent situation (Markides, 2006), while BM transformation is related to the gradual change in how the corporate value creation logic morphs from one time to another (Aspara et al., 2013). The gradual approach of BM transformation operates as an ambidexterity balance that tries to stabilize the relation between the existing demand structure

of the firm and the value creation process while simultaneously trying to shape new possible configurations for those same structures.

BM transformation usually departs from an incumbent and still profitable BM that operates under an existing market logic endangered by changes in that same market dynamics. The stabilization component of the hybrid approach will try to maintain the market status quo and its internal relations by introducing efforts to reduce the pace of disruptive change. Conversely, the shaping component acknowledges the apparition of new market structures and logic due to technological or value proposition changes that modify how value is perceived. In this case, a new BM is proposed to work over these new market features and take advantage of them.

The option of BM transformation as an equilibrate transitional response strategy away from the categorical and dramatic outcomes of disruption presented itself as a sound alternative (Carlborg et al., 2021). Its well-anchored foundations on ambidexterity theory, its focus on market dynamics and value generation and its efforts to equilibrate a gradual approach around a broader middle ground configured it as a more addressable and settling response (Thornhill 2021).

At this point, we can observe continuous evolution in research and theory regarding the nature and development of response strategies and their relation to demand dynamics. However, while there has been much emphasis on the interaction of markets with BM innovation and hybrid responses (Chesbrough & Rosenbloom, 2002; Teece, 2010; Altman & Tripsas, 2015), there are theoretical limitations regarding how new digital technologies influence demand dynamics and how they can help or hinder strategic responses (Foss & Saebi, 2017). This gap takes the attention of our discussion to the components of demand from the perspective of BM transformation as it reaches for sustainable competitive advantage (Adner & Zemsky, 2006) and how digitalisation has affected it.

2.4. Business model transformation from a demand-based perspective

Demand side approaches, like Adner & Zemsky's (2006) model around value creation and sustainable competitive advantage, enriched the discussion about how demand drives the process of disruptive innovation and have been used to explain response strategies (Priem et al. 2011; Christensen et al., 2018). In the particular case of BM transformation, the process of

substitution from one value position to another can be useful to inform the viability of such an hybrid response.

In its original form, Adner & Zemky's (2006) model describes a duopoly of firms with different technologies or resources offered at different cost points that improve their performance and abilities to generate added value and sustain competitive advantage². The model is complemented by two additional elements related to added value: (i) the decreasing marginal utility that consumers experiment when presented with performance improvements and (ii) the consumer heterogeneity expressed in discrete market segments with variations in their taste for quality. Market supply interacts with consumer heterogeneity and marginal utility, creating a subsequent willingness to pay that has implications for added value creation and the sustainability of competitive advantage. (Adner & Snow, 2010)³.

While the original model addresses the interplay of demand factors for more than one firm, the same elements and dynamics can be applied to the viability of a hybrid response strategy inside the same organization (Adner & Snow, 2010). In this sense, the scope of the analysis raises a set of questions initially posed by Adner & Zemsky (2006) for an inter-firm scenario but adapted to an intra-firm one: (i) what is the impact of innovation and external resource conditions (market/demand) on the firm's strategy, (ii) how a firm can put in place a dual strategy to respond to them (i.e. a hybrid BM transformation approach), and (iii) if the market and demand will support or inhibit that type of response.

The original demand perspective model and its revision suggest that the capacity of a new value proposition to substitute an incumbent one via, for example, a BM transformation strategy, depends on the value propositions' trajectories, the costs positions of both the incumbent and new proposition and the decreasing marginal utility experimented by the costumers. However, while these constructs can describe the timing and temporality nature (permanent or temporary)

² While the original model referred to innovation in terms of technology and resources, the concept has been expanded to include value propositions and the firm's strategy (including BMs).

³ A clarifying example is related to the technological trajectory of computer microprocessors and their capacity to double processing power every two years (in line with Moore's Law). Data shows that while Intel led this process, it finds difficult to ask for a price premium that attracts enough customers even in its traditional market segments. A look into the demand structure shows an increasing consumer heterogeneity in terms of performance demand. On the one hand, a high-end segment was willing to pay for premium performance (e.g. an Intel Pentium processor). On the other, a lower end of the market for whom the performance offer has "overshot" their needs experimented a decreasing marginal utility for these performance improvements (e.g. a lower price product like an Intel Celeron processor resulted powerful enough) Adner & Zemsky's (2006).

of a new value proposition substitution and inform the evolution of a BM transformation process, they cannot explain the viability of such a strategy. As is pointed out by Adner & Zemsky's (2006) model, customer heterogeneity is needed in the form of at least two discrete segments with a diverse taste for quality and sizeable enough in economic terms., Both heterogeneous market segments must generate enough added value to cover the resource costs of their strategy. This implies that the customer heterogeneity required to support strategic diversity will entail not only distinct but also sizeable enough segments and willingness to pay in each case.

2.5. The effects of digitalization on the demand-based perspective

Digitalization has enhanced the value-generating notions related to BMs, starting from the supply side. Studies around the strategic effects of digitalization (Ghezzi et al., 2015; Li, 2020) identify these notions as:

- (i) *Value sensing*, meaning the process of identifying new market segments, their needs/interests and perceived added value.
- (ii) *Value creation* refers to the characteristics that enable value propositions like resources, supply chains, and production procedures.
- (iii) *Value delivery* implies distribution channels, partnerships and customer relationships that allow the product to be accessed by the market segments.
- (iv) *Value appropriation* refers to aspects like pricing and revenue generation that enable the capture of profit and its redistribution.

Digitalization also enables new frameworks in which these notions can operate (Bärenfänger & Otto, 2015; Keen & Williams, 2013). Li (2020) proposed an interlocked framework composed of three specific features. First, there is the capacity to create *new value propositions* around digital products and services oriented to different markets via differentiated and innovative revenue models. Second, digitalization allows the implementation of a *value architecture* capable of deploying complementary distribution possibilities, new ways to sense customers' needs and consumption patterns and producing original embodiments of products and services. Finally, digitalization enables a *functional architecture* around data and real-time integrated management solutions that optimize the operation of the value architecture and the new value propositions. The elements of this digitally enhanced framework provide a new

integrating mechanism between BMs (Markides, 2013), enabling hybrid strategies and eventual BM transformation options (Li, 2020).

As in the case of other evolving technological trajectories, the digitalization of supply has impacted the demand perception of value, decreasing marginal utility and willingness to pay. Two effects relevant to our discussion are the dynamics of unbundling and personalization (Dawson et al., 2016; Li, 2020). As the technology evolved, legacy “bundle” value propositions “overshoots” the demand for functionalities, making the market receive more than it can consume and consider relevant or valuable (Christensen & Bower, 1996; Christensen, 1997). This situation reduces the consumers’ marginal utility and their willingness to pay. As the “overshoot” effect occurs, innovative entrants at the low end of the market get motivated to improve their performance to be able to offer a “good enough” but also more convenient value proposition around new or overlook dimensions able to offer a higher marginal utility (Christensen & Bower, 1996; Adner and Zemsky, 2006). These new value positions tend to unbundle the original and prioritize those elements and dimensions capable of satisfying specific customer needs.

Digital-enabled value and functional architectures have also reduced the costs of identification and relationship management of different types of customers, reducing the cost of selling personalized goods and services to increase retention and expense (*value sensing* and *value capture*). In that sense, digital platforms are built to identify consumption patterns and adapt the offer accordingly via personalized products and services, pricing and advertising (*value delivery* and *distribution*).

Finally, digitalization has also reduced costs related to creating and producing products and services. For example, advances in digital production and distribution of content have reduced the cost of these activities, opening the creative industries to a significant number of amateur players willing to offer an increasing supply of content able to pursue diverse niche tastes and not only mainstream ones (Anderson, 2006; Elberse, 2013). The expansive variety of supply combined with the effects of digitalization on *value sensing*, *capture*, *delivery* and *distribution* has shaped a demand that expected an unbundled supply capable of responding to a personalized consumption of products and services and the willingness to pay different prices according to this personalization (Dawson et al., 2016; Li, 2020).

3. Research justification and methodology

We selected OTT media distribution and its application in the professional sports sector as a revelatory case that reproduces aspects of our hypothesis and allows us to observe relevant relationships between the concepts we seek to analyze and that are exposed in our background exploration (Eisenhardt & Graebner, 2007). Moreover, the evolution and current situation of the sector offers an extreme example of the elements, logic, and dynamics we seek to explore (Yin, 2003).

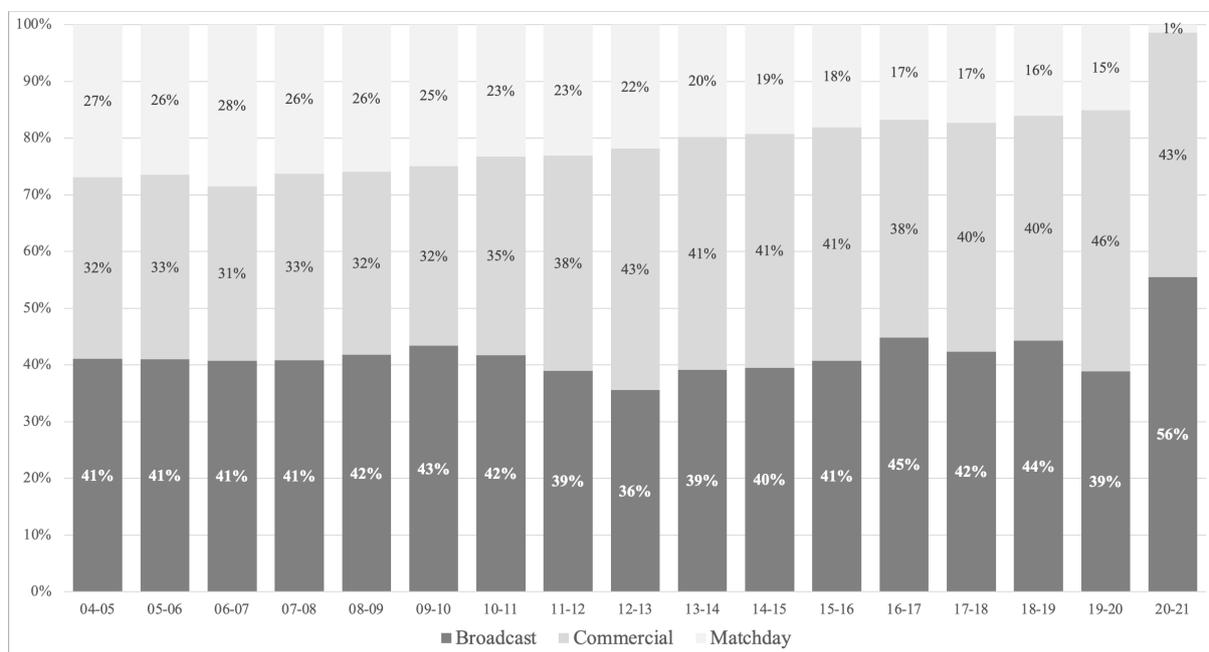
The trajectory of media distribution technology in terms of digitalization (Teece, 2010; Sebastian et al., 2017) appears to modify the supply of the sector in terms of new ways to deliver content away from traditional value propositions referring in most cases to the unbundling of the media offer (e.g. an increasing number of OTT platforms offering flexible subscription packages and pay per view options over extensive catalogues of content.) This new value proposition affects the demand side structure and consumption patterns in the form of consumer segments that perceive increasing marginal utility in the personalization of their media consumption away from traditional media distribution offers (Elberse, 2013; Dawson et al., 2016). This evolution poses potential negative consequences to legacy media distribution strategies as the ones of the professional sports sector (a disruptive innovation scenario)

Considering these disruptive conditions, several media firms execute a series of hybrid strategies based on keeping the exploitation of the legacy distribution of rights while simultaneously negotiating with new digital distributors (e.g. third-party OTTs) and developing their own direct-to-consumer platforms to explore new distribution options. Under the perspective of a BM transformation strategy, we can perceive the first action as an effort to stabilize the legacy market and the other two as oriented to shape a new one. The same perspective can describe the intention of these firms to avoid potential adverse effects on the ongoing basis of the business, especially in terms of revenue streams and value generation.

This disruptive situation and its potential responses are especially relevant for the professional sports sector, which exploits a legacy media distribution model (based on ad-supported

broadcasting media and subscription cable packages) that generates sizable revenues⁴ and has proven resilient to adverse economic scenarios. This model operates over a specific value proposition regarding content bundling, specific price points and promotions, and in response to specific market segments (sports fans) that obtain a marginal utility from the content offered. In the context of our research, we are interested in broadcasting rights in the European football sector, representing an average of 42% of the total revenues of the major teams (Figure 2).

Figure 2: Top 20 European Football Teams.
Revenues distribution (in percentages)
Seasons 2004-05 to 2020-21



Source: Deloitte's Football Money League annual reports (2006 to 2022). Own analysis.

While digitally enhanced media distribution options seem to put professional sports at risk of potential disruption, the response in the form of hybrid distribution strategies seems to differ significantly between American and European practitioners. The diverse structure, characteristics and business approximations of these two markets will be possible explanations for the divergent evolution and performance of their hybrid media distribution strategies and will provide some insight to verify our hypothesis. The comparative cases of the National

⁴ In 2019, the broadcast rights revenues of the world's major sports leagues in billions of US dollars were National Football League NFL - USA. (4.52), English Premier League - UK (3.83), National Basketball Association (NBA)- USA. (3.12). La Liga - Spain (2.27), Major League of Baseball MLB - USA (1.65), Bundesliga - Germany (1.57), Seria A- Italy (1.51), Ligue 1 - France (1.37), National Hockey League NHL - USA. (0.22), Major League Soccer MLS - USA (0.11). Source: (Statista, n.d.2).

Basketball Association (NBA) and the Spanish National Professional Football League (La Liga)⁵ hybrid media distribution strategies will help to illustrate these differences.

From a methodological point of view, three considerations (Yin, 2003) lead us to opt for the case method. First, case studies are appropriate for analyzing a phenomenon without a delimited boundary between the object of study and its environment. The market, clients, corporate clients, suppliers and users in the media and professional sports sectors show profound dynamic interdependences by nature. Second, as researchers, we have little control over the events around the case object as they occur in real life. Third, those who intervene as actors in these events and their behaviour cannot be manipulated. Under these considerations, we are interested in taking advantage of the different case analysis levels to understand the dynamics related to our object of study (Eisenhardt, 1989).

The selection of sources exploits the opportunity to access and explore the object of study by taking advantage of a unique access situation (Eisenhardt & Graebner, 2007). The author of this thesis has held an executive position in one of the most important clubs of La Liga and has access to executives in that and other professional sports organizations in Europe and America, as well as academics and executives interested in this particular sector and its dynamics. The sources are:

- (i) A literary review of secondary information and data on the media industry, legacy and OTT media distribution and the professional sports sector in America and Europe.
- (ii) Six interviews with the following subjects: (i) Head of Content and Programming at La Liga, (ii) Head of Digital Content at FIFA, (iii) former Director of Media and International Business Development at Real Madrid C.F., (iv) former Chief Strategy and Innovation Officer at FC Barcelona, (v) former Sports Director at Spanish Radio and Television Corporation (RTVE) and (vi) former Head of Digital and Content Marketing at Euroleague Basketball. The interviews cover two main aspects: First, the current situation of the legacy and new media distribution options both in general and concerning the professional sports sector in Europe and, in particular, the case of

⁵ The National Basketball Association is the North American professional basketball league consisting of 30 teams (29 from the United States and 1 from Canada) organized around an Eastern and a Western Conference. The Spanish National Professional Football League is a sports association responsible for administering the two professional football leagues in Spain: First Division (20 teams) and Second Division Segunda División (22 teams).

football and La Liga. Second, the response strategies executed by La Liga and its American counterparts, their differences and the possibilities of success in both cases. The inputs from these interviews complemented and clarified the information and results obtained from the secondary sources.

Through this research process, we expect to identify potentially overlooked dynamics surrounding disruptive changes in media distribution that will affect the eventual success or failure of hybrid responses. In that sense, the results seek to expand the disruptive innovation theory's prescriptive capacity, specifically regarding the adoption of such hybrid responses.

4. Case exposition

4.1. OTT as a digital business model.

We are interested in identifying how OTT services get structured around digital-enabled BM. Following more recent approximations to digitally enhanced notions of value and BM frameworks (Li, 2020), we can determine that OTT services offer a distinctly new *value proposition* (more flexible and convenient digital content consumption). This new proposition is distributed via a *value architecture* that uses internet-connected devices, data, analytics, and connections with third parties to deliver the content and capture profit. In parallel, a *functional architecture* that operates like a centralized backbone optimizes the whole process (Sebastian et al., 2017). From this perspective, we can describe OTT value notions as follows:

- (i) *Value sensing*: is the technical and procedures capacity to register and process data about how users consume content and identify patterns that inform the creation or acquisition of new content or the modification of the user experience. The final objective is to increase customer retention and expense (Fernandez Manzano et al., 2016).
- (ii) *Value creation* is the capacity to deploy and manage digital delivery platforms that enable personalized distribution of audiovisual content allowing flexibility in consumption (access, consume and pay following the individual preferences of consumers) and in device use (the same content can be consumed in different devices without disruption and with a similar user experience).

- (iii) *Value delivery* is the technical and operational capacity to deliver personalized streams of content and services using a proprietary distribution platform (e.g. device agnostic apps) or by integrating the content and service in third parties' distribution platforms.⁶
- (iv) *Value appropriation* refers to the flexibility in payment options without a long-term commitment to access the content (monthly or yearly pay-per-view options), the capacity to increase retention and ARPU and improve the predictions around them, or the capacity to track purchases and consumption in third-party/partners distribution platforms to implemented revenue sharing reports and payments.

These characteristics allow OTTs to reveal hybrid features on digitally enhanced BMs (Li 2020).

We can consider OTT services as a multisided BM portfolio in which it can operate under a business-to-consumer relation serving final clients and a business-to-business one in which it can syndicate its service to third parties creating an ecosystem/value network (see example detailed in footnote 6).

4.2. OTT from a demand-based perspective

As a new value proposition, OTT can be understood from a demand-based perspective (Adner & Zemsky, 2006). Under this approach, the traditional and incumbent distribution of broadcast TV and the relatively new OTT value proposition can be considered as value propositions operating as a duopoly of different technologies that deliver media content to consumers. Each type of technology has deployed its own trajectory at different speed rates.

Together with their particular trajectories, both technologies originate a set of BMs oriented to capture and sustain added value. In the case of TV, while there are funding models based on public licensing as a citizen tax and government support (e.g. BBC in the United Kingdom), the primary source of revenues has concentrated in an advertising model (Peitz & Valletti, 2008) or a subscription-based one like cable TV.

⁶ OTT services like Netflix, Amazon Prime or HBOMax can be seamlessly included in the media offerings of telecommunication companies selling an integrated service package (internet connection + fixed telephone lines + mobile telephone lines + mobile internet connection + access to TV, VoD and OTT services). The OTT platform and the telecommunication company can operate under a revenue share deal, or the latter acquire the OTT subscriptions and use them as a market claim for a bundle sale of their services.

In terms of consumer utility, the audience of an ad-supported service gets content for free in terms of monetary exchange but is subject to consuming that content integrated with advertising slots. This value proposition will tend to produce a diminishing marginal utility when the consumer is exposed to higher volumes of advertising and when different segments of the audience do not find content that is relevant to their tastes and must conform themselves with a supply designed around mass appealing content (Wilbur, 2008). In the case of subscription-based services like cable, the supply consists of an extensive catalogue of channels under a relatively expensive fixed contract. However, while consumers pay for hundreds of channels, consumption tends to be around only a few (Crawford, 2015). Both types of BMs value positions suggest an “overshooting” situation in which the content supply generates a decreasing marginal utility around each new piece of content consumed because of how it is funded and bundled for distribution.

In comparison, the digital nature of OTT technology can deliver an unbundle and personalized supply of content (Dawson et al. 2016; Elberse, 2013) without implying a steep increase in marginal costs in terms of consumption analysis, adaptation, distribution, search, and transaction. Moreover, while legacy content distribution is commercialized via fixed contracts, complex subscription processes and penalties in the case of early opt-out, OTT operates under flexible, unconditional subscription models that provide users with direct access to a content catalogue for specific time periods. The packages can be acquired via seamless payment and account management procedures (executed online via a domestic internet connection and user-friendly interfaces) that offer the capacity to opt-out of the service without economic penalties.

From this comparative perspective, it appears unequivocal that the features of digital OTT technologies generate a “typical” demand-based substitution process (Adner & Zemsky, 2006) in which the new technology/value proposition substitutes the older one based on the value component of their BM and its relationship with the demand in terms of the marginal utility related to personalization, unbundling and flexibility. In that sense, the increasing penetration of digital distribution (e.g. broadband internet networks via physical and satellite infrastructure) has eroded traditional broadcasting markets. One clear example is the increasing number of subscribers lost as a percentage of the subscriber base related to legacy media services in advanced markets like the US (from 0.1.% in 2014 to 5.9% in 2020) (Statista, n.d.

3) and the increasing phenomenon of “cord cutting”.⁷ (Banerjee et al., 2014; Emarketer, 2020; Pressman, 2020).

Media companies have responded to the “overshooting” of original value propositions and disruptive innovation processes fueled by new distribution options and patterns of consumption by populating the industry with hybrid strategies that try to execute a seamless transit from an incumbent content distribution model to a new one. This situation has increased the sector’s complexity in distribution strategies, none of them dominant⁸ (Abreu et al., 2017; Park & Kwon, 2019) and raised interest in the nature and strategic position of these approaches and how they can generate enough business traction.

While a digitally enabled interpretation of the demand-based model applied to media distribution can predict potential substitution (e.g. “cord cutting”), it will not necessarily predict the viability of an OTT hybrid response strategy. Under Adner and Zemky’s (2006) perspective, this viability will require at least two market segments regarding quality tastes and willingness to pay. In the case of OTT, as the result of the digital increased supply of media and the personalization and unbundling associated with this new distribution, we will expect not only two but a diversity of consumer segments in terms of size, interest and willingness to pay (Anderson, 2006, Elberse, 2013, Dawson et al. 2016). We can consider that the digitally enabled capacities of OTT services related to value sensing, creation, delivery and appropriation will be flexible enough to respond to this new demand structure and its dynamics. Under this scenario, a BM transformation strategy of OTT media distribution will be sustainable enough in its efforts to capture value around personalized tastes in diversified segments while it transits from its legacy model to a new one.

⁷ Cord-cutting refers to a pattern of media consumption in which users cancel subscriptions to traditional cable and satellite multichannel television distribution in response to cheaper Internet enabled media services described as a combination of broadband Internet and Internet Protocol Television (IPTV), and Over the Top (OTT) non-linear video services.

⁸ A basic taxonomy of this strategies is proposed by Abreu et al. (2017) consists in a classification based on provider (legacy media network or OTT) and type of content (linear or non - linear). This generates four general possibilities that can operate combined:

- Linear offerings over legacy media networks (regular TV broadcast e.g. TVE, Antena 3)
- Non-linear offering via proprietary OTT apps (legacy operators offering time-shifted TV though user friendly IPTV interfaces and apps. E.g. TVE play, ATRESplayer)
- Linear offering via OTT aggregation platforms (stream content from traditional TV or cable stations via an OTT platform. E.g. TVE play and ATRESplayer integrated on Apple TV).
- Non-linear syndicate content first broadcast on legacy media networks and then distributed on third party OTT services after an embargo period. E.g TV series first broadcasted on TVE and later distributed on demand via Amazon Prime)

However, empirical observations around the media industry unearth additional factors that can put into doubt this assumption. Indeed, while new digital distribution services have unbundled media supply and empower users with the capacity to consume what appeals to their tastes, they have not necessarily responded under a personalized pattern. On the contrary, their consumption gravitated around a minimal set of mainstream “blockbuster” content. If a specific value proposition does not offer this type of supply, the flexibility consumers enjoy will allow them to take their willingness to pay and walk away.

4.3. Digitally enabled demand: blockbusters instead of long tail.

Digitalization of content production and distribution related to OTT services suggests that lower costs resulting from technological advances and the capacity to reach tailor-made audiences will generate enough market value (marginal utility) around niche content proposals. (Anderson, 2006). These conditions generated a media environment that departs from the business dynamics of mass media broadcasting that operates a limited number of “blockbusters” capable of attracting large audiences and enabling volume-based BMs like advertising and cable subscription. This content includes prime-time drama programs, situation comedies, annual television shows or live sports events⁹.

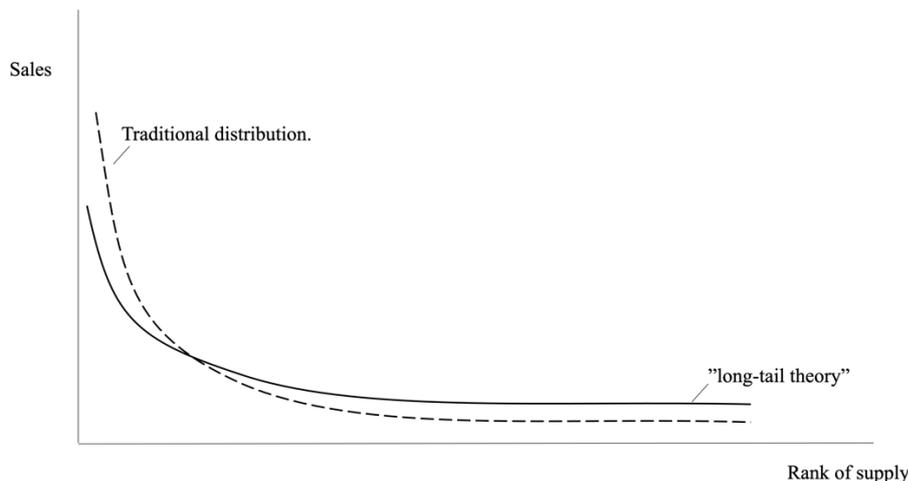
In this media environment, consumers can find and afford content tailored to their individual tastes allowing them to migrate away from “blockbusters” and into an extensive supply of niche content creating a “long tail” type of demand. As this dynamic increase, demand will shift positions from the head (the “blockbusters”) to the tail of the curve making it grow longer as more niche offer is made available and also fatter as consumers have more access and tools to navigate these niches and acquire content (Anderson, 2006) that match their taste and increase their marginal utility (Figure 3). From this perspective, digitally enabled value notions (proposition, distribution creation and delivery) (Ghezzi et al. 2015, Li 2020) seem to tap into the elements of consumer heterogeneity, taste for quality and marginal utility proposed by Adner and Zemky’s (2006) model even if they depart from a basic structure of two market segments and into a multisegmented one.

⁹ Anderson (2006) describes these contents as “watercooler” events in the sense that since the 50s and 60s, it was a safe assumption that everyone in an office had watched or read the same content the previous night. Anderson pointed out that, for example, as early as 1954, 74% of US households watched the same single show (“I Love Lucy”) every Sunday night.

However, empirical observation has tested the “long tail” construct as less applicable to reality than expected, at least on the demand side. Indeed, as demand shifts to digital channels with more extensive catalogues, the sales distribution does not increase at the curve’s tail but decreases and gets more dispersed (Elberse, 2013). Moreover, as consumers get exposed to more reachable supply, the importance of individual “blockbusters” does not seem to diminish over time but increases¹⁰ (Figure 4).

This concentration pattern in the head of the tail can be associated, as is pointed out by Elberse (2008), with two established principles of consumer behaviour laws (McPhee, 1963) related to “natural monopolies” and the “double jeopardy” nature of niche products, which, aside from being not well known, are less appreciated by their consumers compared to popular ones. Digitalization and its effects on production, distribution, searching and acquisition have not changed these behaviours but enhanced them. This situation, combined with the flexibility demanded by digital consumers, potentially compromises OTT BMs and the hybrid responses that integrate them.

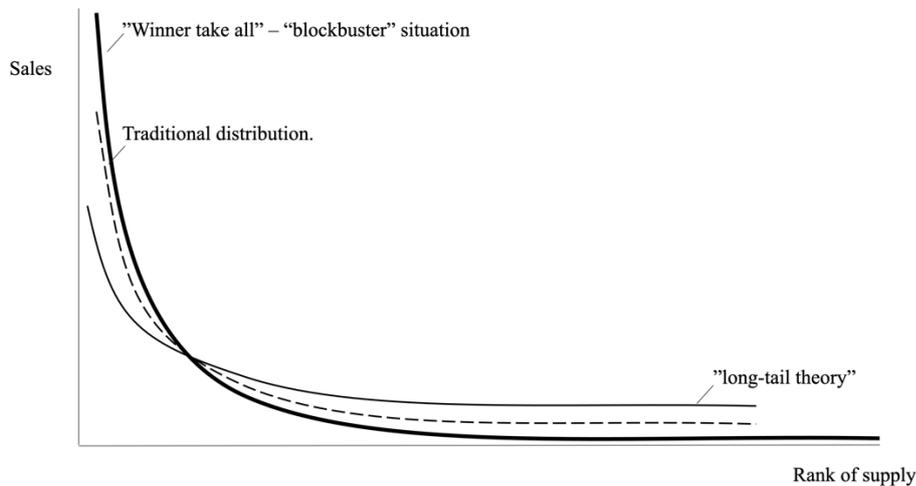
Figure 3. The Long-Tail demand



Adapted from Elberse (2013)

¹⁰ Elberse's (2013) empirical observations detailed the primacy of blockbusters in terms of demand and sales. Data from iTunes (Apple's music service) shows that in 2011, from a total of 8 million individual tracks available in the service, 102 tracks sold more than 1 million downloads, accounting for 15% of total sales (the head of the tail). Meanwhile, 7.5 million individual tracks (94% of the total catalogue) sold less than 100 hundred downloads and a surprising 32% sold only one. The digital video market exhibits comparable dynamics. In 2007, Hulu, a video-on-demand ad-supported service owned by major American broadcasting companies and home to the most popular TV shows, accounted for only 5% of the sector's total VoD content but earned 25% of the total online video advertising revenue.

Figure 4. The Long-Tail versus a Winner-Take-demand



Adapted from Elberse (2013)

4.4. The response of practitioners in the OTT market.

The initial market success of native OTT companies like Netflix raised the interest of media firms to develop similar services (e.g. HBOMax, Disney) as well as non-media players (e.g. Amazon Prime Video) and outsiders of the media sector that identified OTT services as a way to enhance their own services (this is the case of telecommunications companies integrating content services in their consumer service packages) This has created a dynamic OTT market well known for offering an extending catalogue of content under a personalized and flexible consumption.

However, while these firms are aware of the value possibilities of this new digital distribution, they have also gotten familiar with the new patterns of consumption related to it and the struggle to find an equilibrium between supply and an overcomplex demand. Among digital media practitioners, there is a common acceptance of the need to attract heavy niche consumers who have a strong interest in the extensive assortment offered by the long tail and whose pattern of consumption is reinforced by the effects of digitalization in terms of increasing supply and the capacity to navigate it. Cutting back on this variety may lead these consumers to switch between competitive OTT services. Notwithstanding, it is acknowledged that the tail for itself cannot generate enough value to make BMs viable because most of the revenue is still generated by a small number of products at the head of the demand curve (Elberse, 2013).

Digital media professionals have responded by favouring substantial investments in creating and purchasing intellectual property related to “blockbuster” content conducting, in some cases to sectorial consolidation (Budzinski et al., 2020).¹¹ This emphasis on premium content has led to intense competition between streaming/OTT services, increasing production costs and making the strategy only applicable to major firms with enough budget to fund original content or acquire valuable intellectual property (IP) (Grece, 2021).

However, recent events indicate that despite these content investments, subscription growth has slowed, impacting the publicly traded valuation of key OTT providers¹². Market observers noted that consumers have grown accustomed to seamlessly shifting between services over the “quality” of the content”. In contrast to “cord-cutting,” which involves switching from one value proposition to another, the phenomena of people “churning in and out” of the same services represents a new demand pattern that shapes the supply while also affecting its viability.

Concerned with retaining a demanding and “unfaithful” user base, OTT services have increased their content creation and licensing expenses, which has slowed revenue growth and called into question the economics of OTT. Thus, media organizations that have been moving to an OTT value proposition (a BM transformation effort) or operating a hybrid BM that includes OTT traditional distribution appear to have realized that this pivoting effort may result

¹¹ Some relevant examples include the acquisition by The Walt Disney Company of Pixar Studios (2006), Marvel Entertainment (2009), Lucasfilm Ltd. (2012), and 21st Century Fox (2017); the acquisition by AT&T of Time Warner (including HBO, Warner Bros Entertainment, and Turner) (2018); and the spin-off of Warner Media from AT&T to be merged with Discovery Inc (2021-22).

¹² On April 20, 2022, Netflix forecast a decline of 2 million subscribers in the 2QT of 2022, while investors expected an increase of 2.6 million subscribers. Shares of the company since the beginning of 2022 declined by 40% (Grimes, 2022).

in a less profitable alternative¹³. In other instances, OTT businesses are compelled to reconsider their BM and contemplate dual options they previously refused¹⁴.

Apparently, in the case of content media facing digital disruption, a demand-based perspective and its emphasis on the dynamics between the head and tail of said demand create a circumstance in which a BM transformation strategy appears unrealistic. Observing a specific entertainment industry segment (professional sports) may help elucidate this possibility.

4.5. Professional sports and their BMs.

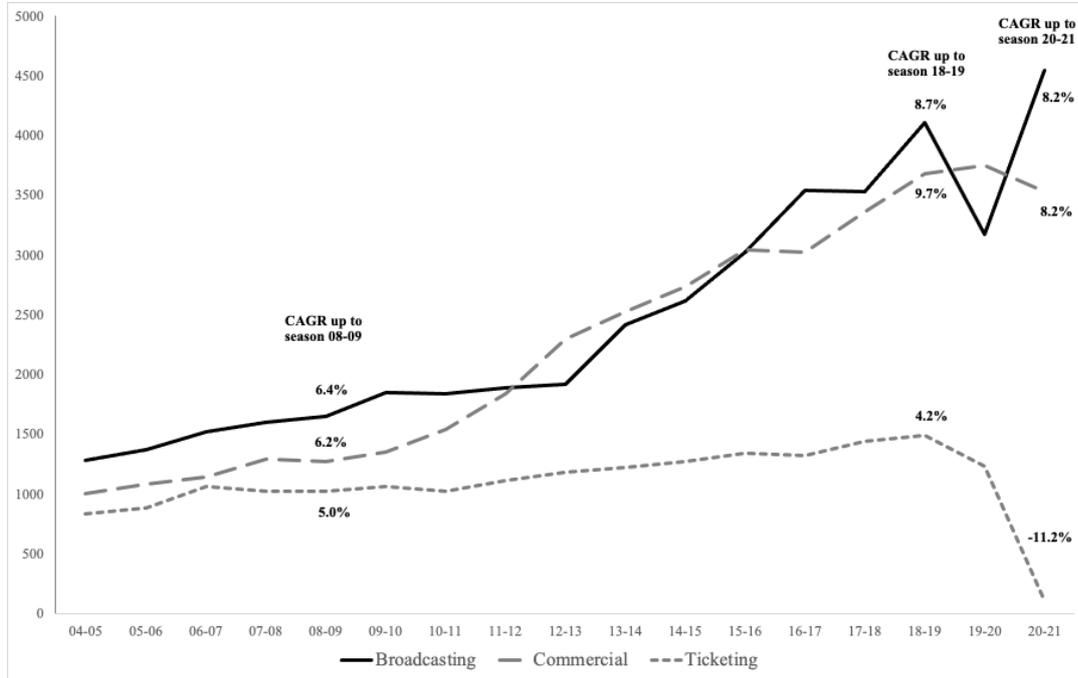
Since the second half of the 20th century, the rapid expansion of mass media distribution has boosted the size of audiences for this type of professional sports content, making live game events one of the broadcasting business' pillars (Szymanski, 2006). This circumstance, in turn, increases the economic worth of a related portfolio of BMs based on the sale of intangibles and intellectual property surrounding content (broadcasting rights), commercial products or services (sponsorship, products and services licensing, merchandise sales), and admission to events (ticketing)¹⁵. In the last decade and a half, these BMs have shown an increasing progression in revenues and, in the case of broadcasting rights, resilience to external negative factors like the 2007 economic crisis and the 2020 COVID pandemic (Figure 5).

¹³ The adverse business reports of Netflix in the 1QT of 2022 generate some illustrative comments in business media: (i) *“Every year Disney and its rivals promise to spend more on content. And yet even as costs rise, the growth in subscribers is showing signs of slowing. A realisation is setting in that old media companies are pivoting from a highly profitable cable- television business to a distinctly less rewarding alternative”* (ii) *“As revenue growth slows, costs swell. Media firms will spend more than \$230bn on video content this year, nearly double the figure a decade ago, forecasts Ampere Analysis, a research firm”* (iii) *“Disney+ is doing far better than its parent ever dreamed—but it is costing more, too. Three years ago Disney said it would spend about \$2bn on streaming content in 2024. (...) recently (1QT2022) (...) the figure would surpass \$9bn”*. The Economist (2022).

¹⁴ While Netflix has operated under a unique (“pure”) BM based on subscriptions and rejected a dual approach based on an ad-funded combination, the decline in subscriptions and slow growth perspectives are forcing the company to reconsider this strategic position. (Barker & Nicolau, 2022)

¹⁵ Taking the case of the 20 top European football teams by revenue, broadcasting represents an average of 42% of the total between seasons 2004-05 and 2020-21. Commercial rights (mostly related to sponsorship deals) represent an average of 39% (Deloitte, 2005 to 2022). It is worth emphasizing the positive effect of broadcasting over sponsorship: more engaged audiences means more reach and a more cost-efficient investment for firms interested in brand awareness and volume business conversions.

**Figure 5. Top 20 European Football Teams.
Revenues per Seasons (in million euros)
CAGR comparison up to seasons 08-09, 18-19 and 20-21**

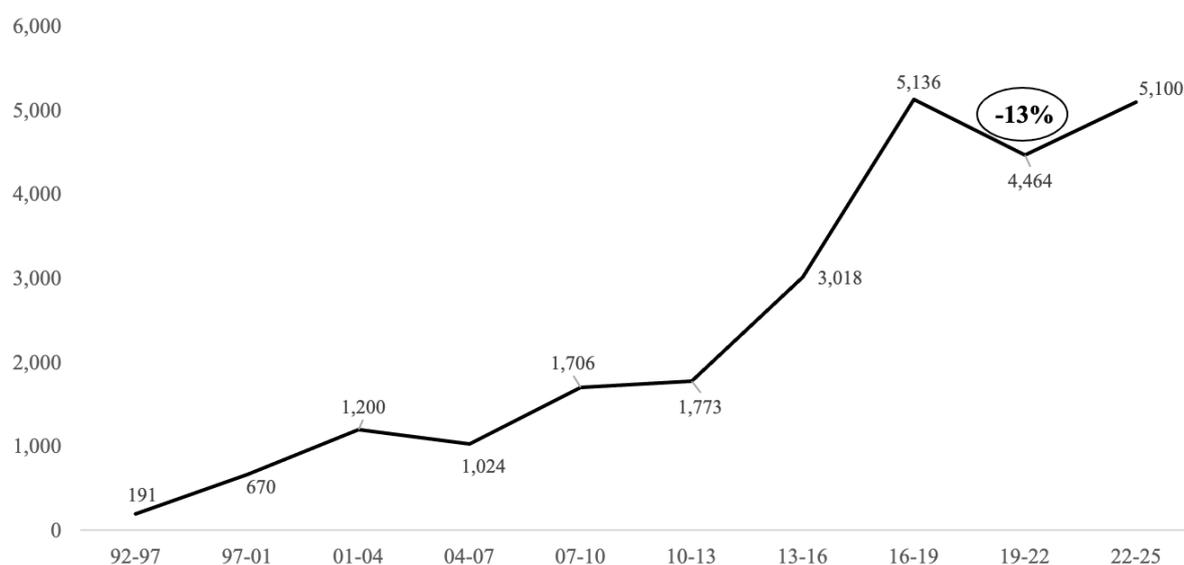


Source: Deloitte’s Football Money League annual reports (2006 to 2022). Own analysis.

In response to rising and strong business performance, professional sports properties have prioritized the implementation of sustained innovation initiatives that, in the case of broadcasting, have centred on enhancing the technical aspect of the service in line with the evolution of television and transmission technology. However, how broadcasting rights BM are defined and used is not typical. The differences between European and American professional sports approaches have been thoroughly discussed. (Szymanski & Zimbalist, 2006). These distinctions and their gradual convergence aid in comprehending future judgments regarding hybrid BM transformation and their viability in the face of a digitally enabled demand for blockbuster material. This understanding is important for practitioners as the professional broadcasting rights commercialisation sector shows a decline in the sale of domestic market rights (Figure 6), and international sales encounter some resistance in their sales efforts as traditional broadcasters prefer to divert rights budgets away from live sports and toward the creation of original content (Impey, 2019)

Figure 6. Premier League domestic broadcasting rights deals.

Seasons 92-97 to 22-25 (in million UK pounds)



Season	Broadcaster	Games per year	Total games	Total cost £	Cost per game £
92-97	Sky	60	300	191	0.6
97-01	Sky	60	240	670	2.8
01-04	Sky	110	330	1,200	3.6
04-07	Sky	138	414	1,024	2.5
07-10	Sky/Setanta	138	414	1,706	4.1
10-13	Sky/ESPN	138	414	1,773	4.3
13-16	Sky/BT	154	462	3,018	6.5
16-19	Sky/BT	168	504	5,136	10.2
19-22	Sky/BT/Amazon	200	600	4,464	7.4
22-25	Sky/BT/Amazon	200	600	5,100	8.5

Source: Premier League, Financial Times, Sports Business Institute Barcelona. Own analysis.

BT: British Telecom

4.5.1 Convergence in the professional sports broadcasting approach.

Based on their configuration, professional sports have an initial transatlantic divide. American leagues are closed institutions in which owners control the number of teams and their geographical location, providing them with a monopoly over their territories. In contrast, professional sports in Europe (mainly football) are governed by open hierarchical leagues with pre-established non-territorial market monopolies. Teams enter the lower leagues for free and

move up the hierarchy based on performance, while teams with weaker performance in higher levels are relegated to the lower leagues (Szymanski & Zimbalist, 2006).

These two distinct configurations are interwoven with business practices that distinguish American leagues as profit maximizers and European leagues as utility maximizers (Cain & Haddock, 2005). In most situations, American professional sports clubs are part of a business portfolio and are utilized as levers to raise the whole portfolio's profitability, even if they lose money individually¹⁶. In contrast, European football clubs are autonomous organizations that have historically spent their funds on acquiring more victories (utility) to avoid relegation or gain promotion to a higher league. Relegation and promotion affect the clubs' economics, as different league levels result in varying television rights and sponsorship earnings.

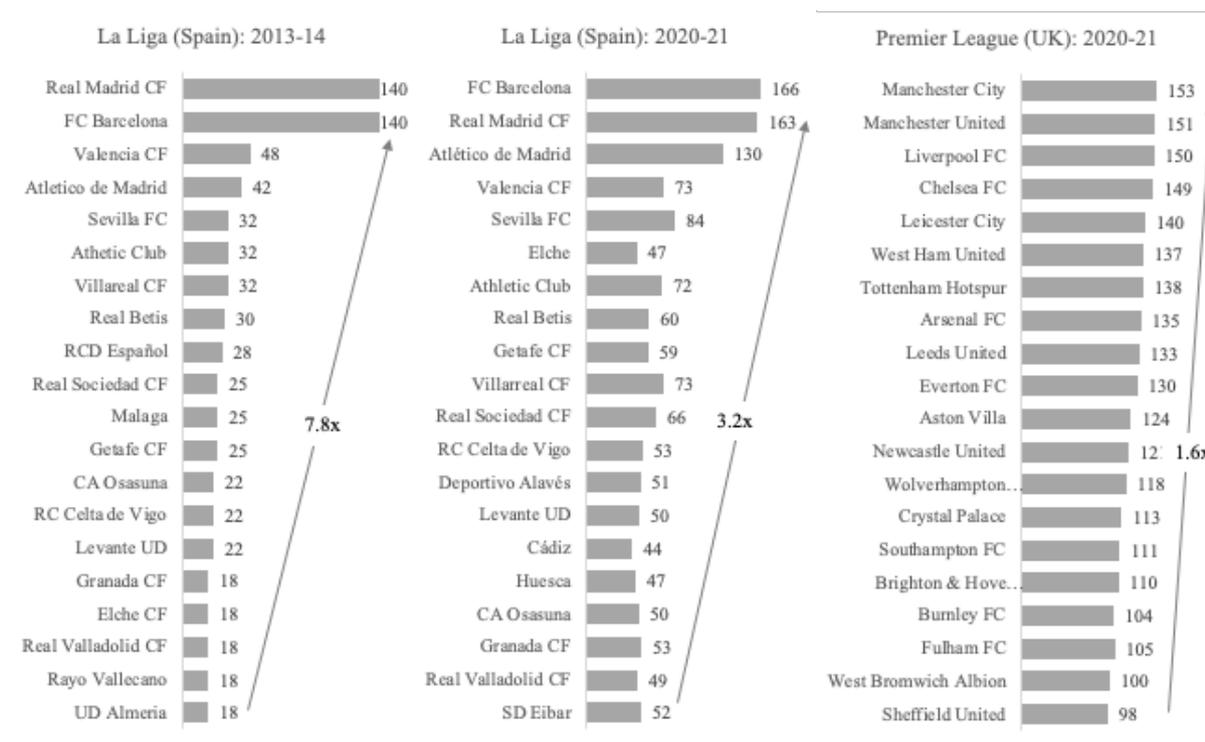
Profit maximizing and utility maximization have manifested themselves in several historical approximations of sports broadcasting rights BMs. In the first part of the 20th century, American professional sports teams independently negotiated and sold radio broadcasting rights. This method evolves in the 1960s following the advancement of television broadcasting technology, the need of media conglomerates to enhance market penetration with appealing content such as live sporting events, and the ensuing increase in the value of rights. The National Football League (NFL)¹⁷ and other American professional sports (baseball, basketball, and hockey) introduced a centralized sale in which the league commercialized an integral package of all the season games and divided the revenues among the league's teams using a combination of equal division with a mutually agreed criterion that takes into account business aspects, fan base, and sports results. The purpose of this more equitable allocation was to strengthen each team's financial condition. More money in more teams increases game outcomes' competitive balance and unpredictability by distributing the capability to recruit superior player skills. These conditions result in a more desirable broadcasting product: more games with less predictable outcomes, which increases the entertainment value proposition and the desire to view the event.

¹⁶ Szymanski & Zimbalist (2006) provide some examples of this practice: the owner of the New York Yankees used the team's success to create a regional sports TV network. Rupert Murdoch acquired Los Angeles Dodgers to block the creation of a sports network at the regional level. Private equity investor used their ownership of teams and the political leverage derived from it to develop commercial and residential real estate projects around the stadiums.

¹⁷ The National Football League (NFL) is the United States professional American football league consisting of 32 teams, divided equally between the American Football Conference (AFC) and the National Football Conference (NFC).

The adoption of a centralized sale of broadcasting rights has been gradual in European professional sports, mainly due to the European win-maximizing strategy surrounding the relegation system (Szymanski & Zimbalist, 2006). Only when the television rights value increased and there was an incentive to improve the quality of the games did the major European football clubs adopt the centralized concept. Whereas the English Premier League adopted the centralized model in 1992, the Spanish League did not adopt it until 2015, not to increase the value of the rights but to resolve a protracted legal struggle between individual bids that, in certain instances, prevented the broadcasting of games (Official State Gazette (2015; Alcolea-Diaz & Garcia-Santamaria, 2019). Despite significant progress toward a more equitable distribution, the Spanish League remains lopsided compared to its British counterpart (Figure 7).

Figure 7: Broadcasting revenue distribution
La Liga evolution 2013-14 to 2020-21 versus Premier League 2020-21
Revenues: La Liga (in million euros), Premier League (in million UK pounds)



Source: Hernandez-Marcos (2015), La Liga, Premier League (own analysis)

4.5.2 Divergencies in the professional sports broadcasting approach.

Aside from the configuration of leagues and their gradual convergence toward centralized broadcasting sales, we can notice other dissimilar profit/utility behaviours associated with broadcasting BM in professional sports.

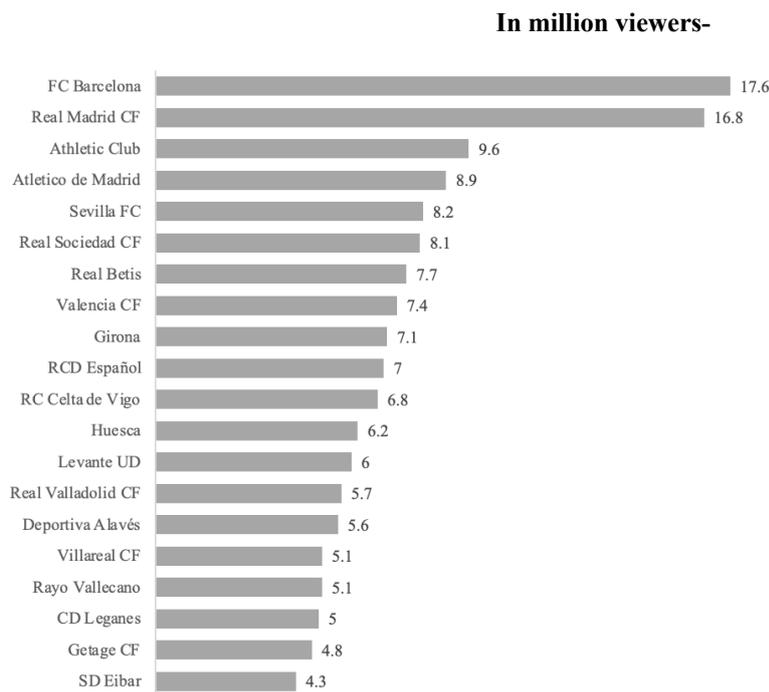
Regarding content quality, American leagues have historically bolstered competitive balance by intervening directly in the ability of various teams to recruit talent. This approach has taken the shape of mutual consent salary caps and luxury taxes (a surcharge over the aggregate payroll of a team in case it exceeds a predetermined level). These limits and taxes prevent teams with larger regional markets and higher incomes from signing the most talented players. In the case of European football, these techniques have just been implemented in the last decade and a half, being the most well-known the financial fair play rules adopted by the Union des Associations Européennes de Football (UEFA) in 2009 and the economic control guidelines adopted by the Spanish Football League in 2014. However, the enforcement power of the UEFA fair play rules has been inadequate, particularly when confronted with an infusion of foreign investment in European football with non-sports-related goals (Sims, 2018, Sroka, 2022). In the specific case of the Spanish Football League, the regulations have demonstrated limited control over how significant clubs whose presence is essential for the competitive worth of the league itself adapt to adverse economic circumstances. In the end, the maximization of utility (wins) through the acquisition of better players predominates among relevant clubs capable of commanding significant gains in broadcasting audiences (both well-known club brands and well-known players account for 75% of the variance in some modelling situations) (Buraimo et al. 2022). (Figure 8).

A second dissimilar approach between profit and utility maximizers pertains to the ongoing alteration of the sport to meet the demands of fans, broadcasters, and advertising clients. American leagues have a history of modifying the rules of sports to increase the excitement and excitement of the games (e.g., the three-point line or the reduction of timeouts in basketball) while balancing the needs of economic stakeholders (e.g., while an excess of timeouts decreases the game's excitement, they are necessary as advertising slots) (Fortunato, 2001; Szymanski, 2006). This willingness to apply changes continuously and in close consultation with third parties is less common in European football, where alterations to the

sport are weighed against their origins and must be approved by international governing bodies such as the Fédération Internationale de Football Association (FIFA) or (UEFA).

The way broadcasting rights are licensed to third parties has also diverged. American leagues typically sell their rights to traditional bidders while retaining the option to use them on their proprietary platforms under geographical embargo terms within U.S. territory. This means, for instance, that the broadcasting rights of a single team’s live games will be provided to a media network only in its home state and the home state of its opponent. Nonetheless, the league will maintain the right to exploit the same game through its own official cable and digital services in the remaining areas. In contrast, European football has generally tended to market the entirety of its rights without preserving any for in-house exploitation. This reluctance to pursue direct-to-consumer distribution (e.g., OTT) is the outcome of particular supply and demand conditions.

Figure 8: Spanish League TV ratings per team (season 2018-19)



Source: La Liga / Marca. www.marca.com

4.5.3 Hybrid BM transformation as a result of divergent approaches

Diverse configurations and circumstances surrounding professional sports can determine the viability of a hybrid BM transformation plan. An analogy can be illustrative.

The National Basketball Association (NBA) is a typical sports organization that maximizes profit. Following our earlier description, it functions under a league system that prioritizes competitive balance to provide a vast supply of appealing games (Szymanski & Zimbalist, 2006) and is eager to improve the sports themselves to enhance the quality of such content. It operates a geographical distribution in a sizable domestic market split into economically and commercially significant regional submarkets.

Under these circumstances, the NBA implements a hybrid strategy in which it retains a portion of its games' content rights via geographical embargo agreements and distributes them on its private OTT platform (NBA League Pass). The service offers annual and monthly membership packages that include live games and other content (such as commentary, analysis shows and highlights) and has also tested the distribution of individual games and the option to purchase only the final quarter (15 minutes) (Welch, 2018).

The NBA retains a profitable licensing business with organizations like ESPN and TNT¹⁸, traditional media companies and its historic broadcasting partners. While these media companies may view the NBA's OTT as a distant competitor, the specific markets where they can exploit the content are economically significant enough, and the sport's continued popularity in a declining linear TV market (Shea, 2022) makes it impossible for them to reject the league's commercial terms. Even so, these media corporations are increasingly accustomed to acquiring the rights to services such as NBA League Pass to integrate them into their own OTT offerings.

In contrast, the Spanish Football League is in the process of enhancing the competitive balance among its members to increase the number of blockbuster games. However, the league's ability to adjust the sports' dynamics to improve its content is constrained. Combining a limited supply of relevant content with smaller domestic markets overshot by extensive third-party news media coverage of collateral content surrounding sports (such as gossiping about transfers, players' private lives, and inner club dynamics commentary) makes a personalized pay-per-view distribution less feasible. Conversely, overseas markets are immensely diverse and

¹⁸ Entertainment and Sports Programming Network (ESPN) is a media conglomerate subsidiary of The Walt Disney Company and Hearst Communications. It owns diverse sports broadcasting operations, including cable channels, radio networks and digital distribution platforms. Turner Network Television (TNT) is an American cable television channel owned by Warner Bros Discovery.

necessitate marketing efforts that are more efficient and profitable in the hands of third-party broadcasters and media intermediaries able to leverage a network of market contacts.

Under these conditions, La Liga prefers to license integral package rights packages, including digital exploitation. The goal has been to maximize commercial returns considering challenging market conditions and restricted content supply in terms of volume and quality. In this scenario, three general initiatives have been implemented to support complementary OTT distribution. First, the licensing of broadcasting rights has expanded the possible licensee pool to include third-party OTT distributors. For the licensing period 2022-27, the Spanish Football League will add DAZN, an OTT media distribution business, alongside Movistar-Telefónica (telecommunication services) as licensees of the league's domestic rights. The licensing of international rights continues to prioritize traditional media clients and distribution intermediaries. La Liga has chosen to retain the rights and execute a direct-to-consumer OTT distribution in those overseas territories where rights commercialization activities have not yielded bids that meet the minimum financial objectives. According to our sectorial interviews, this "better than nothing" option enables markets that are unwilling to pay for expensive yearly packages that include all the season's games to acquire more flexible monthly subscriptions or pay-per-view individual or bundle content that focuses on the most important games. A third and final exploratory effort concerns implementing a proprietary OTT service to distribute a limited inventory of La Liga content supplemented with other professional and non-professional sports live streaming¹⁹.

While La Liga's efforts enable exploitation and exploratory approaches regarding new OTT distribution, the league's potential to execute these activities to the same commercial and economic extent as the NBA is limited. La Liga OTT distribution is less tempting as a supplemental and transitional distribution option due to market and demand factors and the restricted number of blockbuster games available.

5. Discussion.

As part of an effort to increase the prescriptive nature of disruptive innovation theory, we began this paper by highlighting the interest in response strategies (Christensen & Carlile, 2009;

¹⁹ In 2019, the Spanish Football League launched La Liga Sports TV, an OTT service focused on live broadcasting of non-professional sports competitions, post-game highlights of La Liga first and second divisions and commentary programs. <https://www.laligasportstv.com> Retrieved on August 13, 2022.

Christensen et al., 2018). Confronted with the possibility of hybrid strategies as potential response candidates, we looked into the concept of BM transformation, an ambidextrous balance between stabilising an incumbent BM and its market while simultaneously shaping new opportunities in terms of value propositions and demand conditions (Carlborg et al., 2021).

We propose that such an option is untenable in the context of digitally induced disruptive innovation due to consumers' increased ability to select and acquire products and services in conjunction with long-tail demand patterns (Anderson, 2006, Elberse, 2008; 2013). The case of hybrid OTT media distribution and the unique situation of professional sports within the intangible sector help us test our hypothesis and potentially extrapolate our findings (Lampel & Germain, 2016).

After observing the case through a series of constructs associated with the demand-based perspective of innovation theory (Adner & Zemky, 2006; Adner & Snow, 2010) and the ambidextrous possibilities of hybrid responses as an evolution from structural separation options (Utterback, 1994; Christensen 1997; Markides, 2013), we determined that the strategies and outcomes predicted by the theory are consistent with those experienced by practitioners. Indeed, incumbent media distribution and business models (advertising-supported television and cable subscription) result in an "overshoot" situation (Christensen & Bower, 1996; Christensen, 1997) which is characterised by conditions such as an extensive catalogue of content that is only partially consumed, content that is not dictated by user preferences but by advertisers' objectives, and an excess of such advertising. The emergence of alternative media distribution options, such as OTT, which operate on flexible consumption dimensions, initiates a technological/value proposition substitution process exemplified by "cord-cutting" behaviour (Banerjee et al., 2014; Emarketer, 2020; Pressman, 2020).

The hybrid responses of media distribution increase its complexity (Abreu et al., 2017; Park & Kwon, 2019), as well as the interest in a seamless transition from the incumbent but declining distribution business model to a new one. This interest manifests in the professional sports industry, where the traditional distribution of broadcasting rights still commands a significant demand and revenue source. Professional sports' new media distribution models based primarily on OTT direct-to-consumer solutions are implemented to complement legacy ones and, in some cases, leverage them.

The approach to BM transformation appears to be a potential solution to this desired seamless transition, as it proposes stabilizing the incumbent market by exploiting the legacy BM and simultaneously shaping a new market by exploring new value propositions. This dual process is bolstered by the digital nature of media innovation and its flexibility and cost-reduction effects, allowing a personalised and unbundled distribution of content. This situation is supplemented by digitally enhanced operational frameworks and BM-related notions of value (Ghezzi et al., 2015; Sebastian et al., 2017, Li, 2020). The fact that OTT distribution operates with an expanded catalogue of digital content over a digitally enabled value and functional architecture enables not only a personalised distribution (value delivery) under flexible subscription plans (value appropriation) but also the real-time capture of individual consumption to inform potential strategies related to the production or acquisition of new content, as well as the enhancement of the user experience (value sensing) (Fernandez Manzano et al. 2016; Kwon et al., 2020).

This configuration is capable, at least in theory, of providing the efficiency, scalability, dependability, quality, and predictability expected from exploitative efforts, despite being executed in the exploratory nature of new and “entrepreneurial” OTT distribution. From this perspective, the case suggests that digitally enhanced concepts and frameworks serve as flexible and ambidextrous integration mechanisms between two traditionally conflicting activities (Markides, 2013) related to media distribution.

However, beyond the promising digitally enabled ambidexterity that seems to make a seamless substitution around BM transformation as a disruptive innovation response feasible, some overlooked dynamics could potentially impede this possibility. The digitalisation of content production and distribution related to OTT services implies the ability to reach a multitude of niche audiences equipped with the flexibility to find, access, and pay for content that matches their particular taste in terms of quality and provides them with increasing marginal utility each time they repeat this consumption process. Initially, it was presumed that these conditions would shape demand for niche content consumption (a long-tail shape demand) as opposed to one concentrated on a small number of mainstream and popular contents (Anderson, 2006). This niche demand and its economic viability will be enabled by a digitalisation process that not only reduces the costs of production and distribution but also increases the capacity of consumers to access, navigate, find, and acquire products that match their interests and enhances the value they obtained. These conditions appear to incorporate the concepts of

consumer heterogeneity, preference for quality, and marginal utility proposed by Adner and Zemsky (2006), but elevated to a multisegmented market structure.

Notwithstanding, empirical observation has disproved this expected demand behaviour, at least in the media sector. Elberse's (2008; 2013) observations have demonstrated an increase in demand for a smaller number of popular contents ("blockbuster") that is accentuated when they are digitally distributed and consumed and a decrease in demand for a longer but less appealing supply of "long-tail" content. Explanations for such a consumption pattern suggest established principles of consumer behaviour laws associated with the concept of the "natural monopoly" of popular mainstream products that appear appealing to sporadic and less informed consumers and the "double jeopardy" of niche products that, in addition to being less well-known, are also less appreciated in comparison (McPhee, 1963 as cited in Elberse, 2008; 2013).

While this concentration at the head of the demand distribution appears to be an unexpected behaviour from a consumer exposed to an abundant, accessible, and convenient supply, the combination of this result with the digitally enabled consumer flexibility poses a significant barrier to the viability of OTT distribution as a stand-alone option and as part of a hybrid BM transformation strategy. Indeed, not only do consumption patterns focus on a small number of high-quality and, in the entertainment industry case, costly to-produce "blockbusters," but consumers have also become accustomed to seamlessly switching between media distribution services in search of the most recent hit content. In response, pure OTT services and media organisations operating hybrid distribution models that include OTT have increased their investment in content creation to retain "unfaithful" customers. However, this has increased the market price of content and made OTT distribution less profitable than expected.

This situation is pervasive in the professional sports sector, where properties unable to produce a constant and compelling quantity of content find it challenging to benefit from a dual distribution media strategy that includes OTT options. The comparison between the structures and orientation of American leagues towards profit outcomes and the structures and orientation of European leagues towards utility (wins) dynamics (Cain & Haddock, 2005; Szymanski & Zimbalist, 2006) helps highlight the situation in which the firsts are able to produce content to make hybrid media distribution economically viable. In contrast, the second ones (such as La Liga) find it challenging to extract value from the OTT component and use it as a supplement to content licenses and third-party distribution or as a last resort in markets unwilling to pay

for content under traditional distribution models. These circumstances pose a potential risk as customers are expected to shift between services when they are not provided with relevant content.

Recent observations regarding the factors influencing media audiences' interest in European football indicate the importance of top-brand football clubs and the talent involved in the sport (Buraimo et al., 2022). This conclusion is supported by television rating data for leagues such as La Liga, where a disproportionate number of viewers tune in to watch the games between the two dominant teams (Real Madrid C.F and FC Barcelona). This may restrict the availability of compelling games and the capacity of OTT customers willing to pay for only premium content and anticipate paying for a la carte access to a selection of games. While some efforts, such as the centralised distribution of rights, have been made to improve the competitive balance to increase the number of media-appealing games, this appears insufficient. Recent disruptive sector movements, such as the intention of major European clubs to spinoff from established competition and into a private profit-maximising close one (Super League) (Brannagan et al., 2022), are in part a response to the need to develop more engaging games/content to accommodate new, more flexible, and less loyal consumption patterns.

6. Contribution, limitations, and future steps.

As stated in the introduction of this work, our interest in response strategies stems from a desire to improve the prescriptive nature of disruptive innovation theory. As with the refinement of any theory, initial observations enable the development of constructs, frameworks, and categorisations concerning specific outcomes observed, thereby defining the descriptive approach aspect of the theory. This descriptive approach applies to our discussion of disruptive innovation processes (Christensen, 1993; Christensen and Bower, 1996; Christensen, 1997), their dependence on customers from a demand-based perspective (Adner & Zemsky, 2006; Adner & Snow, 2010), and the initial efforts to respond to such situations via structural separation (Utterback, 1994; Tushman & O'Reilly, 1996). However, as part of the theoretical refinement process, anomalies in the initial description (Charitou & Markides, 2003; Christensen & Raynor, 2003; Markides, 2006) improve the theory and its prescriptive capacities as it finds unexpected outcomes and may find new constructs, categories and frameworks to examine them.

Aside from enabling hybrid possibilities thanks to enhanced notions and frameworks around value creation and management (Ghezzi et al., 2015; Sebastian et al., 2017; Li, 2020), digitalisation also generates new anomalies in the form of personalisation and unbundling processes. These new digitally-enabled constructs promoted a new demand behaviour that contradicts expected outcomes: rather than making viable a long-tail offer that makes media firms less dependent on a few “blockbuster” products (Anderson, 2006; Elberse, 2008; 2013), digitalisation has made them more critical while, simultaneously, enabling via flexibilisation an intermittent consumption from users expecting to pay only for the content they find relevant (Dawson et al., 2016). This anomaly compels us to consider additional constructs and categories surrounding consumer behaviours, such as McPhee’s (1963) natural monopolies of mainstream products and double jeopardy of niche products, as explanations for unexpected demand patterns.

While our hypothesis was correct, the anomalies discovered in the media distribution sector and the new constructs and categories discussed can improve the prescriptive nature of disruptive innovation theory. This improvement can be made by introducing a new categorisation of elements that practitioners may need to consider in future assessments of response strategies.

Currently, our research and discussion are speculative. Our work is predicated on a specific case study of OTT as a stand-alone and hybrid distribution strategy illustrated by the professional sports industry. The description of such a particular situation only suggests the introduction of a new category or constructs when discussing response strategies. It will be necessary to examine additional cases in search of similar effects on the long tail curve and in the flexibility of consumer behaviour in relation to “churning” between value propositions and the effect on the involved BM. While an initial research approach can focus on cases from the intangible sector, it will need to be expanded to other ones in which digitalisation is making the possibilities of search, selection, and acquisition across a growing product catalogue more flexible. Eventually, these additional case descriptions could be supplemented with quantitative data regarding consumption patterns and legacy model substitution with new disruptive ones.

This proposed research scope will be able to go beyond our initial and speculative explanation and search for more complete and complex categories and explanations. We anticipated that

this effort, which is characteristic of the process of theoretic refinement, would enhance the predictive capacity that disruptive theory requires.

7. References

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