Research project:

Convergence or differentiation in IP protection strategies and business models? – The case of China

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Report on twin projects

Thanks to our Funders

- RCUK Centre for Copyright and New Business Models in the Creative Economy - A case study of new models for digital film, music and e-fiction production and distribution in China
- AHRC Centre for Digital copyright and IP Research in China - Convergence or differentiation in IP protection strategies and business models? new models for digital film distribution in China

Thanks to our Research Team

X.Shen (UoE STI & business)
R.Williams (UoE, STI)
Y. Liu (PKU Law)
M.Gerst (Tsinghua STI&business)
Y.Li (PKU law)
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Research partners

➢ **In the UK**
  - University of Edinburgh Business School,
  - University of Edinburgh Institute for the Study of Science, Technology and Innovation
  - University of Edinburgh Law School;
  - CREATe Centre

➢ **In China**
  - PKU law school
  - Tsinghua University Management School
We seek to understand the current status of the play with large internet companies to engage with creative industries.

What business models are being developed by Chinese internet companies in the creative industries, which may be radically different from those in the West?

We investigate whether the Chinese cultural creative world is converging/diverging with the global north.
Interdisciplinary with three positions:
1) Business models /strategies are not isolated neither fixed
2) Legal systems cannot be transferred from one society to another without adaptation
3) Innovation embeds in the context
Developments are patterned by historical context

Sharp differences remain between China & West despite attempts to create convergence e.g. through WTO accession

Strong parallels: protracted processes of collective experimentation & ‘Learning by doing’ – creating and attracting users to new services: digital economy firms intensely focused on user responses
One year project

For this *exploratory* research, we adopt a qualitative methodology based on detailed ethnographic interviews.

58 interviews carried out (up to 11 November 2016) in the field.

Actors and other stakeholders interviewed across several categories:

- Internet platforms
- Creative culture industries
- Law and legal professionals
- Academics in the fields of law and media
- Collecting societies
- Policymakers and officials responsible for creative culture industries at Beijing municipality and central government
- Managers and business people of overseas institutions stationed in China, which are concerned with the above areas.
<table>
<thead>
<tr>
<th>Companies/Organization</th>
<th>Interviewees</th>
<th>Location, Video</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Alibaba (08-12-2013)</td>
<td>Ch. Yongheng - Director for the Research Institute for Cross-Border E-commerce, Li Wei - Director of Legal Dept., Alibaba Group</td>
<td>Hangzhou, video</td>
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<tr>
<td>2. Alibaba (08-12-2013)</td>
<td>Li Heping - Director of Legal Department, Sun Xiaohui - Legal Manager, Legal Department</td>
<td>Hangzhou, video</td>
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<td>3. Alibaba (04-09-2016)</td>
<td>Li Shuhui - Associate Dean, University of Hangzhou</td>
<td>Hangzhou, video</td>
</tr>
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<td>4. Communication University of China (04-12-2015)</td>
<td>Wang Shun - Deputy Dean of Faculty of Law, Li Chao - Director of Legal Department, Sun Xiaohui - Legal Manager, Legal Department</td>
<td>Hangzhou, video</td>
</tr>
<tr>
<td>5. IF Bi-Asia China New Intellectual Property Corporation (30-09-2015)</td>
<td>Bao Zhiming - Team Leader, Zheng Ping - IP manager</td>
<td>Hangzhou, video</td>
</tr>
<tr>
<td>6. PUI Law Office (21-12-2013)</td>
<td>Wang Shun - Legal Advisor, Sun Xiaohui - Legal Manager, Legal Department</td>
<td>Hangzhou, video</td>
</tr>
<tr>
<td>7. Former high level official in Ministry of Commerce, Leader (to be) of P. Law in China</td>
<td>Yang Guangzhao - Visiting professor, Trine University Law School, former Deputy Director-General, Department of Treaty and Law, Ministry of Commerce</td>
<td>Hangzhou, video</td>
</tr>
<tr>
<td>8. Alibaba headquarters (04-09-2016)</td>
<td>Cen XU</td>
<td>Hangzhou, video</td>
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In the context of weak IP enforcement; absence of powerful rights owners (eg record companies with catalogue of artists/IP to protect); many start-ups offering free distribution of unlicensed content; Widespread experimentation at scale => diverse services: creates an emerging ecosystem “a hundred flowers bloom”

Recent tightening of licensing– substantial investments needed to buy up licenses provokes rapid restructuring; M&A; Entry of cash-rich social media companies (Baidu, AliBaba, TenCent) with deep pockets which come to play a key role across a number of digital creative industries

Recombination of many elements of digital creative industry business & service models to create a radical extension of multi-sided models (Belleflamme & Peitz 2016, Baden Fuller 2016), which may be able to mitigate the problems facing copyright protection regime
Dominance of BAT

Integration/leveraging value along and around the Value Chain:
- integrating creation, distribution and consumption: Netizens/mobile users become major actors by performing, interacting, rating, commenting, financing, etc.
- integrating (O2O-online and offline) complementary products and services (services for creators; merchandising, ticket sales etc)

Integrating and leveraging value at different levels
- Within specific Creative Industry sector
- Between different Creative Industry sectors: music, literature and film production and distribution, games etc
- Integrating cultural industry businesses with other core business and commercial services
BAT Multiple Value Propositions

Horizonal integration between Creative Industries core businesses

Lateral integration between CI sectors: film, TV, literature, music, games

Integration within sector value chain (creation, distribution, consumption)

Music

Integration within sector value chain (creation, distribution, consumption)

E-literature

Integration within sector value chain (creation, distribution, consumption)

Film/TV

Retail payment & finance service systems

Integrated online service infrastructures

Monetisation

Volume of data & population

VALUEs
Conclusions

- Through extended processes of real-life experimentation, China has become a laboratory for the elaboration of new business and service models matched to her historical setting.
- Mangematin et al. (2014:2) “disassembly.. the shaking of existing business models of transaction and distribution.. and reassembly [using] new tools and architectures to interact with audiences and communities in selected creative industries”.
- Distinctive service models/value propositions which may provide templates for other developing and developed economies
- Our study has provided a snapshot of the emerging ecology of China’s new digital cultural industries. This is are only the early stage of extended evolution process.
- Further research is needed – longitudinal studies; multi-level studies: organisation <> sector

26/5/2017 Presentation for AHRC China project, X. Shen
Future trends

- Services are not yet self-sustaining
  - Spotify isn’t yet profitable: 2016 lost $206M on $2bn revenue (85% for licensing fees)
  - (when?) will this become an issue for the firms involved?

At some stage we may expect:
- shift from extensive growth
- Shake-out of services as financial viability becomes more salient

Question: Will more stringent copyright protection in China inhibit further innovation (start-ups; service models)?
Social shaping of technology/social learning

- Developments are patterned by historical context
- Sharp differences remain between China & West despite attempts to create convergence eg through WTO accession
- Strong parallels: protracted processes of collective experimentation & ‘Learning by doing’ – creating and attracting users to new services: digital economy firms intensely focused on user responses
Understanding the social shaping of business

- Need to address these as dynamic processes
- c.f. limitations of snapshot studies;
- Researchers and practitioners needing to draw conclusions before ‘facts of the case’ become established
- Avoid premature judgements around particular cases/views
• Path dependencies shape future trajectories;
• first movers become entrenched - but are not the end of the story
• further evolution of ecology (c.f. sector/ecosystem models: stable boundaries/positions)
• The outcomes are not yet established – indeed they are still being shaped/contested
• Value of longitudinal and cross-national comparative assessments – to obtain different vantage points on these complex sets of developments