

## Chapter 3

# Small Size Matters: Audiovisual Media Industries around the Baltic Sea

*Indrek Ibrus and Ulrike Rohn*

### Abstract

The chapter discusses the characteristics of audiovisual (AV) media sectors in the Baltic Sea region. Therein it focuses on the specifics of media industries in small countries in the region as they are challenged in ways notably different from large countries with large domestic markets for media content. It discusses the differences between the AV media industries in the Nordic and Baltic countries and suggests that while in the first case long-term welfare society policies and conscious policy-driven system building have conditioned growth and international success then also in the second case innovation policy rationales have facilitated recent growth and dynamics. It then discusses the specific challenges, especially platformisation to small media industries in contemporary globalising media markets, and suggests that opportunities to resist these challenges may be in local inter-sectoral cooperation, that is, in building cross-innovation systems.

*Keywords:* Media industries; Nordic countries; Baltic countries; cross-innovation; small media markets; media innovation

### What Are ‘Audiovisual Industries’?

This book and the research project that preceded it are a team effort. The core questions emerged via our many encounters where the skills and competences of what we call the audiovisual (AV) industries were used in the service of other industries. Some of us had worked with initiatives to digitise AV heritage in order to use old films or TV clips in new digital learning materials. Some of us



© 2019, Indrek Ibrus and Ulrike Rohn. Published by Emerald Publishing Limited. This chapter is published under the Creative Commons Attribution (CC BY 4.0) licence. Anyone may reproduce, distribute, translate and create derivative works of this chapter (for both commercial and non-commercial purposes), subject to full attribution to the original publication and authors. The full terms of this licence may be seen at <http://creativecommons.org/licences/by/4.0/legalcode>

were interested in the evolution of educational videogames and their industries. Some were investigating the role of videosharing platforms in learning practices – learning about everything from health care and medical practices to tourist destinations. Some had long studied the uses of augmented reality (AR) applications in tourism, while others were digging into the uses of virtual reality (VR) by health care establishments. Eventually, for us, these developments all came together as convergent processes where AV media and videogaming industries – that is, ‘AV industries’ or ‘screen industries’ – were cooperating and co-innovating with other industries. To many of us, being media researchers, these processes came across as part of the prevalent mediatisation trend. When it comes to some of the core functions in life – the mobilities, the learning, taking care of one’s wellbeing – our related encounters and experiences, the ‘textures of our lives’ to paraphrase Roger Silverstone (1999) are increasingly mediated and mediatised. Therein these lives have also become more visual as it is the AV modes of representation that increasingly dominate the contemporary cultural ecosystems. And this also means that it is the broadly defined ‘AV industries’ (as they converge) that get new roles and functions in the process – they develop new lines of practice and business and go through a self-transformation process therein. These were our assumptions and the specifics of these processes we embarked to study.

Yet, what we quickly realised was that the distinctions within the AV industries still matter. While these industries do cooperate and converge and increasing development of various cross-media strategies continues to facilitate this, still, the professional distinctions matter. They matter to people within these industries, but they seem to matter even more to people outside them. While the boundaries between animation, special effects and videogaming industries are increasingly blurry, it was still difficult for some of our interviewees to recognise videogaming industries as ‘AV industries’. While independent film studios are also producing commercials, TV series, web series and content for social media platforms, they are not always recognised as ‘media’ by non-professionals. While public service broadcasters in Europe are primary innovators when it comes to cross-media strategies or transmedia productions (Bechmann, 2012), they are not always perceived as having close relations to the videogaming sector. To conclude, us discussing the ‘AV industries’ as a particular constellation appeared counterintuitive to some of our interviewees.

Yet, despite this, we see analytical value in this broad definition. First, what all these sub-industries produce or contribute for are by definition still media – collective communication outlets used to store and deliver information. These outlets are all similar in that they are read for meaning by wide populations. They all mediate various realities and use for meaning communication similar (AV) modes and representative conventions, many of which they share and ‘remediate’ (Bolter & Grusin, 1999) from one to another. Their markets are similar, related or overlapping, all shaped by similar underlying logics – primarily economics of scale and scope. Their products are information goods, intangible and non-rival. Their production, always forms of information processing, presumes specialist creative skills. These industries are inhabited by ‘talents’

presenting specific challenges for their managers. They are similar, interrelated and increasingly convergent. It does make sense to take a look at their operations and functions as a whole while keeping in mind their inherent heterogeneity and distinguishing their differences in action.

## **Audiovisual Media in the Nordic Countries**

While different media industries are increasingly intertwined, their constellations in specific countries are always different. Their roles are different, their capacities are different and their relations to international markets can be very different. It is for this reason that we take a closer look in this chapter at the nature of AV media industries in our case-study region – the Baltic Sea region of the European Union consisting of countries from all around the Baltic Sea. The region is diverse, consisting of countries of different economic capabilities (yet converging), but also of different historical backgrounds and of different sizes. There are larger countries such as Germany and Poland, but also several small countries ranging between Sweden (10.2 million inhabitants) and Estonia (1.3 million). Let us hereby focus on the latter – the small countries – as the specialty of this book could be that, differently from much of both media systems and innovation systems studies, it attempts to tell the stories of either small or very small countries.

When it comes to small countries in the region, there are the long-term democracies and welfare societies such as the Nordic countries and there are the Baltic states that only recently underwent difficult transformation from authoritarian socialism to market capitalism. The media markets and industries of Baltic and Nordic countries are notably interrelated with much of both vertical and horizontal integration. But there are also significant differences. In the following we will take a closer look at these specific differences.

The so-called Nordic countries consist of Norway, Sweden, Finland, Denmark and Iceland and are very often discussed in terms of constituting a distinct cultural and geographic entity among the world's nations. These countries share a similar political, social and economic system that has been epitomised in the concept of the Nordic Model. By extension, the media in these countries and their distinct and common features have also been discussed widely (Hallin & Mancini, 2004; Syvertsen, Enli, Mjøs, & Moe, 2014).

Syvertsen et al. (2014) discuss Nordic media in terms of a Media Welfare State, following a widely shared understanding of these countries as welfare states in which the relationship between the state and the people is close and positive. Typical for the Nordic media industries is a consensual and pragmatic policy formation, a combination of far-reaching state regulations as well as support schemes that enable strong, but independent media. Strong adherence to the principle of freedom of speech and to the idea that media contribute to the building of national identity has led to a robust and resilient public media sector that naturally exists alongside successful commercial players and enjoys a high degree of legitimacy (Syvertsen et al., 2014). The same approach underlies also the film policies – a common thread running through the policy histories of Nordic

cinemas is that film needs to be ‘useful’ – it is a ‘means of engaging citizens with norms and values that are integral to the project of building what, at a given moment in time, counts as a good society’ (Hjort & Lindqvist, 2016).

A characteristic feature in the Nordic media and AV policies is the tendency to choose policy solutions that are consensual, that is, that are based on consultation with both public and private stakeholders. There is a strong understanding that the media and film should appeal to all and that media should inform and enlighten the population at large. For private media organisations, this has meant that their views, too, are taken into consideration in policy development (Syvertsen et al., 2014). As such, the Nordic countries constitute, in effect, market economies in which there is a high degree of coordination and interdependence – not only between individual firms, but also with the states (Hall & Soskice, 2001). In particular, the Nordic countries see large media companies or film production companies acting as drivers of innovation and growth and as vehicles to turn themselves into advanced information societies (Bondebjerg, 2016a; Syvertsen et al., 2014).

The systematic coordination between the state and the industry has allowed media firms to benefit from protective policies that are designed to defend them from the pressures of marketisation and globalisation. At the same time, however, it has given them a comfortable situation out of which they have been able to take advantage of global market opportunities (Syvertsen et al., 2014). A significant number of media companies in the region have developed into strong media groups that find it easy to operate across the Nordic countries owing to cultural and language proximity across these countries. These include, in the first place, Bonnier, MTG and Schibsted. The strength of these companies has served as an important protection against dominance by companies from outside the Nordic countries and has enabled them to successfully enter other markets, including the neighbouring Baltic countries.

Next to the private groups, public service media has enjoyed similar trust and stable funding, allowing it to invest systematically in improving the quality of its fictional content produce. Toft Hansen and Waade (2017) emphasise that most of the Nordic television drama series that have by now gained notable international recognition was produced by public service broadcasters and funded by public finances and licence fees. The success, they posit, is entrenched in strong traditions of public service drama production that have met faithful domestic commitment and related high market share. The systematic work on this genre has been enabled by a long-term cultural political interest in reflecting local and regional lives in the form of TV drama series. This political mandate has also materialised, in addition to licence-fee-based funding, in various local and regional funding practices. It can, therefore, be suggested that the international exporting success of Nordic drama is owing to a high level of trust in the public value produced by public service media and that such public value is used by a variety of private parties, most notably independent production studios, for their benefit.

Yet, what should be highlighted in this book is that, to a significant extent, the success has also been based on the systematic policy effort the end of 1980s to internationalise the local AV industries. First came the establishing of the

Nordic Film and Television Fund (NFTF) in 1990 that constituted a move towards international co-production and distribution for both television and film. That is, what was significant with NFTF, was that the national film institutes and broadcasters joined forces to give to the development of the AV culture a broader backing and a stronger voice, both in the region and beyond (Bondebjerg, 2016a). This happened in parallel to the creation of Eurimages fund in 1989 and the EU MEDIA programme in 1991 – both putting an emphasis on co-production of films between European countries. And so did the NFTF.

This resulted first in intensified cross-boundary cooperation across the Nordic region. Regarding TV drama, already since the 1980s several of the more significant series have in fact been co-productions between Nordic public service broadcasters (PSBs), a process that only intensified in the course of the 1990s and later. Furthermore, the main international co-producers that stepped in with significant funds during the nineties were the public TV networks from neighbouring Germany. As Toft Hansen and Waade (2017, p. 150) explicate, the decade extending from the middle of the 1990s until the late 2000s saw a steady rise in German co-funding of Nordic drama production. ‘The German interest in Scandinavian crime fiction has provided a strong platform for co-production with DR and other Scandinavian partners over the years’ (Bondebjerg & Novrup Redvall, 2015, p. 227). In this context, it should, however, be highlighted that it is again mainly PSBs that are actively co-producing content relevant for several territories. PSBs have shown more co-productions involving European co-producers than commercial TV stations (Bondebjerg, 2016b, p. 6). Yet, as many of the series have been commissioned from independent producers and many are co-produced with commercial TV channels or other private partners, the Nordic PSBs could be seen as important coordinators of local drama production (or drama innovation) system.

That the coordination effect is there has been evidenced by the increased exports not only of TV series, but also of film. In fact, film exports have grown notably. As Bondebjerg (2016a) describes this, especially in the Danish case the national film policy has gradually supported the increasing internationalisation and export-orientation of their film production. Since the late 1980s, the explicit emphasis has been similarly to television on international co-production and therein producing more – funding rather more low-budget films than a few expensive productions. Gradually also the definitions of what constitutes a ‘Danish film’ have been relaxed – while at the beginning it needed to be shot in Danish and the majority of the crew needed to be Danish then more recently only a producer/director has to be Danish (Bondebjerg, 2016a). A shining example of the evolution of the Danish film industry has been the production company Zentropa founded in 1992 by Peter Aalbæk Jensen, Lars von Trier and Vibeke Windeløv. Lars von Trier was producer until 2008. The company that has by now produced more than 200 films has pursued an explicit international network-building strategy from the beginning by striving to working on co-production and establishing or becoming a partner in tens of subsidiaries across Europe. Recognising the effectiveness of their strategy Zentropa was

named in 2000 ‘European Producer of the Year’, just as its distribution company, Trust Film Sales, also won the Eurimages prize as ‘European Exporter of the Year’. By also establishing Filmbyen, a set of shooting studios and office spaces for film companies in Avedøre in 1999, it has been, in effect, driving an internationally oriented AV production cluster in Denmark.

All such strategising has been resulting in a steady growth for the Danish film production sub-sector. Export revenues by Danish independent producers grew 400% in the film sector between 2009 and 2017 (export revenues 154 million euros in 2017). In comparison, TV content export by independents (not including public broadcasters and their in-house productions) grew only 2.1% during the same period (in gradual decline in recent years) and videogame production export by 62.8% (growing steadily, with export revenues 74 million euros in 2017).<sup>1</sup>

When it comes to game development industries, however, Denmark is less developed while neighbouring Sweden is a notable powerhouse – with internationally well-known games such as *Minecraft* and *Battlefield* having been developed there. Revenues of Swedish game developers increased to 1.4 billion euros in 2016, representing a 1000% increase since 2010. The videogaming industry in Sweden reported a total profit for 8 years running (2010–2018), and 25% of all revenue is generated by medium-sized and smaller companies.<sup>2</sup> Finland, which had internationally salient success with games like *Clash of Clans* and *Angry Birds*, has been doing similarly well – in 2014, the industry turnover was approximately 1.8 billion euros, representing 100% growth compared to the previous year. Gaming industry revenues have been the world’s highest in relation to population.<sup>3</sup> With *Angry Birds* having also spread investment to film production and educational gaming, there have been significant spillovers to other branches of AV industries. Related to this is the early success in VR and AR – revenues for companies in these areas have grown 4.7 times from 1.3 million euros in 2015 to 6.1 million euros in 2016.<sup>4</sup> In Sweden, 10% of games companies are working on VR experiences.

The spectacular growth of game development industries in the Nordic countries is itself an example of cross-innovation. As the sector is effectively coordinated by two policy frameworks – information and communication technology industry development and creative industries/AV culture development. In case of Finland, for instance, the growth has been fuelled by investments from Business Finland (formerly Tekes) that generally invests in technological innovation, but also by various creative industries measures – especially by thematic incubators and accelerators. Across the Nordic countries, an important policy instrument has been the Nordic Game Program that has funded the development of more than 100 ‘quality games’ aimed mainly at smaller children. That is, also in this sphere the Nordic cooperation has been underpinned by the core welfare society values. The Nordic focus on regional film production, that films

---

<sup>1</sup>See further: <http://pro-f.dk/>

<sup>2</sup>See further: <https://dataspelsbranschen.se/rapporter/>

<sup>3</sup>See further: <https://www.neogames.fi/fgir2015/>

<sup>4</sup>See further: <https://fivr.fi/survey2017/>

need to represent social and cultural realities everywhere in these countries have been affecting also game production. This is because the regional film and TV cluster organisations have started to increasingly also work with gaming companies – as for instance in case of Aarhus in Denmark where the local Filmby Aarhus, a film production centre and a cluster organisation that coordinates film production in Western Denmark has started to also engage with coordinating game development in the region (see also Chapter 9). That is, increasingly there are local initiatives where the operations of film and television production and game development are coordinated within the same framework.

We did this quick round of statistics and numbers on the Nordic AV industries to indicate not only that this sector is doing good in the region and that it is generally in the growth mode, but also that it is operating internationally and that there are significant spillover effects between sub-sectors. The growth can be understood to be based on a complex set of public (national and regional) policies that start from diversified funding for public television and film production, but also include a variety of support measures such as funding for cluster organisations, incubators or accelerators aimed at gaming and other start-ups (see Chapters 5 and 9 in this volume about the last). The spillovers between subfields and their cooperation are understood to have also been facilitated by educational systems – with programmes in filmmaking, TV production animation, game development and trans-media production existing next to each other and being occasionally integrated.

## **Audiovisual Media in the Baltic States**

Next to the Nordic countries, the Baltic states have a notably different situation. Having restored their independence in the early 1990s, they have broadly rebuilt their media systems anew. This process has had limitations owing to lack of resources and occasional political instabilities, but there have also been opportunities associated with lacking path dependencies. Especially Estonia's success in building up its benchmarking e-governance systems could be related to the latter aspect. Regarding the broader media sector, the early weaknesses and lack of resources and know-how was neutralised in the 1990s with the help of investments from neighbouring Nordic countries – several major Nordic media groups saw the Baltics as their first expansion opportunity and invested in the Baltic media, some of the most visible having been Schibsted, Bonnier, Sanoma and Modern Times Group. As Jõesaar (2017) has demonstrated, their main goal was to profit from newly opened markets and, with regard to television broadcasting, these investments were, indeed, very profitable for a while.

As the Baltic economies were, in general, enjoying quick growth, this also spilled over to advertising. The Baltic regulators being rather favourable towards foreign-owned media groups meant that their television branches showed very high productivity, too. Jõesaar (2017) calls these the 'golden years' of private television in the Baltics. Yet, as the global recession struck in 2008, the Baltic countries suffered considerably. Especially bad was the effect on local media firms – from which they have still not recovered (see [Figure 3.1](#)). Furthermore, digital

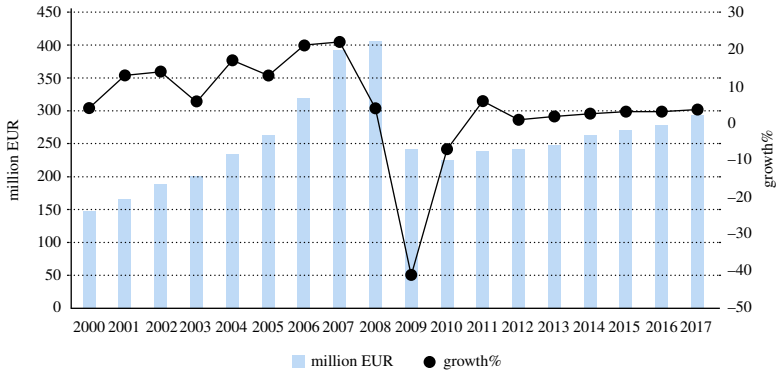


Figure 3.1. Aggregate Advertising Expenditures of the Baltic States (2000–2017). *Source:* Kantar Emor.

switchover with the pluralisation of competing channels and advertising moving to the internet added additional challenges to operating in those very small markets. These hardships were reflected in many foreign investors pulling out. In 2015, Schibsted sold all of its Baltic businesses and what used to be its major Estonian property Eesti Meedia is now solely owned by an Estonian entrepreneur, Margus Linnamäe. Another Estonian, Hans H. Luik, bought back the majority stake of Ekspress Grupp AS shares from its Swedish owners. MTG, in turn, sold all of its Baltic media businesses to Providence Equity Partners, a US investment company.

What the now mostly locally owned media houses have been focusing on is online and cross-media output. The rationale behind this is, on the one hand, to build on the economies of scope logic and make these companies more effective and, on the other hand, to foster opportunities for innovation in the area of cross-media solutions, but potentially also with regard to cross-innovation – that is, working with other sectors. Bonnier-owned business information outlet Äripäev in Estonia, for instance, has recently been digging itself into the educational content business. This is based on the understanding that as it is already a knowledge processing and filtering enterprise, it can be extended to provide knowledge for learning purposes. As some of its advertising income has disappeared – moved to the global platforms (not represented in Figure 3.1) – its cross-innovation strategies are, in effect, strategies of ‘deep localisation’ – materialising in creative forms of native advertising, in conference and event organisation, etc. – all the stuff that global platforms cannot do.

Regarding online activities especially, it may be that the abovementioned Estonia-based media groups Eesti Meedia and Ekspress Grupp are replicating the cross-regional growth scenario described earlier in relation to Scandinavian groups. Both have expanded across the Baltic states and have considerably diversified their operations. Ekspress Grupp owns the leading online player in all three countries, the Delfi news and online services portal. Eesti Meedia has merged its newspaper, online and television assets into a single company, owns the region’s biggest



Table 3.1. Annual State Support for Baltic Film Industries (2014–2018) (in Euros).

Year	Latvia	Lithuania	Estonia
2014	4,306,730	3,024,501	6,954,607
2015	5,747,829	3,073,737	7,072,593
2016	6,770,387	3,519,000	10,390,612
2017	10,462,238	4,619,000	12,467,002
2018	6,192,637	6,423,000	11,055,504

Source: Baltic Films (2018).

advertising network and has bought up all existing Baltic news agencies. Across all their operations, both companies are profitable. Regarding cross-media strategies, both companies are investing notably in online video provision and in developing video-on-demand services. Furthermore, Eesti Meedia has recently stepped into film production based on the recent box-office successes of some Estonian films.

The film industries of all three countries have, in fact, been in growth mode in recent years. This is owing to not only to growth in public funding (see Table 3.1), but also to the evolution of the institutional system needed for the industry and its production culture to flourish. Regarding this one of the first steps was the establishment of the Baltic Film and Media School in Tallinn in 2005 (a college of Tallinn University), which has facilitated growth in the number of skilled professionals. Especially in Estonia, the film policy focus has been on building and strengthening the institutional system and its inherent coordination such that there is a higher education institution, a film institute, an international film festival together with a film market, a set of strong production companies, a shooting studio, a cluster organisation, funds for co-production and a rebate fund to attract foreign productions to the country and, in this way, to provide additional work, ‘interactive learning’ (Lundvall, 1992) and networking opportunities for local firms and professionals (Ibrus, 2015). This strategy is effectively copying the Danish example – in terms of strong emphasis on co-productions and international networking as well as on developing the necessary institutional system in the country. The strategy has proved successful with Estonia having a recent Oscar foreign language film nomination (*Tangerines*) and two Golden Globe nominations (*The Fencer*, *Tangerines*).

Also, cinema admissions for domestically produced films have grown quickly in the last few years. Demand for domestic films has been growing in all three countries owing also to the recent growth in the number of digital cinema screens – from 109 in 2013 to 187.<sup>5</sup> In Estonia, the number more than doubled

<sup>5</sup>See further for Baltic film facts: <https://www.filmi.ee/en/estonian-film-institute-2/facts-and-figures/baltic-films-facts-and-figures>

in this period – from 29 to 73 – owing to direct public subsidies for cinemas in smaller towns. While film production is publicly subsidised in general, the growth in digital screens has enabled not only cheaper, quicker and more flexible domestic distribution of films, but also more returns from the box office – motivating private investment in film production as referred to above. That is, the public investment in cinemas (facilitating demand) has facilitated new private investments in production, more of market dynamics and more of diversity (both in terms of institutions engaged in the system as well as in terms of diversity in films produced). What we could recognise here is public coordination of a film innovation system, whereas in the process the provided public value is, in effect, also turned into private value.

Yet, it needs to be highlighted that the budgets of films produced in the Baltic countries are tiny compared to Western standards and significant exporting success is still to come. Still, what the Estonian example of film production (or innovation) system building exemplifies is that, with appropriate public-policy-based coordination, growth can be achieved even if initial conditions are meagre.

Next to privately operating media and film industries, Baltic public service media institutions are in a similar situation – growth and opportunities exist, but the limitations deriving from very small market sizes and still emerging economies are significant and restraining. See Table 3.2 for a comparison of public funding for our case countries around the Baltic Sea.

Despite the restrictions in the Baltics, it is still PSB organisations that can be seen acting as coordinators and facilitators of inter-sectoral cooperation and of various kinds of innovation activities in the media sector. Cross-media formats are successfully used especially for children’s programming and educational content. For instance, the European Broadcasting Union elected Estonian Public

Table 3.2. Funding of Public Broadcasters in 2016.

Country	Total Revenues	Per Capita	Of Which Comes from Public Funding
Lithuania	32.9	11.8	92.7%
Latvia	26.5	13.2	79.2%
Estonia	40.3	31.0	95.8%
Finland	473.2	86.0	97.7%
Sweden	867.4	86.7	99.4%
Germany	9177.7	111.0	88.0%
Norway	610.6	115.2	98.1%
Denmark	910.0	160.7	54.2%
Iceland	56.6	188.7	50.0%

Source: Calculations based on European Audiovisual Observatory data (2018a).

Broadcasting's (ERR) *Rakett 69* as the best educational TV show in Europe in 2012. *Rakett 69*, which is still running, is effectively a gamified science show in a cross-media format targeted to older children and adolescents.

Game production is similarly emerging in the Baltics. There is a cluster of indie game developers in all countries with the oldest of them still less than 10 years old and the best of them having annual turnovers of between 100,000 and 500,000 euros. There is, however, one exception – Creative Mobile – an Estonian company that invented the popular 'drag racing' genre for mobile games and has capitalised on that, having produced a whole series of racing games, but also other kinds of mobile games. Their turnover in 2017 reached 7.3 million euros – which is significant compared to, for instance, public film production subsidies in the country. Creative Mobile is, however, also notable for cross-media development as one of their most recent outputs is a cooperation with 20th Century Fox based on the television series *The X-Files*. *The X-Files: Deep State* is a mystery investigation game that was published with the release of the TV series' 11th season in 2018.

As Creative Mobile is also driving Estonia's Game Developers Association, one can recognise a new cluster developing around them. Yet, the developments within this cluster are also based on the broader dynamics within the Estonian start-up scene, recognised to be one of the most active in Europe in recent years (Chakravorti, Tunnard, & Shankar C, 2015; Mets, 2017). More recently, there have been established new publicly and privately funded incubators, accelerators and cluster organisation in Estonia (Digix,<sup>6</sup> Storytek<sup>7</sup>) as well as in Lithuania (Nebula<sup>8</sup>). All of them host start-ups representing the increasingly rich variety of content forms and business models within AV industries. It remains to be seen to what extent are these initiatives able to facilitate interactive learning and convergence between the sub-sectors. Yet, their public funding evidences that in the Baltics too these formerly distinct sub-sectors are increasingly coordinated as one (innovation) system.

This review of the AV media industries in the Baltics paints a picture of the challenges and strategic opportunities that both the policymakers and the managers of media enterprises in very small countries face. There could be opportunities in strategic (innovation) system building and often these may lay, in fact, in cross-innovation with other sectors. Altogether last two sections told us two stories: first, how long-term welfare society policies and their path dependencies can be understood to have conditioned growth, dynamics and international success for the AV media sector of the Nordic countries; and second, what the real limitations are for the very small emerging countries and their media industries and how innovation policy rationales can be understood to facilitate growth in these circumstances. Let us look next in more detail at the specific conditioning factors of small domestic markets to their media industries.

---

<sup>6</sup>See <http://digix.eu/et/>

<sup>7</sup>See <https://storytek.eu/>

<sup>8</sup>See further: <http://nebula-cluster.com/>

## Small Size Matters

Media markets tend to have special characteristics that suggest that larger is better. Owing to high economies of scale in the media, it makes sense to sell, distribute and copy what has already been produced. The variable costs of selling an extra unit of what has been produced are marginal. Where companies operate in large domestic markets, they can reimburse their investments in the domestic market and then, especially in the case of digital content, with no or very limited extra costs of further distribution, sell their products very cheaply in additional markets. Every penny earned in these extra markets is effectively a profit, given that the company was already on a break-even in the domestic market. This point of reaching the break-even point is easier in larger countries than it is in smaller countries. Where investment in production is high, the logic of the economies of scale is that the larger the market and the demand, the better it is financially. Small start-up companies do not have this scale benefit yet, and might have to compete against larger ones that have it. This makes investing in new products and services with high initial production costs, as is the case for the media, very risky. Hence, it is important that they offer something unique to be able to address a niche (Dimmick, 2003; Porter, 1980). Prediction of demand and the degree of diffusion of new AV services is a major topic of interest for both governments and providers. Competitive relationships with existing services are of key concern in these predictions. The competitive Bass model (Bass, 1969; Seol, Park, Lee, & Yoon, 2012) and the theory of the niche (Dimmick, 2003) have often been used as a framework for examining competition patterns in media industries.

Media industries are not only characterised by high economies of scale, that is, cost savings through increased output, however. Another characteristic of media industries is their grant opportunities of high economies of scope, that is, costs savings through synergies. Media companies that own and operate various channels and platforms can share content among these platforms as well as share marketing and other costs across operations. The more channels a broadcaster has, the more costs it can save compared to these channels each being owned and operated by individual players. This cost logic benefits larger companies that own and operate many different platforms and disadvantages smaller players that cannot share costs across entities.

Furthermore, network effects or network externalities play a crucial role in the media. This means that the success of a product may not be directly and foremost connected with its quality, but with the amount of users using it. Media applications are more valuable to a single user the more people use them. Owing to the importance of network effects, it is crucial for media applications to reach a critical mass of users until the product ‘takes off’, so to speak. Very often, this critical mass is achieved through offering the service or application for free, although this means that the high costs of development and production are not all met with revenue streams from users, which carries a high investment risk, also owing to the uncertainty in terms of demand size that is characteristic of the media industry. Very often, companies follow a freemium model paired

with a paid model for extra services or product features. Entrepreneurs or firms that have larger companies or other money sources in the background are at an advantage and find it easier to test and try new ideas in the market.

The fact that AV industries in small countries underlay special economic logics that influence their international competitive position is well documented (see, for instance, [Lowe & Nissen, 2011b](#); [Rohn, 2014](#)). [Puppis \(2009\)](#) describes four primary issues that confront small market systems: shortage of resources, small domestic demand, dependency and vulnerability. In terms of shortage of resources, small markets have smaller probabilities for effectively developing resources from within. Especially for producers of quality films, TV series or games that aspire to be internationally distributed, the pool of skilled workers, directors, etc., is naturally limited. Furthermore, weakness in demand affects the viability of domestic producers. The dependency and vulnerability they experience relate to the distinct advantages of big players as content and capital from larger states flow to smaller ones. Very often, this results in domination on screens and in ownership.

When discussing the role of the small European Union member states in regard to AV policy, [Trappel \(2014, p. 240\)](#) writes that ‘the underlying assumption of small states’ media research is that this group of countries shares problems, which are different from those in larger states, and that media policies somehow do not take these differences sufficiently into account’. Recognising that 70% of European states (representing one-third of overall population) are categorised as ‘small’, the viability of small media systems presumably should be a bigger issue for policymakers at the EU level ([Trappel, 2014, p. 240](#)). Further exemplifying this tension between large and small countries in the context of media policy, [Lowe and Nissen \(2011a, p. 7\)](#) write: ‘Can one realistically expect a media market with a few million people to have the same opportunities as countries with many times the population?’

Yet, when we look at the Nordic countries, we do see strong media companies that, owing to the cultural and language proximity of those countries, have been able to grow to become regional media groups and have performed well commercially elsewhere. Governments see these companies not only as drivers of innovation but also as important bulwarks against foreign ownership ([Syvertsen et al., 2014](#)). It is Nordic media companies that dominate the Nordic countries and it is now also Baltic countries dominating the Baltic markets. Nordicom’s list of the 25 largest media companies on the Nordic market in 2015 in terms of revenue from the Nordic countries shows that the most successful non-Nordic company, Discovery Communications from the US, is not ranked before 12. In fact, it is one of the only two non-Nordic companies on this list, with a Dutch company ranked 23. What is more, most of the leading companies in the Nordic region receive the majority of their revenues from the Nordic region, with Finnish Sanoma and Sweden’s Spotify the exceptions ([Nordicom, 2015](#)).

In terms of Nordic companies that are successful in other Nordic markets, we see that in Finland, the second largest player in terms of audience share is Bonnier. In Denmark, the third largest player is the Swedish Modern Times

Group. In Norway, the second largest player in terms of audience share is the Danish private broadcaster Egmont Fonden ([European Audiovisual Observatory, 2018a](#)). In Latvia and Lithuania, the biggest online media outlet is Delfi, owned by Estonian Ekspress Grupp.

Despite increasing globalisation, TV markets in the Nordic countries are also predominantly in the hands of domestic players. In Sweden, for instance, Swedish-owned channels earned more than 80% of the total viewing time ([The Swedish Broadcasting Authority, 2014](#), p. 10). As there is no law against foreign media ownership, as is typical for the Nordic countries, the low level of interest in the Swedish media market from foreign, especially non-Nordic media companies is probably explained by its size and the relatively successful domestic players in the market ([Open Society Foundation, 2011](#), p. 10).

Yet, to provide context, we need to compare the Nordic companies with the major European TV groups established in the large European countries where they benefit from the large market economies. In total, companies based in the UK, France, Germany, Italy and Spain accounted for almost 61% of the revenues of the top 100 in 2016 ([European Audiovisual Observatory, 2018b](#), p. 62). From our case countries, only Finland and Sweden made it to the list – the companies from these countries generated respectively 3% and 2% of the revenues ([European Audiovisual Observatory, 2018b](#), pp. 62–63).

## **Broader Trends in the Media Industries and How They Apply in the Region**

Data-driven and technological innovations, digital applications and new business models are conditioning change in all sectors. New forms of work and reshaping of trade opportunities and relations are common ([OECD, 2017](#)). In the AV sector, we can observe two interrelated and interdependent trajectories: convergence and platformisation.

Virtually all types of AV services can be distributed these days over the internet, which has also opened the markets to internet-native companies. Furthermore, companies that previously focused only on infrastructure and content distribution are increasingly investing in content itself. Telecommunications firms and over-the-top (OTT) online services that run video-on-demand (VOD) platforms produce films and TV series, or buy premium sports rights ([European Audiovisual Observatory, 2018b](#)). This kind of convergence and the new competitors are unavoidably affecting the playground for the legacy television networks as well as independent producers.

They are also affected by what is sometimes called disintermediation – traditional intermediaries losing their roles. Instead, as [Bilton \(2017\)](#) puts it, there are new intermediaries emerging and these are the global ones. Platforms such as Facebook, Google, Amazon, Apple and Netflix together with telecommunications vendors providing broadband services are intent on controlling the business of consumption. They have largely monopolised consumer attention. Furthermore, automated advertising exchange platforms come at the cost

of losing direct business relationships with advertisers (European Audiovisual Observatory, 2018b). What this all means is that legacy AV service providers in small countries are gradually losing control over contact with audiences and advertisers to global platforms; as once all-powerful local ‘gatekeepers’ to content, they have now been outmanoeuvred.

Evidence of this is the growing share of locally generated advertising revenue going to those platforms and international advertising networks. In Denmark, for instance, the share of total advertising revenue that was generated in Denmark but went to foreign companies grew from 3% in 2007 to 26% in 2015, and for online ad revenues the number grew to 56% by 2015 (The Danish Agency for Culture and Palaces, 2016, p. 57). That they are also gradually losing audiences to global platforms is evidenced by the growth in time spent on consuming AV content on platforms such as Netflix and YouTube. While in Denmark, Finland, Norway and Sweden, the consumption of AV content online grew to range between 52% and 59% in 2017 and while in each of these countries the public broadcaster’s streaming platform was among the top platforms to be used, still, Netflix and YouTube were always in the top three, followed closely by HBO Nordic, iTunes, Google Play and others (Audience Project, 2017). Indeed, European Audiovisual Observatory (2018a) data confirms that on-demand revenues have seen the largest increase compared to other sources of income for the European AV industries – here we can see a compound annual growth rate of as much as 43.2% between 2011 and 2016. Yet, the question is, how much of the actual user spend reaches the local industries, especially in smaller countries? That is, despite the relative strength of the Nordic media industries to date, the effects of global intermediaries, advertising networks and platformisation (van Dijk, Poell, & de Waal, 2018) on their revenues and operational models are expected to be increasingly challenging.

## **Potentials of Cross-innovation Systems for Media Companies in Small Markets**

In Chapter 2, when discussing regional innovation systems, it was suggested that, despite globalisation, locality is constitutive for innovation. Most businesses, universities and other knowledge creation institutions are still local – and so are the ‘interactive learning’ processes among them. Knowledge and processes of its generation tend to be territorially ‘sticky’. That is, they are also, to an extent, path dependent. Above in this chapter, we saw how much of the strength of Nordic media relies on developments and steps taken sometimes decades ago. Success is evolutionary; it accumulates. Accomplishments in exporting or in international expansion are locally rooted. Relatedly, as can also be read in Chapters 5 and 9 in this volume, well-coordinated local clusters have proved to be effective instruments for developing media industries in small countries. Clusters are especially needed where small companies operate in an industry that benefits from geographic proximity of other small companies close up- or downstream the value chain. Ideally, clusters promote healthy competition but

also cooperation in the development of knowledge. We also saw above, for instance in the case of Estonia building its film production system, how building a well-coordinated system can start producing good results, growth and international success, even when the initial conditions are meagre.

Another interesting development was Estonia's journalistic media outlets investing in new lines of business including providing interactive educational content and organising conferences and other kinds of events, even concerts and festivals. These are effectively forms of cross-innovation, cooperations with other local stakeholders, with institutions mastering locally relevant information and expertise. Such forms of locally accumulating and culturally specific knowledge are something that the global platforms cannot very easily reach. And, as the markets we are generally discussing in this book are very small, they often do not even try. As we saw, Baltic markets are too small and challenging even for the media groups in their neighbouring Nordic countries. For this reason, cross-innovation, the topic of this book, could be even more important for media companies in very small countries. Not only is it an opportunity to build on the economics of scope logic and open new lines of business that relate to existing ones; it is also an alternative, a way of addressing the risks deriving from global platformisation of media markets. That is, with the decreasing importance of intermediary services, the role of owning exclusive content or providing unique services is increasingly important for local AV media service providers. How well they are managing this can be read in the subsequent chapters of this volume.

## References

- Audience Project. (2017). *Insights 2017: Traditional TV & streaming in the Nordics, UK and US*. Copenhagen. Retrieved September 30, 2018 from [https://www.audienceproject.com/wp-content/uploads/audienceproject\\_study\\_traditional\\_tv\\_streaming.pdf](https://www.audienceproject.com/wp-content/uploads/audienceproject_study_traditional_tv_streaming.pdf)
- Baltic Films. (2018). Facts and figures 2018. Retrieved September 30, 2018 from <http://filmi.ee/wordpress/wp-content/upload/2019/02/FF-2019-web2.pdf>
- Bass, F. M. (1969). A new product growth model for consumer durables. *Management Science*, 15(January), 215–227.
- Bechmann, A. (2012). Towards cross-platform value creation. *Information, Communication & Society*, 15(6), 888–908. doi:10.1080/1369118X.2012.680483
- Bilton, C. (2017). *The disappearing product: Marketing and markets in the creative industries*. Cheltenham: Edward Elgar.
- Bolter, J. D., & Grusin, R. (1999). *Remediation: Understanding new media*. Cambridge, MA: MIT Press.
- Bondebjerg, I. B. (2016a). Regional and global dimensions of Danish film culture and film policy. In M. Hjort & U. Lindqvist (Eds.), *A companion to Nordic cinema*. Chichester: John Wiley & Sons.
- Bondebjerg, I. B. (2016b). Transnational Europe: TV-drama, co-production networks and mediated cultural encounters. *Palgrave Communications*, 2, 1–13.



- Bondebjerg, I. B., & Novrup Redvall, E. (2015). Breaking borders: The international success of Danish television drama. In I. Bondebjerg, E. Novrup Redvall, & A. Higson (Eds.), *European cinema and television: Cultural policy and everyday life* (pp. 214–238). Basingstoke: Palgrave Macmillan.
- Chakravorti, B., Tunnard, C., & Shankar C, R. (2015). The way to Estonia: How to reach digital nirvana. *Foreign Affairs*, March 24.
- Dimmick, J. (2003). *Media competition and coexistence: The theory of the niche*. New Jersey, NJ: Lawrence Earlbaum.
- European Audiovisual Observatory. (2018a). Yearbook 2017/18. Strasbourg: European Audiovisual Observatory.
- European Audiovisual Observatory. (2018b). *Yearbook 2007/2018: Key trends*. Strasbourg: European Audiovisual Observatory.
- Hall, P. A., & Soskice, D. (2001). An introduction to varieties of capitalism. In P. A. Hall & D. Soskice (Eds.), *Varieties of capitalism: The institutional foundations of comparative advantage* (pp. 1–68). Oxford: Oxford University Press.
- Hallin, D. C., & Mancini, P. (2004). *Comparing media systems: Three models of media and politics*. Cambridge: Cambridge University Press.
- Hjort, M., & Lindqvist, U. (2016). Introduction. In M. Hjort & U. Lindqvist (Eds.), *A Companion to Nordic cinema* (pp. 15–18). Chichester: John Wiley & Sons.
- Ibrus, I. (2015). Audiovisual policymaking in Estonia at times of convergence: An ‘innovation system’ as a policy rationale. *Baltic Screen Media Review*, 3, 102–115.
- Jõesaar, A. (2017). The winding road on the media landscape: The establishment of Estonian (television) broadcasting between 1992 and 2016. *VIEW Journal of European Television History and Culture*, 6(11), 113–123.
- Lowe, G. F., & Nissen, C. S. (2011a). Preface. In G. F. Lowe & C. S. Nissen (Eds.), *Small among giants: Television in smaller countries* (pp. 7–19). Gothenburg: Nordicom.
- Lowe, G. F., & Nissen, C. S. (Eds.). (2011b). *Small among giants: Television broadcasting in smaller countries*. Gothenburg: Nordicom.
- Lundvall, B. Å. (1992). *National innovation systems: Towards a theory of innovation and interactive learning*. London: Pinter.
- Mets, T. (2017). Is ICT the solution of the problem for Estonia? In H. Kaur, E. Lechman, & A. Marszk (Eds.), *Catalyzing development through ICT adoption* (pp. 273–288). Cham: Springer.
- Nordicom. (2015). The 25 largest media companies on the Nordic market in 2015. Gothenburg. Retrieved September 30, 2018 from <http://www.nordicom.gu.se/en/latest/news/top-25-companies-nordic-media-market-2015>
- OECD. (2017). *Digital economy outlook 2017*. Paris: OECD Publishing.
- Open Society Foundation. (2011). *Mapping digital media: Sweden*. London: Routledge.
- Porter, M. (1980). *Competitive strategy: Techniques for analyzing industries and competitors*. New York, NY: Free Press.
- Puppis, M. (2009). Introduction: Media regulation in small states. *The International Communication Gazette*, 71(1–2), 77–87.
- Rohn, U. (2014). Small market, big format: Idols in Estonia. *Baltic Screen Media Review*, 2, 122–137.

- Seol, H., Park, G., Lee, H., & Yoon, B. (2012). Demand forecasting for new media services with consideration of competitive relationships using the competitive bass model and the theory of the niche. *Technological Forecasting and Social Change*, 79(7), 1217–1228.
- Silverstone, R. (1999). *Why study the media?* London: Sage.
- Syvvertsen, T., Enli, G., Mjøs, O. J., & Moe, H. (2014). *The media welfare state: Nordic media and the digital era*. Ann Arbor, MI: University of Michigan Press.
- The Danish Agency for Culture and Palaces. (2016). *Media development in Denmark – Summary and discourse*. Copenhagen, Denmark.
- The Swedish Broadcasting Authority. (2014). Media development 2014. Retrieved September 30, 2018 from <http://www.mpr.se/Documents/Publikationer/Media-Development-2014-webb.pdf>
- Toft Hansen, K., & Waade, A. M. (2017). *Locating Nordic noir: From beck to the bridge*. London: Palgrave.
- Trappel, J. (2014). Small states and European media policy. In K. Donders, C. Pauwels, & J. Loisen (Eds.), *The Palgrave handbook of European media policy*. Brussels: Palgrave MacMillan.
- van Dijck, J., Poell, T., & de Waal, M. (2018). *The platform society: Public values in a connective world*. New York, NY: Oxford University Press.