Environmental and Market Changes Driving Strategic Planning in Media Firms

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Media companies worldwide are struggling to understand and adjust to wide-ranging external and internal changes that are altering modes of production, rapidly increasing competition, eroding their traditional audience and advertiser bases, altering established market dominance patterns, and changing the potential of the firms.

The need for media companies to understand and adjust to the new conditions grows daily because such changes can lead to failure of both existing and new products and, ultimately, lead to the loss of value or collapse of firms.

This chapter explores a range of broad influences that are driving change in the media industries and requiring companies to alter existing strategies and develop new strategies to survive and grow in the coming years. The forces can be conceptualized as four types of influences that are external and internal to media firms (Figure 1).

Environmental influences represented the broadest changes in the nature of society and environment for all businesses. Media-specific policy influences represent changes in way media are regarded and controlled in society. Market specific influences related to factors changing specific markets of firms. Firm-specific influences relate to factors within firms that are inducing changes.

The influences portrayed in grey in the graphic conceptualization (Figure 1) reflect concerns related to those of the external environment school of strategy that began in the 1980s and was highly influenced by Porter (1980, 1985 and 1990). They focus on broader factors that externally provide competitive and comparative advantages and constraints. The firm-specific influences shown in white in the figure reflect internal factors related to company capabilities, competencies, and needs that reflect the concerns of the resource-based school of strategic thought (Wernerfelt, 1984; Prahalad & Hamel, 1990; Barney, 1991; Miller & Shamsie, 1996).

The influences that are forcing change on media companies are requiring them to engage in significant strategic thought and strategy development. This need is particularly challenging because the majority of media companies are small- and mid-sized enterprises who have traditionally produced a single product or service that has had a relatively long life cycle.

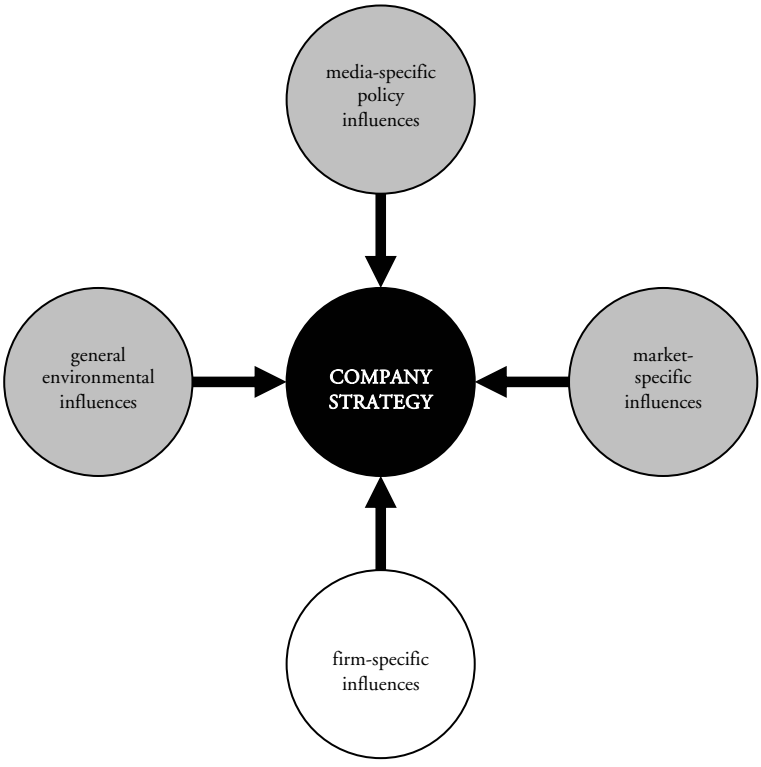

Figure 1. Influences Producing Market Changes and Affecting Company Strategies

In recent decades, however, media firms far larger than average media companies have emerged. A primary tier of half a dozen giant firms and a secondary tier of several dozen large players are clearly evident (Albarran, 2002; Compaine & Gomery, 2000; Picard, 1996; Tunstall and Palmer, 1991). These firms tend to have more internal resources for strategic activities and are clearly wrestling with external and internal influences to find successful approaches.

The past stability of media industries is a legacy that all media are struggling against in the new environment. The newspaper and magazine industries have existed for three centuries, the motion picture and radio industries for about a century, and television industry for half a century. Because of a variety of governmental policy choices and operational conditions, the industries and their markets have been relatively stable, requiring little strategic thinking during their life cycles. As a result, media managers' knowledge of strategy and strategy processes are limited and most media firms do not have strategy units or organized business intelligence activities.

Company strategy, of course, is the result of planning and decisions to sustain patterns of resource allocation to meet challenges in the marketplace.

Environmental and market conditions are critical to the success of companies and two concepts are particularly important in assessing conditions, changes in markets, and developing strategy: market complexity and market turbulence. Both have extraordinary significance to media companies today.

Market complexity relates to the amount of effort or difficulty firms encounter when operating in markets. Complexity is increased when the number of competitors increases, when firms produce multiple products or services for the market, or when the number of markets in which a firm operates increases (Yip, 1985; Fershtman & Kalai, 1993)

As markets become more complex, with more segments, competitors or channels, the need to change strategy processes increases and significant planning efforts—supported by control and incremental changes—are needed in operations (Smith, 2002)

Market turbulence is evidenced by instability and lack of clear direction in a market. Turbulence raises uncertainty about the outcomes of business activities and denies information and direction needed to reduce risk in decisions (Knight, 1921; Keynes, 1937).

Turbulence increases the need for rapid innovation but it concurrently forces manager to make risky investment decisions (Calatone, Garcia, & Droge, 2003) and often leads to rapid entry of firms and products in markets, while simultaneously leading to the exit of some companies and products. Undetected changes in turbulent markets can lead to failures of new products and firms, so constant monitoring is needed and must be part of the strategic process even in the short term (Grayson, 1992).

Although strong command and control over strategy and operations are needed in complex markets, strong command over processes tend to fail in turbulent markets where greater flexibility and rapid responses close to the market are needed (Smith, 2002).

These factors present significant strategic challenges for media firms today because they are concurrently facing both increasingly complex and turbulent markets.

General Environmental Influences

A number of general influences are changing conditions under which media firms operate and forcing reconsideration of their strategies and markets. Particularly important influences include the development of global financial markets, development of and improvement to communications infrastructures, increasing global business reach, and changes in the human condition.

Development of Global Capital and Financial Institutions

Because of the development of effective infrastructures to support global financial markets, capital is flowing worldwide and helping support the development and operations of firms and the globalization of firms (Johnson,

2000; Rose, 1997). Much foreign capital is directly invested in firms through national bourses worldwide and major firms are increasingly traded on multiple share markets. Consortia of financial institutions from many nations are providing debt financing for companies as well.

The general developments in this area have also affected media company capital sources allowing them to seek capital outside their home countries. The effect of this trend is evident in just the locations in which media firms are traded. The News Corp., for example, is traded on both the Australian Stock Exchange and New York Stock Exchange (NYSE). Pearson PLC shares are listed on the London Stock Exchange and NYSE, Thomson Corp shares can be purchased on the Toronto Stock Exchange and NYSE, Vivendi Universal is traded on the Paris Bourse and NYSE, and TV Azteca is listed on the Bolsa Mexicana de Valores and NYSE.

If one reviews financial statements of large media firms, one finds a variety of forms of debt financing involving major international and domestic banks, insurance companies, and other financial institutions from across the globe.

The internationalization of financial institutions has also eased the processes of financing and making payments worldwide, thus reducing the complexity and costs of international trade, and supporting the expansion of international activities. The result is that international trade is no longer limited to the largest firms but is also effective for small and mid-sized firms.

The overall effect on global capital on media firms has been the availability of additional capital and trade credit for growth, expansion, and international operations and a widening many firms' perspectives from domestic to global operations.

Improvements to Communications Infrastructures

Changes in communications technologies and infrastructures have significantly altered the ability of firms and individuals to communicate. Until the development of electronics and satellite technologies in the second half of the twentieth century, communications systems were based on relatively basic technologies that evolved slowly (McMaster, 2002). The development of improved telecommunications systems set the stage for a wide range of changes in communications capabilities that were embraced by firms in many industries, including media (Parsons & Frieden, 1997; Sterling & Kittross, 2001). Technologies for fixed and mobile telecommunications, Internet, terrestrial broadcasting, satellite and cable distribution are rapidly changing, providing ever more capabilities and ease of use (Grant & Meadows, Horak, Newton, & Miller, 2002).

The ability to communicate data, audio, and video worldwide via satellite and other telecommunications systems whose capacity and capabilities are rapidly increasing, the development and acceptance of Internet, the development of mobile communications capabilities are changing the ways all

business operate and making effective global operations possible, even for smaller firms.

Digitalization of telephony and broadcasting has made it technologically possible to offer both terrestrial and satellite broadcast-like services to mobile telephones, personal digital assistants and similar equipment. Development and introduction efforts are currently underway, particularly in Asia and Europe, to provide more data and audio transmission via terrestrial and satellite telephony systems and to distribute television broadcasts and video using similar methods.

The convergence of the underlying technologies of telephone, computers, and media production are thus creating enormous opportunities for media firms, challenging existing media products and services, and creating a wide variety of potential strategic responses by companies. The transformation caused by these forces disintermediates and then allows reintermediation the value chains of media and communication firms (Benjamin & Wigand, 1995; Bailey & Bakos, 1997; Wirtz, 1999 and 2001; Picard, 2002)

Fundamental changes in structures, purposes, and capabilities of media firms are occurring because of the integration of information and communication technology, new applications of that technology, and changes in the social perception of the role of media. The most important change is the convergence of the three underlying communications industries: content creation and packaging, computers and software, and telephony. This convergence is changing how communication takes place, what is communicated, who can communicate, and the speed of communication. It is creating flexibility in the use of content and makes it possible for a wide range of players to make different types of use of content. Concurrently, digitalization of communications and the increasing capacity for distribution of digital communications makes it possible to move information rapidly and to access and use information available across the globe as easily as getting information from across the room.

These developments are fundamentally changing the nature of mediated communication, not merely providing new types of media and additional channels of communication. The new activities are increasing communication choices, producing smaller audiences for units of each medium, and permitting mobile as well as fixed communications. Importantly, they are also making audiences far more active participants in the communication process and shifting the locus of control that previously rested with communicators.

Global Business Reach

Because of the globalization of financial institutions and activities, the necessary coordination ability provided by telecommunications and transportation improvements, the development of regional trade zones and multinational trade agreements, businesses are expanding markets beyond their borders in search of sales and company growth.

In past centuries trade was primarily in raw materials and basic goods, but today global business provide worldwide trade in a range of agricultural product, manufactured goods, and services previously unimaginable. The World Trade Organization's indices for trade of agricultural and manufactured products rose to 574 and 4253 respectively in 2000 from their index level of 100 in 1950 (World Trade Organization, 2002).

Firms moving into global markets tend to use expansion strategies based on merger and acquisitions to reduce competition or to diversify their own markets (Ayal & Zif, 1979; Lee & Yang, 1990). The choices require different kinds of resources and operations and no clear evidence indicates either strategy produces superior performance for firms. Media firms are increasingly active in global markets and tend to take regional and global approaches, either serving nations within their region or expanding beyond them. The regional approach tends to be favored by small- and mid-sized firms or firms making their first forays to foreign markets. Media companies tend to internationalize through direct exports, licensing, joint ventures, and foreign direct investment (Picard, 2002).

The increases in market complexity due to organizational and products production and distribution requirements for global activities have led to the emergence of large, dominant transnational media corporations, according to Gershon (1997). Nearly all media are in some ways affected by globalization (Albarran & Chan-Olmsted, 1998), but most pursue international activities on a much smaller scale.

The ability to market existing libraries of audiovisual products, the ability to develop domestic editions of print and electronic products, the impetus to innovate products for new markets, and growth opportunities have led media firms to internationalize (Holtz-Bacha, 1997; Gershon, 1997; Albarran & Chan-Olmsted, 1998; van Kranenburg, Cloodt & Hagedoorn, 2001).

Improvement of the Human Condition

Significant changes in the conditions of life worldwide are also changing the potential for global business activities. Strong economic development in Asia during the past two decades and improvements in Latin America have increased domestic consumption of products and services. Similarly, increases in literacy, education, and wage employment are changing the capabilities of and resources available to large portions of the population in those regions.

A growing urbanization of population in both developed and developing nations is bringing large numbers of persons to locations where infrastructures provide services in water, electrical, sanitation and telecommunication services. Electrical and telecommunications are critical to most business, but are fundamental requirements for nearly all media. Urbanization also creates conditions that support many media because they overcome economic constraints related to distribution distances and population density (Picard, 2002).

Increases in disposable income and leisure time created by improvements to the human condition are especially significant to media firms because their products rely upon significant temporal and monetary expenditures by consumers (Picard, 2002).

Media-Specific Policy Influences

Some industries, such as banking, pharmaceuticals, and media, face industry specific policies and regulations that do not apply to other businesses. As a result, decisions made by policymakers can dramatically affect the industries, individual firms, and products and services.

The media have been significantly affected worldwide by major changes in governmental approaches that emerged first in telecommunications policy and then in media policy itself. Simultaneously, concerns over consolidation and concentration in media industries have resulted in competition regulatory actions and specific media ownership policies that constrain some strategic choices.

Changes in public policies have radically altered the regulatory environment, creating a largely deregulated environment for media and information-related industries. These changes have brought large amounts of capital into telecommunications and media development, which have created new firms and media industries and affected the structure of traditional media industries. New competitors and emerging disruptive technologies are eroding the customer and financial bases of existing media.

Reduced Barriers to Entry for Media Competitors

The most important changes in the past two decades have reduced barriers to entry in broadcasting and cable and satellite operations. The television industry has undergone one of the most wide-ranging and rapid market transformations in modern times, spurred by policy liberalization that removed monopolies granted public service broadcasters or had highly limited domestic commercial television operations in Europe and Asia and the growth of private broadcasting in other regions.

The pace of liberalization varied in European nations but, by the 1990s, its transforming effect led to explosive growth in the number of domestic commercial broadcasters. This growth has dramatically altered competition in television markets by increasing the supply of channels and programming nationally and locally (Silj, 1992; Council of Europe, 1998; Davis, 1999).

The changes in supply of channels and programs are evident to anyone who watches television, but the size and speed of the growth have been unprecedented. Most of that growth has resulted from the introduction and expansion of commercial terrestrial television and the increased availability of commercial cable and satellite channels. The changes in supply have

significantly altered media markets, changing their dynamics and the performance of firms within them.

Promotion of Trade in Media Products

Regional governments have actively supported efforts to increase production and flow of media products for both economic and cultural reasons. The EU, for example, has used policy to increase the percentage of regional content broadcast by television stations, to facilitate transborder cable and satellite services, and to establish programs to help improve marketing and distribution of television programs and motion pictures made within the internal market.

Promotion of Small Enterprises

Significant efforts being made through active and passive governmental policy in Europe and elsewhere to promote the development of small- and medium-size firms in ICT and media activities (Turner, 1997; Backlund & Sandberg, 2002). Although these have produced varying results, they are bringing additional new entrants into markets and enhancing the capabilities of individuals and firms.

Regulation of Consolidation and Concentration

Issues involving consolidation of firms and concentration in media industries has led to specific policy initiatives in national and regional policies. Concerns over the growth of large media companies has led to increased emphasis on competition regulation and specific ownership limits for individual media and cross media (European Commission, 1992; European Parliament, 2002; Sánchez-Tabernero & Carvajal, 2002).

Market-Specific Influences

Market specific influences are those related to the structure and activities in the market and critical changes are influencing media firms' activities and performance.

Rapidly Increasing Competition

Increases in the types of media and communications systems and concurrent increases in the number of units of each media available have increased the levels of competition experienced in media markets by strengthening the number of direct competitors and the substitutable and partly substitutable content products available.

The number of television stations in Europe has effectively tripled since 1990 (Picard, 2001) and dozens of cable and satellite channels are available in most markets. Head-to-head competition between general circulation newspapers has generally decreased in developed nations, but new competition

from specialized dailies focused on topics such as business/finance and sports—and the appearance of free circulation daily newspapers such as *Metro*—are serving a need of readers and advertisers that has not been met by traditional newspapers. In most nations, the number of magazines available has increased more than 400 percent in the last half century.

The availability of motion pictures, television programming, and other content in the form of videotapes and DVDs is increasing competition for broadcasters and motion picture exhibitors, as have new cable and satellite channels and view-on-demand systems. New types of media and communications systems based on the Internet and mobile communications have appeared that are also challenging print, audio, and audiovisual media.

The effects of these developments are increased competition for consumer spending, declining profits per title, channel, or product, and decline profits for firms in most established media industries.

Development of the Attention Economy

With the development of multiple types of media and communication devices and heavy competition among and between players, the number of media and marketing communications messages vying for the attention of advertisers has grown explosively. Attention has become a scare resource and a critical attention economy has emerged in which media participate (Davenport & Beck, 2001; Picard, 2000 and 2001).

The significance of the attention economy is heightened because the increasing number of communication channels increased choices for audiences. Simultaneously, the time available for use of communications by audiences is constrained by the increasing complexity of modern society. Because sleep and work take up about two-thirds of the time of individuals, only one-third is truly available for focused media use. Media, however, must also compete with time needed to commute to and from work, to meet family and home life requirements, and to engage a host of leisure activities.

Changes in the media environment are permitting individuals greater choice to determine what communication and information they will receive and use and greater ability to filter communication than ever before. As a result, every media user has an individual use pattern and audiences are fragmenting significantly. The mediated locations to which large groups of the public attend simultaneously are diminishing.

Changes in Advertising Choices

Advertisers are critical to the success of commercial media because they provide the primary revenue stream for most media operations. Advertisers provide these financial resources as they pursue their own interests in marketing their products and services. They are not wed to particular media but to using the most effective means of reaching customers.

The increase in media and communication types and the rising number of individual units of media has led advertisers to reconsider their expenditures and advertising mixes. As audiences have embraced additional media types, advertisers have shifted shares of their expenditures to those media. As audiences have fragmented and declined for established media and channels, advertisers have been unwilling to pay the same prices they had previously paid for those media and channels.

These changes are placing additional pressure on media companies, reducing the availability of the critical resource and, concurrently, their profitability.

One of the rising challenges to advertising comes from the development of personal marketing, i.e., a variety of individual and firm-specific marketing efforts made possible by advances in technology that allow marketers to effectively communicate directly with individual customers.

This form of marketing, which combines direct marketing activities with sales promotion and customer service activities, is expected to receive more of the overall marketing expenditures of companies in the future. Today advertising expenditures are about 25-33 percent of most firms overall marketing expenditures. As personal marketing continues to grow, it is expected that share devoted to media advertising will decline.

Firm-Specific Influences

Firm-specific influences are individual to firms and the result of the changing environment and markets developments as well as operations and choices in the firms.

For many media firms declining profits are becoming the norm. The decline is occurring because of increasing competition and because the large advertising expenditure growth rates in the second half of the century have waned and advertisers are spreading the budgets further. This change is leading managers of media firms into financial situations they have not previously encountered.

The situation for firms is compounded because most firms are offering media products and services in mature or relatively mature markets in which there is low or non-existent growth potential. Even 10 to 15 years ago many media company managers could expect increasing population or effective marketing to increase their customer base or market share. Today, however, population trends and the arrival of new competitors affecting market shares remove the prospects of being able to "grow out" of the current market context.

Established media are also faced with significant competitiveness changes due to rising costs, decreasing or stagnant productivity, declining customer satisfaction, and lack of innovation.

The context of media is raising real concerns about the sustainability of many media companies. The effects of disruptive technologies and the appearance of attractive and advantageous substitutes, combined with

competitiveness and profitability difficulties are leading many media managers to worry whether their firms and industries will survive in the coming decades.

Discussion

In recent years media managers have been disquieted by the environmental and internal changes and launched industry commissions and company committees and work groups to improve the efficiency of operations, to expand and reorganize operations, and to increase existing revenues from operations.

The responses have generally taken an operations-based strategy approach that is useful in the short- and mid-term, but has not and cannot answer the central questions about the continued survival of media firms. What is needed is deep strategic thinking and choices with which media firms typically have limited experience. Some of the initial thinking in this regard is developing within larger media firms, most of which reached that size less than a generation ago. The kinds of strategies most often evident involve integration, diversification, niche products, and internationalization.

Media companies are using horizontal and some vertical integration as a means of achieving cost efficiencies and company growth. Horizontal integration has clearly been undertaken in pursuit of company growth and economies of scale and scope in the newspaper, book publishing, cable television, and magazine industries (Picard, Winter, McCombs, & Lacy, 1988; Greco, 1999; Compaine & Gomery, 2000; Parsons, 2003).

The need for stable access to resources and distribution channels has led many media firms, particularly in the broadcasting, motion picture, and television programming fields to engage in vertical integration to gain advantages in the acquisition of existing content and to seek efficiencies in production of new content (Sánchez-Tabernero & Carvajal, 2002; Waterman 1993). Other media firms have used various forms of strategic partnerships such as networking and joint ventures to address challenges posed by the need for resources, technologies, and competencies. Behind various diversification choices are desires to spread the sources of their revenue, to reduce risk, to gain access to content, and to overcome regulatory barriers (Albarran & Porco, 1990; Picard & Rimmer, 1999; Chan-Olmsted & Chang, 2003).

Because of the market growth and market share problems in individual media, many firms have begun diversification into other media and are creating of media product portfolios. The choice to stay within media has typically occurred because there are some similarities in the types of business activities. Both large and mid-sized firms now have holding in multiple media. A recent study of the six largest media firms, for example, shows that all are broad content creation and development enterprises that provide content through different platforms and media (Albarran & Moellinger, 2003).

A trend affecting media firms is the growth of niche media products. The increase in media and media units is having a significant impact on the types of

titles, channels, and other products being created by media firms. Although firms have traditionally sought to create media products that appeal to large general audiences, significant product differentiation efforts are being made in the new, more competitive environment. Company product choices are focusing primarily on creating niche media products that can survive in highly competitive media environment (Rust & Donthu, 1988; Dimmick, 2003).

Internationalization to overcome saturated domestic markets or competition regulations that limited growth is also an option for firms. Globalization, of course, increases the complexity of strategy by requiring firms to make choices involving resource allocation between domestic and international operations and between different international operations (Daniels & Bracker, 1989; Toyne & Walters, 1989) and to maintain complex organizations to coordinate international activities. Nevertheless, the global business option becoming increasingly attractive to media firms (Gershon, 1997).

The increased uncertainty created by environmental and market changes requires companies to be flexible and to have the ability to adopt production to new output levels and production requirements (Stigler, 1939). This requires more flexible structures and employment in firms than has been traditional (Prowse, 1990; Hunter, McGregor, MacInnes & Sproul, 1993).

There is a real struggle over strategy within media firms today. Because of their history as single product producers, media firms have constructed and refined organizations that have effectively served the needs of rapid, constant production of that same product. Those organizational structures have a significant impact on company strategies for growth and diversification that are congruent the Bower-Burgelman strategy process model approach (Bower, 1970; Burgelman, 1994 and 1996) that challenged earlier by assertions that strategy creates the organizational structure (Chandler, 1962) and argued that structural abilities and constraints influence strategy.

The internal struggles over strategy in media companies have become quite visible in the turmoil in companies such as AOL Time Warner, Vivendi Universal, and Bertelsmann.

Strategies available for media firms are not universal. The strategic options for media and communication firms are related to the institutional setting in which they operated (Loube, 1991), to their resources, and to their capabilities. Thus, strategy needs to be individually constructed and regularly reappraised.

Although media companies can take some cues from other types of firms, many conventional business strategies do not work as effectively in media because of unique features of the industries (Phillips, 2000). Nevertheless the experience of firms in other industries with strategies regarding tradeoffs between size and performance, profitability, growth, inventory control, JIT distribution, networking, and global business operations all contain lessons for media companies. Strategic planners need to attend to these lessons as they develop responses to the turmoil and opportunities caused by changes in the environment and markets in which their media firms operate.

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