Robert G. Picard (ed.)

Strategic Responses to Media Market Changes

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Preface

Media companies are being confronted with market changes that are destabilising successful mature markets, undermining long-term relationships with audiences and advertisers, and threatening the sustainability of their business models.

The pace of these changes is extraordinary, forcing managers, shareholders, and employees to scramble to comprehend the changes, to develop strategic responses, and to reorganize their activities. The process is complex and there is difficulty determining where to focus attention because no single force is behind the changes. Instead pressures are coming from technological forces, production forces, market forces, social forces, and managerial forces simultaneously.

The pressures and the changes they are producing are forcing media companies and their stakeholders to react with unusual speed and agility. The complexity of the process is compounded because media industries are unaccustomed to rapid change and typically lack organizational flexibility because of their long-standing structures and processes. Media firms have traditionally operated in oligopolistic and monopolistic markets—with lower levels of competition than found in many other industries—and most managers do not have an experience or knowledge base of how to operate in rapidly changing markets.

This book addresses the context in which media companies operate today and is intended to help foster understanding of the change forces and the responses to the changes they are inducing. It explores the changes in the media environment, their consequences on existing media structures and firms, how companies are responding, and issues posed by those responses.

Chapters address issues of how firms are struggling to maintain stability in operations while responding to rapid changes in the environment and developing managerial approaches to changing media environments. They focus on strategic issues from company, consumer, investor, and policymaker perspectives and provide a range of contemporary information and analysis that should interest scholars, media professionals, analysts and regulatory personnel.

This book is based on selected papers presented to the Conference on Strategic Responses to Media Market Changes that was held October 17-18, 2003 at Jönköping International Business School. The conference brought together the world's leading specialists on media management theory and research to address the nature and scope of changes in the media environment and their effects on companies and media structures,

The conference marked the inauguration of the new Media Management and Transformation Centre at Jönköping International Business School. The centre was established to develop knowledge about issues raised by the large-scale transformation of the media industries created by globalisation, consolidation and the creation of dominant firms, the proliferation of contemporary information and communication technologies, cross-media activities, fragmenting audiences, and changing revenue patterns.

The Media Management and Transformation Centre offers doctoral studies and research fellowships, provides research stipends to scholars studying relevant issues, and hosts conferences and workshops for researchers and media personnel that are designed to improve knowledge and understanding of media business issues.

Environmental and Market Changes Driving Strategic Planning in Media Firms

Robert G. Picard

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.

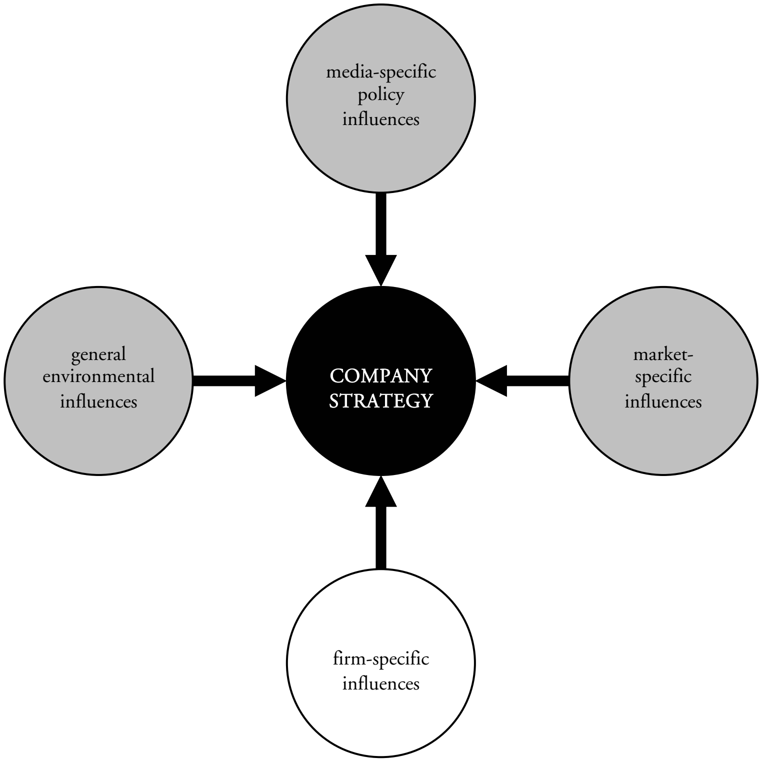

Figure 1. Influences Producing Market Changes and Affecting Company Strategies

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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The Future of Media Companies: Strategies for an Unpredictable World

Alfonso Sánchez-Tabernero

The Media Market and Chaos Theories

Owners and managers of any company are constantly on the lookout for factors that will provide them with competitive advantages in the future. All choice means giving priority to one option over other possibilities: is it better to grow quickly or to be less dependent on third party capital financing? Should personnel receive better training and be more highly motivated or perhaps there should be cost cutting on staff. What is more useful? To be stronger in content production or in distribution? What would bring more advantages? Improving product quality, modifying the distribution system, investing more in promotion or bringing the sale price down?

In practice, there are two kinds of business decisions (Vila, 1997):

a) Some are "hygienic": correct choice is not the issue because the advantages are clear and the drawbacks are minimal or non-existent; in these cases, the management's aim is "not to lose" because choosing well is not about success: newspapers' market success has nothing to do with printing-presses, radio stations do not owe their popularity to their transmitters being situated in the right place operating at the right power and pay television stations do well not because they have enough decoders, although all of these factors are vital for survival in the marketplace.

b) In contrast, the "critical" decisions – such as the questions posed initially – involve making a choice between possibilities which include a reasonably balanced set of advantages and disadvantages. To make the right decision here will mean business success later on because it prepares a company to compete in a singular way, enabling it to offer the public a product or a service with value, which its competitors will find hard to imitate.

"Critical" decisions require an exercise in thinking ahead (Hout & Stalk Jr., 1998): as well as understanding where their own company and the market are placed, managers must be able to predict future changes; but what happens later on depends on a host of human choices which are largely impossible to predict.

The history of how the mass media has developed is scattered with examples of predictions made by "experts" that never materialized. Radio was the first to fall victim to their crystal-gazing; when it first made its appearance many mistakenly believed that the sale of the radio set and not advertising sales would be the main source of revenue (Schulberg, 1994). Later on, when it had achieved huge audience ratings, many augured the demise of newspapers, up to the point that in some countries it was ruled that news bulletins could not be broadcast until early evening; however, radio's development coincided with a period of expansion of the newspaper industry.

Predictions for television proved just as wide of the mark. During the period of the Second World War, again it was thought that radio and the print media were on their way out. And hardly anyone believed that pay television would ever be a profitable business with all the free television on offer to the public (Inglis, 1990).

When new commercial channels appeared, the "experts" were sure that this would mean higher circulation for the weekly TV magazines; in fact, the opposite happened. Television channels embarked on competitive programming strategies; programs advertised in the magazines were not those shown on the channels so, in the end, they became irrelevant for readers.

When commercial television stations started broadcasting more of the popular sporting events it seemed the obvious result would be lower circulation figures for the sporting press because most people would not be interested in reading about something they had already seen the day before. However, the sports newspapers discovered that, in sharing with their readers the thrill and excitement they had experienced through television, they could increase sales. So, the track record for media "experts" as fortune tellers has not been a particularly impressive one. In this sector, those who stick their necks out to make predictions about the future are confronted by an enormous difficulty: changes are ruled by political, legal, economic, cultural, social, demographic and technological circumstances and it is not an easy task to discover how each one of these factors will affect companies and their competitors.

Some economists, such as Keynes, have stated that analyses of the future lack a scientific basis so there is no sense in working out long range strategies; what can be done is prepare companies to make the most of opportunities and deal with immediate challenges (Keynes, 1936).

Martínez Echeverría has summed up Keynesian skepticism with regards to the ability to predict the future in the economic arena: "The decision-making process involved in making long range investments became enormously complex. It depended on the savings available which, in their turn, depended on consumption predictions which, in their turn, depended on revenue predictions which, in their turn, depended on investments already carried out. Thus, a causal chain was created between expectations and fulfillment, between the future and the past, which was highly complex and unstable. In Keynes' opinion, long range investment decisions were based on little more than guesswork or acting on hunches derived from an insignificant and irrelevant piece of information about the future (Martínez-Echevarría, 2001).

Even popular folk wisdom knew about this form of successive dependencies and their subsequent "domino effects": "For want of a nail, the shoe was lost. For want of a shoe, the horse was lost. For want of a horse, the rider was lost. For want of a rider, the battle was lost. For want of a battle, the kingdom was lost..."

Keynes' writing, which had undoubted influence on his generation of economists and other scholars' research at the beginning of the twentieth century, caused the project of Illustrated thought to founder: that we could unerringly know how the universe would evolve. Reality collided with the dream of those who had put their faith in the Enlightenment and Positivism; the more we learned about human behavior the more remote became the possibility of reaching "scientific" certainties about the future. Laplace, at his most enraptured at the supposed infallibility of experimental science, even suggested that the evolution of the universe could be worked out by the use of infinitesimal calculus. However, as the second half of the twentieth century drew to its close, mathematicians, physicist and biologists had come to the understanding that processes of change could not be reduced to cycles or sequences because reality was chaotic and the way it evolved could not be repeated. As Gleick has pointed out, with wider study of the chaos theory, "Laplace's fantasy of a determinist predictability was swept away" (Gleick, 1988).

In complex and highly articulated systems, small impulses and events may generate multiplying effects: such is the case, for example, with the fluttering of a butterfly's wings which apparently in certain circumstances can cause a hurricane. The chaos theory shows that these impulses are so numerous that it is impossible to know how complex realities will turn out (Roldán Castro, 1999).

Often, sudden or unexpected changes are not the consequence of unforeseen events; rather, they are the result of the fact that, at each moment in time, numerous factors come together: some may cancel out others or, conversely, their effect may be magnified, just like a lever, with the result that a great range of reactions can be triggered off; for this reason, despite the enormous amount of information available, we cannot forecast what the weather will be like in our city in two months' time just as we cannot predict what will happen in the stock exchange.

Weather or finance experts are extremely clear at explaining causes: why there was a hail storm or why the stock market collapsed. What they do is discover and tell us how the main elements of these systems have acted together; however, there is a huge gap between the ability to explain the past and being able to forecast the future because the chances that, over a period of time, the self-same situation will be repeated twice are highly unlikely.

For instance, in the world of the stock market, we could ensure that two identical scenarios always generate the same effect: the same rise or fall in shares. But an identical situation is never repeated within such a varied set of factors such as investors' expectations, domestic consumption, public deficit, price of money, commercial balance, a crisis in importing or exporting countries, an armed conflict, good or bad harvests, discovery of new energy sources, etc.

The media industry belongs to this group of complex, delicately balanced systems, based on highly articulated mechanisms. This means, as Beinhocker has stated, company strategies should not be based on predictions for the future but be adapted to a likely scenario of possibilities (Beinhocker, 1999).

Well conducted external analyses of present and future expectations are needed for strategy formulation. However, reality is becoming more and more unpredictable. Highly focalised and rigid strategies can only be applied to scenarios with zero uncertainty; in contrast, globalization, technological development and frequent changes to the legal framework all mean that media companies must develop a whole host of evolvable and flexible strategies which can respond quickly to unforeseen events which will inevitably crop up in the future.

Stacey argues that the existing "maps" and management principles which are widely accepted "are only useful for identifying the courses previously taken by others" (Stacey, 1994), but they are no use at all when they must map out new routes where no-one has ever gone before.

The surfeit of copy-cat strategies, unfounded faith in planning and belief that the competitive arena will remain stable and balanced go some way to explaining the high mortality rate of many companies and that their moment of glory is all too brief. The best known lists of the top companies – such as the one published by the magazine "Fortune" – reveal that the leading companies keep on to their positions at the top for increasingly shorter periods of time. Evans and Wurster have studied an extreme case of a change in the "rules of play" in the encyclopedia business: the "Britannica", the leading brand name in the sector, was selling at a price which varied between 1,500 and 2,200 dollars when Microsoft launched its encyclopedia on CD-ROM "Encarta" at the price of 50 dollars. (Evans & Wurster, 1997).

Clearly, it is important to realize that, unlike the changing seasons or the succession of night following day, the market is not bound by a set of predictable sequences. Rather, at each moment it enters a new reality, never experienced before and, although economic cycles exist, not one is identical to the one that has gone before, neither in its duration, nor in its intensity, nor in the type of recession or period of growth it experiences.

The new competitive environment is chaotic because it is impossible to convert economic reality into numerical sequences. As Pascale (1999) shows, it is more difficult to compete in chaos than to be successful in a stable market or, at least, a predictable one: today's advantages may turn into obstacles to progress tomorrow; progress is fleeting; rival companies quickly overcome entry barriers erected by hard work and effort.

Three Lines of Strength

Having said this, some lines of strength can be identified in the media market. Although in themselves they are not enough to decipher the future, they do allow us to hazard at what will be the most likely scenarios and discard other hypotheses. When the most efficient companies identify these trends they limit uncertainty to a certain extent: they are ready to compete in a chaotic environment, but not to follow an erratic path, because their strategy is anchored in some basic certainties.

These lines of strength are a) the public, b) competitors' strategies and c) the situation of the market as a whole. In these three areas, far-reaching transformations are taking place at a frenetic pace, conditioning how media companies compete.

One of the most important changes, as far as the public is concerned, is that there is now more spare time. For example, in 1850 American adults spent 70% of their disposable time working (excluded from this percentage is the time spent on eating and sleeping); in 2000, this percentage had dropped to 18% (Wolf, 1999).

Also, citizens of the most developed countries are increasingly more interested in and spend more money on acquiring information and entertainment products and services. In part, the increase in the consumption of the media is the result of greater supply (Internet, local and specialized television channels, more FM transmitters, free press, etc.). However, other sectors have also added leisure and entertainment complements to their basic business: many air-lines, restaurants, shopping centers and bookshops have come up with various ways of entertaining their clients in the belief that this will be a critical competitive point in the future. So, we have seen the introduction of in-flight films and interactive services, coffee shops in book shops and shows and games for children in shops and restaurants.

This trend shows that the growing interest in information and entertainment is not artificially generated by media companies; it is understandable, then, that some companies have sold off a good chunk or all of their assets unrelated to information and entertainment in order to concentrate on managing these services: Westinghouse has become Viacom-CBS, Géneral des Eaux was transformed into Vivendi-Universal, Pearson got rid of its porcelain business and financial services and almost all the large telecommunications companies have bought into the sector of production and distribution of television contents.

Also, short, emotion based messages produced by on-line or audiovisual media are now more easily assimilated by the public than longer contents in print which have a more logical and rhetorical style. This is particularly true of young people, referred to by some authors as the "videoclip generation" or the "MTV generation" (Banks, 1999), used to listening to three minute stories with a simple story line.

Almost all the mass media are developing towards short and simple narrative structures: newspapers have more color, photographs and the use of graphics and each news piece contains fewer words; television news include more news items which are shorter in length and more spectacular; radio is also undergoing changes in its format; and many conventional media now offer greater choice through their web pages.

The public also demands more choice, preferring an "à la carte" menu rather than the traditional one-dish only meal. Until the end of the twentieth century the scarcity of media available – especially in the audiovisual area – justified the fact there was only a little on offer in the generalist field, suitable for society's lowest cultural common denominator. Technological development has meant extraordinary growth in audiovisual media and spectators have become used to being offered contents which cater for their own personal tastes.

The fact that demand leads supply could contribute to solving some of the ethical problems in the field of television. As Gilder (1994) explains, "television is not vulgar because people are vulgar; it is vulgar because viewers share similar basic interests and differ profoundly in their higher preferences". The appearance of channels with a business model which is not aimed at achieving high audience ratings will bolster the production of audiovisual contents which are not based on sensationalism and vulgarity.

Lastly, the public prefers contents which they can identify with. It is indeed paradoxical that just when we have reached a point in history when globalism is the keynote and more political, economic, cultural and mediatic interconnections are being forged, the public seek contents close to their own lives.

As De Mooji shows, the contradiction between globalism and localism is only apparent (De Mooji, 1998); globalism produces sensations of insecurity, fear and confusion so there is a certain logic in people attempting to counteract these feelings by showing greater interest in local community issues.

This is not just restricted to a geographical concept: immediacy in time also expresses closeness (reflecting the rise in "real time" services), or what becomes close by the way it is told, which explains the ever increasing use of "human interest" stories: a face showing suffering or an interview with a person who has gone through enormous suffering or injustice is much more powerful than the plain statistics of a disaster.

In the media market other trends or lines of strength are points which rival strategies hold in common. Each company has its own particular strategy for competing in the market but there are some features, positive and negative, shared by most media companies.

Some are explicit goals, such as growing in size, entering new markets and diversifying assets (Chiesa & Manzini, 1997). However, companies also share weaknesses and dangers which are not always adequately addressed, such as the proliferation of teams who have lost their motivation, are dissatisfied with management and are uncommitted to corporate goals. Greater size, international development and multimedia diversification have brought added problems to uninnovative, poorly managed companies which, up to now, have managed to survive in a less competitive environment. Today, there are more rivals and many have large scale economies, huge financial resources and experience in other markets.

The weakest point of rival companies is often found in their personnel's lack of motivation. Companies usually start off with a small staff all sharing the same goal. They feel close to the manager heading their team who proposes attractive and challenging goals; the company's flexibility and internal cohesion means that it grows; but, as time goes by, the initial corporate objectives become less clear, management is not so close to their staff as they used to be and those who are passed over for promotion begin to feel neglected.

Often, ethical mistakes made by owners or management can add to employees' loss of motivation: when training is not invested in, when there are unjustifiable discriminations and when the chief executives seem to be obsessed by increasing profit margins at any cost, personnel begin to lose interest in the company's projects.

Disillusioned teams are a weakness which can have serious consequences for media companies who require talent, initiative and commitment from their best staff to ensure quality products and services (Rheinberg, 2000). This real Achilles' heel is the reason behind many organizations' decline.

Thus, a paradoxical situation arises: companies progress because they are united; that factor encourages growth and, with the passing of time, an unwanted side-effect is produced: it contributes to the deterioration in the atmosphere and in the level of staff-commitment. Only excellent organizations are able to overcome this vicious circle and – despite the increase in size – keep their staff highly motivated.

Lastly, we can identify a trend which affects the market as a whole and is, in part, a consequence of the two lines of strength already mentioned: with the public demanding more information and entertainment contents suitable for their personal preferences, the number of companies distributing these contents is constantly growing which logically results in a more highly fragmented media market.

In Europe and the United States the trend is for leading companies in the daily press, magazines, radio and free and pay television to have a smaller percentage of the market than they held ten years ago (de la Porte, 2001). With the exception of newspapers, where figures have stalled or fallen in some countries, the number and variety of offer has grown significantly in the other sectors.

Also, new media have emerged or been developed which supply information and entertainment contents. In this area, Internet has seen the most significant rise with the appearance of a vast array of on-line services; but we should also not forget the success of free newspapers and magazines, interactive programs and other audiovisual contents such as video on demand and pay per view.

All of these factors go towards making for a more versatile and complex market, with a greater number and variety of offers, with fewer situations of monopoly, and with fewer chances of survival for poorly managed companies. The wave of mergers and takeovers in the sector has been the logical response to a fragmented market where leading companies must make greater efforts to stay ahead. In this context, CBS' evolution is significant. In 1989, this television company owned one channel which achieved ratings of 21% in the American market. Ten years later, the Viacom-CBS group had grown significantly: it owned seven channels in the United States: CBS, MTV, VHI, Nickelodeon, TV Land, TNN and CMT. Between all of them these channels achieved a rating of 21.2% (Dempsey, 2000).

In short, even though it has become harder to predict how the market will develop, there are three elements which will largely condition the future: people spend more time on information and entertainment but at the same time they want contents close to them in some way, which are uncomplicated and cater to their personal preferences; competition is tougher with more and bigger companies, but often with personnel who are lacking in motivation; and markets are fragmented, so that leaders stay on top for shorter periods of time and tend to achieve smaller market quotas than in previous decades.

We will now attempt to indicate how media companies need to prepare themselves to compete in these highly complex conditions. Despite there being no universally valid strategies, there are some qualities which are growing in value and some inadequacies which increasingly lead to failure.

The "Critical" Aspects

A problem shared by most companies is how to grow in size. Economic advantages, psychological reasons (megalomania) and undoubtedly the influence of stock markets all play their part in this obsession with growth.

Indeed, the stock market rewards companies a) for high returns (meaning profits now), b) for diversifying (this implies greater security, less concentration of risk) and c) for growing quickly (because there is a greater chance of earning profits in the future).

However, growth must be the end-result (the consequence of good management) rather than the company objective: often, the best strategic choice for a company will be to grow; in some cases, size will be a critical element, vital for the company's progress. However, on other occasions, competitive ability is not directly linked to size. In practice, almost every day we hear about large companies in crisis, forced to lay off part of their workforce or declared bankrupt unable to withstand the onslaught of smaller more innovative and efficient organizations.

In the same way, diversification should not be held as an immutable dogma, among other reasons, because the advantage it brings – less risk – may be cancelled out by exposing another weak point: the company's loss of specialization.

Neither should higher returns be the management's goal but rather good government. If this is not so, as Hamel states, the wrong course is taken: "Flabby companies start a strict diet. Overheads are brought down, assets are sold off and costs are cut. Even though revenue growth is slack, margins soon expand. But in the end there is always a limit to the amount of profit the best managed, most efficient company can extract from a fixed amount of revenue" (Hamel, 2000: 38).

To confuse aims with effects is disorientating for companies: a management which has an under-performing product and an unmotivated workforce may squeeze out more profits; slashing financial costs, cutting back on overheads and expenditure on material and staff will do it. But perhaps they do not realize that, as the popular saying goes, "there is no point in flogging a dead horse": the best idea is to dismount and look for another horse, find another interesting idea and a team able to give shape to it. As Hamel himself also indicates "there are other strategies. Maybe the rider can be changed. Maybe a committee can be called to study the dead horse. Maybe benchmarking can be carried out to see how other companies ride with dead horses. Maybe it can be defended that it is cheaper to feed a dead horse" Hamel, 2000: 55).

Personnel are the core of media companies. Print, audiovisual and interactive media offer ideas, opinions, explanations of reality, context, fiction stories... The quality and singularity of these information and entertainment contents is what gives them the successful competitive edge enabling them to construct long range business projects. Financial resources or the production and distribution instruments are not what make the contents attractive: a newspaper's success is not because it has a great printing-press; a radio station does not get top ratings because it has excellent technical coverage; a television channel does not beat its rivals because it has high quality cameras or because its research department is wonderful. All these instruments are necessary in order to compete, in the same way as a cyclist needs a bicycle to take part in the race; but victory will depend on the cyclist, his training, his gritty determination, his tactical sense and how he works with the rest of the team.

Choosing the right people, establishing long term training plans and creating a climate which encourages a high level of motivation are the basis of personnel management (Lanz, 1998). To a large degree, getting the people right – coordinated and able personnel – is a way to safeguard the future of media companies.

The most frequent mistake when appointing staff is to give nearly absolute priority to urgent or immediate needs, even though they only relate to the moment: frequently, management hardly stop to question which candidate would be the most useful to their organization a number of years down the line.

Usually, companies do not give enough importance to aspects relating to potential for development: for example, identifying those who are quick learners, who are more likely to identify with the company philosophy, which candidate can be more easily motivated, etc. Or, from the other angle, who tends to lack commitment, who is a trouble-maker, who is quick to fly off the handle or finds team work difficult.

Media company owners and executives must be on the lookout for certain traits in their teams which are indicators of the ability to learn and apply acquired knowledge: emotional maturity, energy, professional and personal honesty, creativity, drive, ability to get on with others, the desire to help others, ability and imagination to think up new opportunities, talent and a usually positive perception of their own work and private life.

They should also set up long term training plans, aimed at such carefully selected staff. Getting selection and training right means that they are both reinforced by each other: training plans are particularly effective when they are aimed at talented professionals who are eager to learn (McCarthy, 1997).

Certain methods improve professional staff training with little outlay: for example, moving people around from one section, department or work area to another. This helps to provide a more comprehensive picture of what the company does because getting an all round vision helps to stave off stale routine; by providing a well-organized, accessible library with carefully chosen books people are encouraged to study and read – habits which have not always been acquired at university, even though they are the bedrock of the ability to make informed decisions and to have command of a rich vocabulary – requiring news stories to be well researched, dubious sources be checked and the effects of fiction programs be analyzed; organizing in-house seminars and discussion groups, etc.

The returns on these activities are rarely discussed because – as we have said – they do not need huge investment; but they are not put into practice more often because of the excessively routine approach of many companies and managers' lack of creativity.

Many media companies do not bother with other ways of improving training because they are more costly and so there is no implementation of effective methods for improving the quality of work in their organizations: refresher courses and specialization courses, study days and self-criticism, etc.

In innovative societies, people face an enormous challenge which must be turned into an opportunity: the need for on-going learning. The workforce can rise to this challenge if the company ethos is motivating and inimical to the cultural and professional stagnation of its teams (Tilles, 1998).

In some companies – perhaps their management is not based on professional criteria – staff motivation is still viewed as a utopian dream, so out of reach that it is not worth even trying to work towards. This view is often the result of a lack in long term planning, an obsession with immediate results or an extremely negative view of humankind.

In the past, the use of authority and other coercive methods formed the basis of business organization systems. Against greater or lesser internal resistance, proprietors and executives managed to impose their criteria and achieve the order necessary to successfully compete in the marketplace.

However, authoritarian structures have lost their effectiveness, because the circumstances in which they emerged have disappeared: low cultural levels, extremely slow social change and little need for innovation. In the new economic environment – and, especially, in the media industry -, authoritarian systems have little to contribute towards achieving business goals.

From this anthropological and organizational viewpoint, then, the best course of action is to establish the right conditions so that the traditional dialectic approach of confrontation between leaders and the led is replaced by a climate of co-operation. The "humanist style" also involves finding a balance between capital profit and staff earnings (Rodríguez Porras, 2000).

Practical solutions will depend on internal and external circumstances: but, whatever the case, personnel policies can only benefit from placing greater value on the subjective sense of work (the enhancement of the individual who is charged with carrying out the task) than on the objective sense (efficiency of the task).

If innovators are to prosper, media companies must show they value initiative. In this sense, some organizations have established non-economic rewards as a means of promoting greater commitment and identification with corporate goals in the workforce; for example, people who show greater initiative are given priority for specialization courses, and for taking part in research teams or choosing the section or department they wish to work in. It is also a way of unburdening the most creative and committed people of some of the more mundane tasks.

Internal communication is essential for staff to be fully involved in corporate goals: teams of individuals can only make management projects their own when they are fully in possession of the facts: they know what the driving force is behind them, what the goals are and what means are to be used for reaching the market quota and the predicted business volume (Lawrence Ragan Medias, 1996). The experience of many companies also shows that when there is internal transparency risk is much less. However, when the workforce is unmotivated and managers are badly informed risk becomes greater.

Internal communication can make use of several instruments and methods to ensure fluidity and quality in the message flow: detailed economic reports which are comprehensible and accessible to any employee interested in them; formal and informal channels of information which can be used by managers to explain business points of view, the main strategic objectives and particularly problematic decisions; and other media mechanisms which permit the transmission of ideas and suggestions "from down up".

In all probability, a well selected, highly motivated and properly coordinated team, eager to stay at the forefront in expertise, will produce high quality contents contributing to the greater prestige of the media and company for which they work. Over time, their good name can be consolidated by the value of branding.

Together with the quality of the offer, a brand name can be enhanced by other external means: publicity campaigns, sponsorship of cultural and sporting events, changes in corporate identity, public relation campaigns, etc. But, the public perception of the brand on the street must tally with its projected image if its value as a brand name is to stay the course. People distrust and reject a brand when the values attached to it bear little resemblance to what it actually is. As the magazine "Perspectivas" remarks, "the brands with real value in the market are those offered by the branded media: either branded by history or because they really are different and valuable; in short, because they are authentic and they inspire trust. To have a branded personality is the best strategy for standing out in a crowd, especially when this crowd is getting bigger by the day" ("Perspectivas del mundo…," 2001).

In practice, when a media company has a brand of value, it has in its hands an invisible asset which can generate huge earnings: for example, the most successful films are no longer just products. They are now brands which give rise to the launching of new versions or the sale of merchandising products; BBC, ESPN, Canal+, CNN, Sky or MTV have generated and given their names to other television channels, magazines, web sites and record production businesses; also, prestigious financial and general news newspapers, magazines and television series use their brand names to introduce new information and entertainment products into the market.

Internet is an excellent laboratory for researching the effect of the constant appearance of new services. Only an extremely small percentage attracts the attention of users whilst the rest do not manage to get themselves known by potential customers or to differentiate themselves from their competitors. This is the reason for the extraordinary investment in marketing – in the creation of a brand – which companies are forced to make if they wish to have any kind of real presence on the Net.

Brands differentiate and identify, simplifying the consumer choice. They are the badge of authenticity and help to win and hold on to customers. When media companies look after their teams, give priority to product quality, promote a favorable climate for innovation and protect the value of brands, they are looking to the future. Because they are in the market for the long haul they are not out to reap rich financial rewards in the short term.

A New Form of Management

Organizations' survival increasingly depends on leaders who guide, motivate and train a younger and less expert workforce. Leaders discover new talents and place the best people in key areas. As Drucker has pointed out, this task involves "liberating resources committed to maintaining something that no longer makes any contribution to performance or gets results. What is more, it is impossible to create the future if we don't first get rid of the past" (Drucker, 2001).

The most effective remedy for organizational barriers keeping out initiative and for managers who are wary of any change and are fearful of failure is a spirit of innovation. There is only one way it can be introduced into companies: seeking out and encouraging people with the ability to lead change.

Companies need leaders who are courageous enough to overcome resistance to change (Bennis & Nanus, 1997). Being courageous means being predisposed to take the right path, even if the decision implies taking on risks, putting the workforce's reputation on the line, moving other people out of their comfort zone.

Leadership is much more the result of learning than "nature". A good number of its requirements are moral habits – courage, integrity, constancy – acquired through the repetition of concrete actions. Other leadership traits have more to do with aspects pertaining to expertise or experience rather than willpower, but they are perfected through personal effort: intuition, logical sense, taking risks, trusting others, self-analysis, creativity and the ability to communicate.

People's different personalities give a particular stamp to management styles. Some leaders have great charisma and other have a greyer style; some make their presence felt in their companies and others are hardly recognized; some are loquacious and expressive and others are sparing in words; some inspire affection and others respect; some hold privileged positions in their companies and others find themselves more modestly placed.

In any company there are many potential leaders, many who have the desire to innovate and the ability to mobilize those around them. Seeking these people out and giving them support is one of the effective tasks managers can undertake: this is how they will develop all the organizations' entrepreneurial capacity (Krogh, Nonaka & Ichijo, 1997). In this area, academics can also provide a valuable service to media companies.

When we take a closer look at media companies that are struggling, we discover that the usual reason for their woes is the lack of leadership. What are identified as problems – falling circulation figures, lower market quotas, poor profits, loss of prestige, a workforce which has lost its way, etc, - are really the outward manifestations of much deeper negative phenomena: an inability to innovate, to develop new ideas, to adapt the company's strategy to a changing environment.

If a unifying and humanist management style is to be achieved, those in charge must be able to listen and discuss. They must also possess qualities such as: patience, understanding and tenacity and they must know how to train those who one day may eventually take their place instead of trying to appear indispensable and irreplaceable. They must also encourage the most able in their professional careers, stimulating innovation, encouraging those who wish to learn and promoting team work (Pérez López, 1997).

These qualities can be made tangible in practical ways of channeling the initiatives and proposals put forward by personnel and they will also mean management has greater interest in what the public, those who sell the product, suppliers and advertisers and advertising intermediaries have to say. Despite the greater effort involved in the processing of this flow of messages, the ideas received from those who daily tackle problems and opportunities mean that working practices and the quality of information and entertainment products and services are being constantly honed. The type of leadership required by media companies is not of the kind which has a good grounding in mathematics, statistics or technical skills. What is needed is an ability to communicate with those who make up the workforce of the company; an understanding of the nature and effects of communicative actions; anthropological knowledge of why people behave in the way they do; and a strong belief that investing in the right people is the most intelligent decision for any company.

Integrating managers work with their employees in exploring quality control methods for contents and production and commercialization systems. When they have detected the company's strong and weak points, they transmit enthusiasm and determination to those who depend on them so as to render the best service possible to society, supplying the public with contents which are enjoyable, truthful and respectful of human dignity.

Although at first glance other management approaches may seem more profitable and less complicated, the experience of more than one media company demonstrates that the organizations that try to satisfy real human needs, working in a truly human way have a greater chance of achieving enduring success.

As has been pointed out, the media market is "chaotic", in the sense that there are innumerable dependent forces at work which can act as levers and produce domino effects which are impossible to predict. Any attempt to limit the level of uncertainty to zero is doomed to failure but companies with a well trained and talented team which is united, highly motivated, and looks after the value of its brands, have "critical" competitive advantages in the media environment.

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Strategic Response or Strategic Blunder? An Examination of AOL Time Warner and Vivendi Universal

Alan B. Albarran and Robin K. Gormly

Two of the largest media mergers in history occurred early in the 21st century with the union of America Online (AOL) and Time Warner, followed a few months later by Vivendi with Seagram Universal. These two mergers were the subject of great hype and hope, not only for the dealmakers but also for the news media and business community, who viewed the merger as a major shift of power among media conglomerates. Yet both of these mergers never realized their potential, leaving employees and shareholders angry and raising many questions as to why these mergers--like so many others--did not work.

Merger Failure

According to data supplied by Thompson Financial, some 56,000 deals with a value of $6.4 trillion were announced between 1995 and 2000 (Adams, 2002, p. 53). Yet fewer than half of these mergers survived. Historically, less than one-half of mergers have survived, dating back to the inception of the merger process.

There are many reasons why mergers fail. One writer for a weekly business publication offers a cogent analysis:

> *" . . . mergers go wrong [because] companies sabotage their deals by making the same mistakes again and again: [they] overpay by offering a sizable premium, which hands the bulk of future economic gains from the merger to shareholders in the target company, [they] overestimate likely cost savings and synergies, setting themselves up for poor performance and shareholder disappointments in the future, [they] dither over integrating operations after the merger, frustrating customers and employees and delaying capturing potential benefits, [and they] obsess about cost-cutting, damaging the business by giving short shrift to maintaining revenues and keeping top salespeople" (Henry, 2002, p. 64).*

While all of these reasons are accurate, they do not necessarily apply to every failed merger. In reality, there is no simple answer, but a progression of missteps that causes the downfall. The victims of a failed merger include employees, whose numbers almost always decline as efforts to cut costs are enacted; shareholders, who see the value of their investments diminish; and the management team which usually is forced to resign or face termination by a Board of Directors, leaving a company in disarray for someone new to come in and try to repair.

The mega-mergers examined in this chapter were the result of both hubris and a failed vision. With AOL Time Warner, the marriage of old media to new media seemed a bellwether for the future as the dot-com euphoria reached a climax. No one could foresee the Internet bubble bursting or the terrible global economic effects of September 11, 2001. With Vivendi Universal, there seemed to be no stopping the grandiose vision former CEO Jean Marie Messier had for the company. Just two years following the mergers, the new entities retained less than 50% of their value as compared to the time the mergers were announced. The following paragraphs detail the failure of these two megamedia mergers.

AOL Time Warner

AOL and Time Warner appeared a perfect match, linking a major content provider with the distribution power of the world's leading Internet service provider. The new company was expected to achieve numerous synergies that would deliver enhanced economies of scale and scope, increase revenues, and promote media convergence. Because the two companies were established leaders in their respective markets, there seemed little doubt the union would be successful.

Yet financial concerns were raised when the companies were assessed comparing market valuation to revenue valuation, even though AOL had only recorded its first operating profit in 1998. For the 1998 fiscal year, AOL posted revenues of $4.8 billion, while Time Warner reported revenues of $26.8 billion, more than five and a half times that of AOL (Media merger mania, 2000). Nevertheless, AOL was able to acquire 55% of Time Warner for $162 billion (Adams, 2002). The smaller, upstart AOL found itself in the drivers' seat of the largest merger in corporate history.

Culture and Managerial Clashes

The fast-paced, youthful AOL represented a much different culture than Time Warner, and began asserting itself much to the chagrin of veteran Time Warner employees (Klein, 2003). There was a level of arrogance and disrespect for the institution AOL had absorbed. Prior to finalizing the merger, Time Warner employees were feeling the ominous presence of their new owner. After the merger was complete, there would be no stopping previous AOL employees from overtaking and dictating what they felt were appropriate measures. The approaches of each entity were completely opposite, especially regarding finances and management. Time Warner employees had long-time perks taken away as well as a rather healthy profit sharing program. When the program was replaced with new stock options, the former Time Warner employees would not benefit as their predecessors had due to the incredible Internet growth seen in the years just prior to the merger.

Management styles between the two firms clashed from the onset. AOL utilized a top-down style of management, whereas Time Warner consisted of self-governed multiple units, and there was little evidence of cohesion post-merger. AOL CEO Steve Case became Chairman and COO, while Time Warner's Gerald Levin became CEO. Key positions held by Time Warner employees were quickly reassigned to AOL employees. The atmosphere was one of non-conformity and control. The previous Time Warner employees were so oppressed that they even rebelled against using AOL's e-mail system, stating the system was not able to handle the needs of business, only home-users. A mandate to move offices into one location in each city was designed to make productivity more efficient, however, the results created more tension and frustration for AOL and Time Warner employees alike.

Financial Challenges for AOL Time Warner

Market expectations also put early pressure on the merger. Even though the economy was showing signs of contracting, Case and Levin predicted outrageous earnings, "vowing that the new entity would easily generate $40 billion in revenues and $11 billion in cash flow in its first year" (Yang & Lowry, 2001, p. 98). The merger masked the fact that growth at both AOL and Time Warner was declining. AOL was suffering stagnant subscriber growth with its online service, while the looming recession was hurting Time Warner advertising sales. However, the decline became apparent when 2001 second quarter earnings were reported to be $500 million less than analyst estimates (Yang & Lowry, 2001). That proved to be a minor problem.

In the first quarter of 2002, AOL/Time Warner announced a record $54 billion accounting adjustment, reflecting value lost as a result of the merger. The combined company was valued at more than $180 billion when the merger was announced in January 2000 and valued at near $105 billion when it closed a year later (Mermigas, 2002a). By April 2002, AOL Time Warner stock had diminished 50 percent; falling to 60 percent as of July 2002. In October 2002 the stock bottomed out, falling in to the single dollar range, but since rebounding to trade around $15-16 a share by September 2003 (See Figure 1). Wall Street was unforgiving concerning the overvaluation combined with the failure for AOL Time Warner to meet financial projections.

By the summer of 2002, AOL Time Warner was quickly becoming a huge financial disaster. Yet key executives remained financially untarnished from this downward slide, selling large amounts of stock at optimal times. In September 2002, previous Time Warner employees decided to take matters into their own hands and filed a lawsuit against the former officers and directors of AOL, the outcome of which is pending (Robbins, Umedia & Fink, 2002).

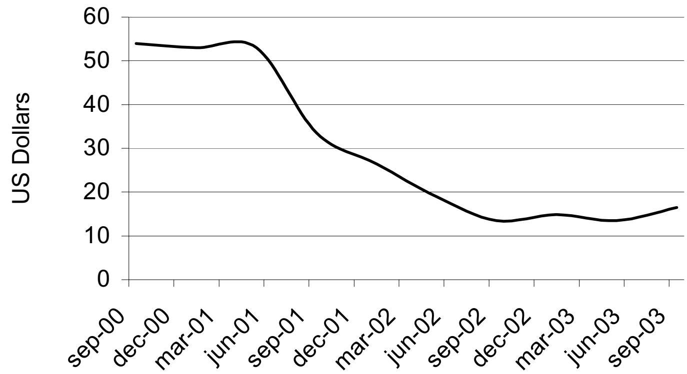

Figure 1: AOL Time Warner Stock Prices, September 2000-2003
Source: New York Stock Exchange

Merger Fallout

The company continues to engage in post-merger damage control involving numerous changes in the leadership of AOL Time Warner, led by the ouster or resignation of key personnel, including CEO Gerald Levin, President Bob Pittman, Chairman Steve Case and Vice Chairman R. E. "Ted" Turner. Veteran Time Warner Director Richard Parsons became the new CEO of the company, resulting in "[a] new top-tier management with deep Time Warner ties…restructur(ing) corporate hierarchy that reduces a humbled AOL to a unit within a division…AOL/Time Warner Inc. is being genetically reverse-engineered to bear Time Warner markers" (Ahrens & Henry, 2002).

The question remains, what went wrong? The cultures of the two companies were obviously too diverse to combine into one entity. Additionally, the arrogance put forth by AOL management in its initial takeover was quite detrimental. Resentment towards employees and architects of the merger kept Time Warner employees enraged. In fact, the Boards of both companies were only informed of the merger days prior to the official announcement (Klein, 2003). The company who guaranteed so much promise turned out to be an albatross, losing any aspects of being an innovator and struggling to rebuild the value of its assets.

Even though the former Time Warner suffered under AOL's misguidance, economic troubles remain for the media giant. Time Warner has been accused of having a "modus operandi [which] has been to house isolated fiefdoms that have clashed more than they have meshed…'Any return to the old Time Warner should not be acceptable to any investor,' according to Sanford

Bernstein analyst Tom Wolzien, citing its history of 'fractious division, [and] internecine warfare…[as well as] its own 'routine' inflation of financial results 'by including sale of small cable operations and operating profits'" (Mermigas, 2002b, p. 25).

What about the two men who instigated the merger? Were the egos of these companies too heady to think this merger through? "Analysts believe that Case sold Levin on the merger by convincing him that AOL could effectively market Time Warner's content, and also by appealing to Levin's desire to captain the biggest ship" (Ahrens & Henry, 2002). Levin "always yearned to be on technology's leading edge" and previously tried to become "a central player in the digital age" (Roberts, 2002, p. 54). Additionally, "Levin was worried that Time Warner's culture would prevent him from operating on Internet time. AOL would help him get there" (Roberts, 2002, p. 54). In opposition, in "Time Warner, Case saw what his company was missing: real assets, particularly a media company, with big, steady revenues and profits" (Roberts, 2002, p. 55).

Disappointed with the numerous financial problems plaguing the company, Gerald Levin resigned in December 2002. Richard Parsons became CEO with Levin's departure. On January 12, 2003, Steve Case announced his resignation as Chairman of AOL/Time Warner in May 2003. Parsons was subsequently named the new Chairman of AOL Time Warner, and faces a tremendous challenge in rejuvenating the company and restoring the confidence of Wall Street (Bianco & Lowry, 2003).

The two men who brought together old and new media failed to make their vision reality. The demise of AOL Time Warner has led many companies to rethink their strategic plans in regards to the Internet and a converged media world. No one seems to be discussing any transactions between traditional media and new media, largely because of the failed promise of AOL Time Warner. If these two giants failed, how could smaller companies succeed?

Vivendi Universal

The second major media merger of the 21st century was the union of French-based Vivendi with Canadian-based Seagram Universal. The transaction took place December 8, 2000 when Vivendi purchased Seagram and the remaining part of Canal Plus, for $52.3 billion. Driving the merger was the uniting of Vivendi's telephone company, Internet provider and cable system with Seagram's Universal Studios and Universal Music Group. "The real convergence in this deal would be the alliance of Universal's vast film and recorded music holdings with Vivendi's sprawling Internet, pay-TV and software publishing properties…Seagram possessed the kind of content producing assets that Messier's distribution channels thirsted for" (Greenwald, 2000, p. 43). As in the AOL Time Warner merger, stock would be swapped at a value higher than the acquired company's then current price.

However in merging these two companies, CEO Jean Marie Messier not only had the task of combining old and new, but combining two vastly different industries, utilities and communications. Vivendi was described as "a sprawling conglomerate whose activities ranged from sewers to theme parks and motorway cafes" (Andrews, 2000, p. 19). Messier's solution was to reduce the workforce by 10%, and consolidate the company into two core groups: environmental services (consisting of Vivendi's water, energy, and waste-management divisions) and communications, which consisted of all the media assets (Andrews, 2000).

While Seagram and Vivendi were in good financial shape when the merger was announced, Vivendi's stock fell following the merger. Stockholders were confused as to the direction Messier was taking the companies and larger shareholders sent a direct message by unloading stock. Investors were leery of the tremendous number of hurdles the company would have to go through in order to see Messier's vision as the media company of the future build to fruition.

Vivendi's Vision and Acquisitions

The initial plan was "to make Vivendi Universal a powerhouse in the Internet's fastest-growing markets" (Mattack, 2000, p 54). Messier sought to capitalize on Universal Music, using the sound library to take advantage of the growing online music industry. Adopting the stance of other futurists, Messier hoped to deliver music via Internet-enabled cellular phones (Mattack, 2000). Messier initiated a joint venture with Vodafone to create a service called Vizzavi, yet at the time there were many competitors already established in the market as a portal for music downloads. Vizzavi was unable to deliver the product at a rate acceptable to consumers. Web-enabled phones were not widely utilized, limiting the potential of the new service. Moreover, "to win European antitrust approval, Vivendi had to promise that Universal's content would be freely available to competing distributors" (Mattack, 2000, p. 55). Without control of their own content, and being far behind the market in cell phone innovation placed Vivendi in a detrimental financial situation. Concomitantly, Canal Plus was also suffering huge financial losses because of some poor investments. Leaders of the pay-TV network were concerned the merger would ultimately destroy the network they had nurtured and developed into one of the leading channels in Europe.

As Vivendi Universal's first year of business came to a close, Messier began moving assets like chess pieces starting in December 2001. Vivendi sold 9% of its stake in Vivendi Environment for $1.1 billion (Associated Press Online, 2001), as well as $1.5 billion shares of British Sky Broadcasting (Harding, 2001). Ten days later Vivendi Universal and EchoStar Communications announced a strategic alliance with Vivendi obtaining a 10% stake in the home satellite operator for a $1.5 billion (Morgan, 2001). Hoping to tap into the market for Internet-delivered music, Messier also acquired MP3 for $372 million (Hu, 2002). Only days later the company acquired USA networks, consisting of lucrative satellite channels like the USA and Sci-Fi Channels--bringing about a new division, Vivendi Universal Entertainment (Business Wire, 2001). The board of directors approved all of these transactions, as Vivendi was quickly transforming itself into a media giant, believing to have strong economic potential.

However, the 2002 first quarter earnings reports showed a much different picture. Vivendi Universal shares had fallen 59% while the company accumulated $29 billion in debt and posted $15.34 billion in losses (Orwall, 2002). Messier's shopping spree helped create one of the world's biggest media firms in terms of assets, but harmfully saddled the company with huge debt leading to numerous problems with the financial and investment communities (Keaten, 2002). Like AOL, Vivendi's stock price began a free fall from a pre-merger high of over $75 a share to a fall to the $16-$18 range by September 2003 (see Figure 2).

Certainly the sluggish global economy and terrorist attacks contributed to Vivendi's problems, as the major investments designed by Messier did not work out as planned. The convergence of content and distribution were never fully implemented, leaving Messier's grand vision in ruins. Although Messier tried to retain control, he was forced to resign only a year and a half after the Vivendi Universal merger took place, in early July 2002; he was replaced by Jean Rene Fourtou.

Vivendi after Messier: Divestiture

By the end of 2002, shares of Vivendi stock declined over 70%, causing stockholders to sue Vivendi Universal and Messier. Interestingly, the suit specifically targeted Messier and his actions both during Vivendi's acquisition spree and the months following. Messier is alleged to have covered up the severity of the situation, not fully disclosing the financial problems to his Board until it was too late. Vivendi released a statement to the Wall Street Journal on July 3, 2002, in which the company declared a short-term liquidity issue. Vivendi would have to repay creditors $1.8 billion Euros by the end of July 2002 and additionally, Vivendi had $3.8 billion Euros in credit lines that were up for renegotiation (Orwall, 2002). The stock price plummeted even further.

Since Messier's ouster, Vivendi placed its publishing division up for sale, as well as selling their stake in Vivendi Environment, the water and waste unit. When denied additional credit to purchase majority control of the French telecom group Cegetel, analysts thought that the move "cements Vivendi Universal's push for cash to make more 'media' buys, such as its Universal Entertainment unit" (Engineering News Record, 2002, p. 14).

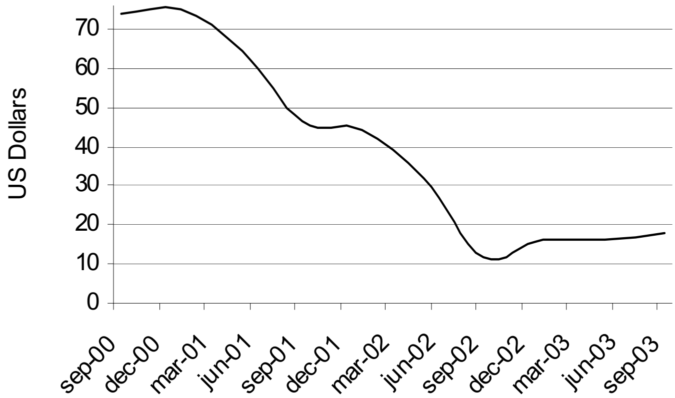

Figure 2: Vivendi Universal Stock, Stock Prices, September 2000-2003
Source: New York Stock Exchange

Messier's hubris led to him building a media company that was being rapidly dismantled by Fourtou (Carney, 2003). Several suitors emerged as potential buyers of Universal Entertainment, including former Paramount Pictures owner Marvin Davis, former Seagram head Edward Bronfman, MGM, Liberty Media, and General Electric's NBC unit. In September 2003, Vivendi reached a partnership agreement to combine its entertainment assets with NBC in a $14 billion transaction (Orwall, Nelson & Flint, 2003).

Implications and Conclusions

With the highly publicized failure of these two media mega-mergers, any hopes of ushering in a new era of media convergence appear to be years—if not decades away (Rattner, 2003). Sluggish economy, corporate scandals, threats of further terrorism and global conflict are keeping media companies—and investors on edge. Few investors will risk the public and private scrutiny that goes hand in hand with large-scale acquisitions. "The absence of corporate integrity and the intense lack of investor confidence are powerful adverse forces even the most faltering media merger has never had to face" (Mermigas, 2002b, p. 24).

When might happen to companies like AOL Time Warner and Vivendi Universal following the debacle of these failed mergers? Diane Mermigas of Electronic Media suggests AOL TW should, "re-establish integrity with advertisers, re-establish financial reporting integrity, re-establish management integrity, and re-establish growth momentum" (Mermigas, 2002b, p. 24). The same advice also applies to Vivendi Universal. Re-establishing credibility, integrity and growth are not short-term efforts. The management teams of both companies continue to face challenges as they move forward from their disastrous mergers.

As these two companies continue to rebuild confidence among investors, what further changes are likely? Some believe AOL could be spun off as a separate entity. The AOL Division negatively impacted the company's bottom line following the merger, as the ISP experienced sluggish growth, a huge downturn in advertising revenues, and a loss of subscribers choosing high-speed access over dial-up modem access (Klein, 2003).

Yet another possibility is breaking up the entire company. The problem with this line of thought is the debt that AOL Time Warner has accumulated, in the range of $28.5 billion (Mermigas, 2002a). "Even if divisions were available, there are few qualified buyers…Putting a value on AOL Time Warner is challenging given all the questions: Uncertainty surrounding financial markets, the economy and the advertising recovery; investor skepticism; difficulty in valuing AOL; lack of logical buyers" (Mermigas, 2002b, p. 25). Perhaps the capstone to the failed merger was the recent announcement from their Board of Directors that the company was returning to its original name, Time Warner, dropping AOL completely. Further, the company also is changing the stock symbol back to TWE (Time Warner Entertainment).

Vivendi Universal, with its recent partnership with GE/NBC, raises new hope for the company as it turns over the management and direction of its remaining media assets to a company well known and respected for many decades. In Europe, Vivendi will most likely return to its roots concentrating on its environmental assets and ownership of Cegetel.

Synergy was a frequently used concept in the late 1990s to signify a thought process that "putting together companies… [to] produce giants that could cut costs and create higher revenue. Instead, we now witness buyout teams busy unwinding those very deals. The pieces, Wall Street now says, are worth more than the whole. The only sure winners, says Jim Jubak, are the investment bankers" (Jubak, 2002, CNBC Program: Business Center).

What will the future hold for media mergers and acquisitions? "In this climate, a fashionable new buzzword is 'de-merger.' Convergence has given way to divergence. Mega-mergers are out and asset shedding is in" (Jubak, 2002, CNBC Program: Business Center). The skepticism following the mergers of AOL Time Warner and Vivendi Universal will keep many investors and media professionals searching for a model that appears sound, and most importantly, profitable.

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In Search of Partnerships in a Changing Global Media Market: Trends and Drivers of International Strategic Alliances

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The media industry is going through a phase of transformation, moving from a national to an international marketplace. Several drivers have contributed to the growth of a globalized media market. Most evidently, the progress in communications technology is enabling the provision of entertainment and information in a faster, more efficient manner and actually making many media industries more attractive sectors for capital investment, which is necessary for a move toward global expansion. Also because of the technological changes, many countries are revamping their existing media policies. We are seeing more liberalization and privatization of media industries. This, of course, fosters the growth of an international media market. Furthermore, there has been a decreasing dominance of the U.S.-based media companies in the international marketplace during the last decade. Many high profile mergers and acquisitions brought about the development of non U.S.-based global media conglomerates such as News Corporation and Bertelsmann.

The importance of the international market is further magnified by the fact that the demand for certain media products in the U.S., such as broadcasting and cable television, is saturating. Also because of the technological advances, the lifestyle differences between individual societies are now less pronounced. The traditional market segmentation approach by demographics like age and location is not as practical with the rise of information-based attitude groups that share similar consumption patterns. This is an important factor for a product like media content, which is associated with pop cultures. This lifestyle parallelism provides further incentives for the globalization of media companies. Finally, as a result of increasingly blurry industry boundaries and the growth of global multimedia conglomerates, there is a tendency to compete multilaterally in several media sectors and multiple countries at the same time. In other words, to compete successfully with a growing number of firms that have international holdings of multiple media products, a media company would have to do the same, which again leads to a trend toward globalization.

In addition to the aforementioned drivers that have established a favorable environment for the globalization of media markets, there are many traditional incentives for a firm to adopt the strategy of international diversification. Specifically, a firm might expand internationally to increase its market size, to have a higher probability and better speed of recouping heavy investment, to develop economies of scale and learning, and to lower the basic costs of the goods or services they provide from location advantages such as access to local talent, marketing system and customer. The trend toward a globalized media marketplace seems inevitable, but how do the media firms expand and diversify cross-borderly?

The present study examines the trends and drivers of international strategic alliances in selected media markets. This work is the preliminary, qualitative segment of a research project that will investigate the relationships between different international diversification entry modes and a set of endogenous and exogenous drivers in media industries.

The chapter will first define and discuss the rationales for strategic alliances in the context of this study, review the method used for analyzing international alliances, present the results of the analysis in areas of mergers/acquisitions as well as joint ventures and other contractual agreements, and finally elaborate on the drivers of the alliances.

Different Routes to a Global Media Market

Like firms in other sectors, a media company may expand into a new country by establishing a new wholly owned subsidiary (i.e., a Greenfield venture). This approach is typically costly and complex, but allows for full control of the new unit. On the other hand, the company can adopt a lower risk route of licensing or exporting, which offers little control of the expansion. More frequently, a company might enter a cooperative relationship through cross-border mergers and acquisitions (M&As) that give quick access to a local market. This approach has become very popular, comprising over 40% of the worldwide acquisitions in 2001. Then there are strategic alliances that allow firms to share cost, resources, and risks without former structural mergers. Typically, strategic alliances are discussed separated from M&As, but for the purpose of this study, the two types of cooperative relationship will be reviewed together as international strategic alliances. Specifically, the partnerships of focus will include cross-border M&As, which are defined as a structural combination of two or more firms, and non-structural alliances, which include joint ventures and other non structural agreements such as R&D, marketing, production agreements between two or more firms established to pursue mutual interests.

Rationales for Strategic Partnerships

Many rationales have been suggested as the drivers for mergers and acquisitions. Assuming a rational managerial approach, thus excluding the motives of "empire building" and "risk reduction" to maximize a manager's personal utility, a primary reason for M&A might be to achieve greater "market power" (Haspeslagh, 1999). Market power exists when a firm is able to sell its goods or services above competitive levels or when the costs of its primary or support activities are below those of the competitors (Hitt, Ireland, & Hoskisson, 2001). Many media companies may have attractive core competencies such as the ownership of valuable content/talents and distribution outlets, but lack the size to benefit from these unique resources and capabilities. M&As offer an opportunity for achieving greater market power through the increase of firm size.

An attempt to reduce barriers to entry might be another driver for the formation of M&As. For example, market barriers may arise when well established competitors are able to enjoy significant scale economies and/or brand loyalty. Facing these barriers, a new entrant may find the acquisition of an established company to be more effective than attempting to enter the market as a competitor offering a good or service that is unfamiliar to current buyers (Hitt, Ireland, & Hoskisson, 2001). In addition, as developing new products internally and successfully introducing them into the marketplace often requires significant investments of a firm's resources, making it difficult to earn a profitable return quickly (Shank & Govindarajan, 1992), M&As are another means through which a firm can gain access to new products and to current products that are new to the firm. Compared to internal development processes, M&As provide more predictable return and faster market entry (McCardle & Viswanathan, 1994; Rappaport & Sirower, 1999). Again, as it is harder for companies to develop products that differ from their current lines for new geographical markets in which they lack experience, a firm is more likely to use M&As rather than internal development as a strategy when engaging in international product diversification (Hitt, Hoskisson, Ireland, & Harrison, 1991; Hitt, Hoskisson, & Ireland, 1990). Finally, a firm may use M&A as a way to restrict its dependence on a single or a few products or markets, thus reducing its reliance on the financial performance of individual sectors.

Several drivers also have been proposed to impact a firm's adoption of non-structural alliances (Williams, 1998; Bailey & Shan, 1995; Williams, 1992). These strategic alliances might be formed to reduce competition, gain access to resources or restricted markets, learn about new businesses, maintain market leadership, pool resources for large projects, establish industry standards, avoid overcapacity in the market, and/or gain strategic competitiveness by increasing the speed of product development or market entry (Hitt, Ireland, & Hoskisson, 2001).

Why International Strategic Alliances in Media Industries

An examination of the aforementioned rationales of partnerships in the context of media industries reveals several underlying principles that would strongly motivate the development of an international cooperative relationship by media firms.

First, an international alliance might be formed to acquire complementary resources that are unavailable in the domestic media market. An example might be the earlier purchase of Universal Studio by Vivendi. This kind of alliances is especially important for media markets as the ownership of "content" is regarded as a key to success by many media firms and the content component is intangible and highly complementary to its tangible distribution medium. An international alliance could be set up to gain access or speed up the process of gaining access to an international market. An example might be an equity joint venture that would allow a U.S.-based media firm to enter an overseas market that has ownership quota regulations. This could also include alliances to reduce any trade barriers that would limit the role of a foreign media firm. This driver is especially crucial for the international alliances of media firms because media products are often subject to more regulatory control from the host market due to their pervasive impacts on individual societies. The access can also be looked at from the perspective of access to media outlets (and their consumers). Because many media "content" products are marketed under a windowing process, in which a "content" product such as a theatrical film is delivered to consumers via multiple outlets sequentially in different time periods, alliances that allow for access to multiple outlets are very beneficial. Alliances can also serve as signals of enhanced legitimacy for a firm. For example, the legitimacy of a foreign media firm's understanding of local cultures and preferences.

International alliances might also be formed to shared risks and reduce costs as in the cases of international co-production of motion pictures and alliances of multiple U.S. cable system operators for new cable ventures in South America. Furthermore, because most media "content" products are "public goods," alliances are a good approach to increase the scale economies in production and, consequently, reduce costs. International alliances might also be formed to reduce competition. This could be accomplished through the increase of market power, reduction of competitors, and different means to maintain market leadership. For example, a joint venture between a Thai newspaper company and Dow Jones made the Thai company and its partner Dow Jones the leader in financial news in that country. News Corp., through its buyouts of many competitors in the Asia Pacific market, is also a good example for the competition reduction rationale. Note that international alliances might also be formed simply because a media firm has to respond to its competitor's move into some critical geographical markets. Finally, international alliances might be formed to reduce uncertainty; including uncertainty in local knowledge, in technology, or in product standards. Some of AOL's investment in overseas wireless markets might be classified as an example of reducing uncertainty in emerging product markets. Because media products are highly subjective to the cultural preferences and existing communication infrastructure of each geographic market/country, international alliances are a good strategy to reduce uncertainty due to the lack of knowledge in this area.

Method

This study utilized a secondary data source, the SDC Platinum database compiled by *Thompson Financial Securities Data*. The online database is the leading, standard industry database that provides detailed information on all financial transactions and agreements, including mergers and acquisitions, joint ventures, and other strategic alliances around the globe. The database is updated daily using over 200 English and foreign language news sources; SEC filings and their international counterparts; trade publications; and wires and proprietary surveys of investment banks, law firms, and other advisors. All corporate transactions, public and private, involving at least 5% of the ownership of a company where the transaction was valued at $1 million or more or where the value of the transaction was undisclosed were included (after 1992, deals of any value are covered).

This study focuses on four major media sectors of newspaper, radio, broadcast and cable TV, which were selected because of their traditionally and relatively more significant shares of media consumer's time. As the *Thompson Financial Securities* database utilizes the American Standard Industrial Classification system (4-digit code) to classify firms according to their economic activity, four different SIC codes (i.e., 2711-newspaper; 4832-radio; 4833-broadcast television; 4841-cable television) were used to isolate the M&As and non-structural alliances occurred during the specified time periods from hundreds of thousands of transactions. Only international M&As, which include cross-border transactions that combine two or more firms' assets, forming a more long-term relationship; and international joint ventures, which include partnerships formed either by equity sharing or other contractual agreements, were analyzed. A total of 1,462 M&A cases from 1988 to 2002 and 654 non-structural alliances from 1988 to 2001 were analyzed in this study. Note that to simplify the analysis process, in cases of non-structural alliances, this study only reviews the formed venture's and leading alliance partner's SIC and country location.

Results

Trends of Mergers and Acquisitions

The numbers of international mergers and acquisitions in all four media sectors have increased steadily since 1988, but peaked in 2000 (Table 1). Industry wise, there have been relatively comparable levels of M&As initiated by the acquirers from the cable, broadcast, and radio sectors, while newspaper firms dominated the others in acquiring cross-border properties. Comparatively, the activity levels of the newspaper acquirers fluctuated over time more than the other groups. In general, radio was the least active and the two television industry acquirers had similar levels of M&As.

Table 1. International M&As of Newspaper, Radio, Broadcast TV, and Cable TV Firms, 1988-2002

Time	International M&A Acquirers' Industry				
Year	*2711 (Newspaper)*	*4832 (Radio)*	*4833 (Broadcast TV)*	*4841 (Cable TV)*	*Total*
1988	47 (85.5%)	1 (1.8%)	3 (5.5%)	4 (7.3%)	55
1989	44 (74.6%)	3 (5.1%)	5 (8.5%)	7 (11.9%)	59
1990	42 (72.4%)	2 (3.4%)	4 (6.9%)	10 (17.2%)	58
1991	38 (66.7%)	5 (8.8%)	7 (12.3%)	7 (12.3%)	57
1992	26 (56.5%)	2 (4.3%)	8 (17.4%)	10 (21.7%)	46
1993	37 (44.0%)	6 (7.1%)	12 (14.3%)	29 (34.5%)	84
1994	66 (56.9%)	12 (10.3%)	23 (19.8%)	15 (12.9%)	116
1995	67 (56.3%)	17 (14.3%)	12 (10.1%)	23 (19.3%)	119
1996	47 (47.0%)	7 (7.0%)	22 (22.0%)	24 (24%)	100
1997	35 (44.9%)	9 (11.5%)	19 (24.4%)	15 (19.2%)	78
1998	51 (44.3%)	21 (18.3%)	15 (13.0%)	28 (24.3%)	115
1999	65 (42.8%)	19 (12.5%)	35 (23.0%)	33 (21.7%)	152
2000	89 (39.9%)	32 (14.3%)	47 (21.1%)	55 (24.7%)	223
2001	55 (45.8%)	14 (11.7%)	27 (22.5%)	24 (20.0%)	120
2002	29 (36.3%)	13 (16.3%)	24 (30.0%)	14 (17.5%)	80
Total	738 (50.5%)	163 (11.1%)	263 (18.0%)	298 (20.4%)	1462

Because the U.S. is one of the world's most important media markets (Chan-Olmsted & Chang, 2003) and the home country to many leading media firms, it is fruitful to also investigate the international M&As that targeted at the U.S.-based firms (see Table 2). The M&A activity levels seem to divert somewhat from the previous overall pattern. For example, the activity levels fluctuated more over time when we looked at only this group of M&As. Also, there were relatively less cable and broadcast acquirers eyeing at the U.S. firms. Nevertheless, newspaper acquirers continued to be very aggressive in acquiring the U.S.-based firms. A comparison of the international M&As targeted at the U.S. firms and those targeted at non-U.S. firms reveals that the acquisition strategy of U.S. targets fluctuated more than the non-U.S. targets over the time period, especially from 1988-1992. A simple correlation analysis was conducted to evaluate the strength of relationships between the different targets (U.S. vs. non-U.S.) of the international acquirers from the four media sectors. The correlation coefficients indicate a significant, positive relationship between the different media sectors in cases of non-U.S. M&As over time (r =.65-.86; p<.01). On the other hand, no significant relationships were found in cases of the international M&As targeted at U.S. firms from the four sectors.

Top Acquirers' Nations and Sectors

As discussed, the newspaper sector has had the most M&As in the last 15 years. An examination of the home countries of these acquirers reveals that over 50% of the acquirers were from the countries of Netherlands, United Kingdom,

Table 2. International M&As Targeted at the U.S.-based Firms 1988-2002

Time	International M&A Acquirers' Industry				
Year	*2711 (Newspaper)*	*4832 (Radio)*	*4833 (Broadcast TV)*	*4841 (Cable TV)*	*Total*
1988	15 (88.2%)	0 (0.0%)	1 (5.9%)	1 (5.9%)	17
1989	21 (87.5%)	2 (8.3%)	0 (0.0%)	1 (4.2%)	24
1990	13 (76.5%)	0 (0.0%)	0 (0.0%)	4 (23.5%)	17
1991	2 (50.0%)	1 (25.0%)	1 (25.0%)	0 (0.0%)	4
1992	1 (25.0%)	1 (25.5%)	2 (50.0%)	0 (0.0%)	4
1993	3 (50.0%)	0 (0.0%)	0 (0.0%)	3 (50.0%)	6
1994	11 (68.8%)	3 (18.8%)	1 (6.3%)	1 (6.3%)	16
1995	10 (76.9%)	1 (7.7%)	0 (0.0%)	2 (15.4%)	13
1996	8 (61.5%)	0 (0.0%)	2 (15.4%)	3 (23.1%)	13
1997	8 (66.7%)	0 (0.0%)	2 (16.7%)	2 (16.7%)	12
1998	11 (64.7%)	0 (0.0%)	3 (17.6%)	3 (17.6%)	17
1999	17 (68.0%)	2 (8.0%)	3 (12.0%)	3 (12.0%)	25
2000	27 (77.1%)	1 (2.9%)	1 (2.9%)	6 (17.1%)	35
2001	12 (57.1%)	2 (9.5%)	0 (0.0%)	7 (33.3%)	21
2002	2 (40.0%)	2 (40.0%)	0 (0.0%)	1 (20.0%)	5
Total	161 (70.3%)	15 (6.6%)	16 (7.0%)	37 (16.2%)	229

and Germany (see Table 3). The Western European trio was the most active in pursuing international M&As. The U.S. was a distant fifth behind Australia and comprised of less than one third of the newspaper acquirers than the Netherlands. As for the acquirers from the radio sector, the United States led the way overall, followed by UK and Luxembourg (see Table 4). Again, the top nations such as the U.S. and U.K. comprised of almost half of all radio acquirers. As for the broadcast television sector, Luxembourg remained a strong leader in the number of broadcast television acquirers, followed by the U.S. and U.K. (see Table 5). Almost half of the broadcast television acquirers were from the top three countries. Germany was a distant four here. Finally, in terms of cable television acquirers, the U.S. was an overwhelming leader in this category, followed by France, Netherlands, and Canada (see Table 6).

Table 3: Top Newspaper Acquirers by Nations (SIC Code 2711)

		Frequency	Percent
Country	Netherlands	148	20.1
	United Kingdom	119	16.1
	Germany	116	15.7
	Australia	54	7.3
	United States	39	5.3
	Switzerland	37	5.0
	Canada	37	5.0
	Ireland-Rep	24	3.3
	Sweden	21	2.8
	France	21	2.8
	Norway	20	2.7
	Finland	15	2.0
	Italy	13	1.8
	Spain	12	1.6
	Malaysia	10	1.4

Table 4: Top Radio Acquirers by Nations (SIC Code=4832)

		Frequency	Percent
Country	United States	44	27.0
	United Kingdom	33	20.2
	Luxembourg	22	13.5
	France	16	9.8
	Mexico	8	4.9
	Australia	7	4.3
	Canada	7	4.3
	Sweden	4	2.5
	Spain	3	1.8
	Norway	3	1.8
	Italy	2	1.2
	Singapore	2	1.2
	Denmark	1	.6
	South Africa	1	.6
	Netherlands	1	.6

Table 5: Top Broadcast TV Acquirers by Nations (SIC Code 4833)

		Frequency	Percent
Country	Luxembourg	52	19.8
	United States	46	17.5
	United Kingdom	35	13.3
	Germany	16	6.1
	Canada	16	6.1
	Hong Kong	13	4.9
	Italy	10	3.8
	Greece	8	3.0
	Sweden	7	2.7
	Belgium	6	2.3
	Bermuda	5	1.9
	Australia	5	1.9
	Poland	5	1.9
	France	4	1.5
	Switzerland	4	1.5

Table 6: Top Cable TV Acquirers by Nations (SIC Code 4841)

		Frequency	Percent
Country	United States	131	44.0
	France	38	12.8
	Netherlands	33	11.1
	Canada	22	7.4
	United Kingdom	10	3.4
	Luxembourg	10	3.4
	Spain	7	2.3
	Argentina	7	2.3
	Sweden	6	2.0
	Hong Kong	6	2.0
	Australia	4	1.3
	Germany	4	1.3
	Portugal	4	1.3
	Venezuela	3	1.0
	Italy	1	.3

This study also reviews the top sector acquirers by nations for those M&As targeted at the U.S. firms. While the top newspapers acquirers continued to come from the same countries, radio acquirers with the U.S. targets were more likely to be from neighboring countries of Canada and Mexico, broadcast television acquirers with the U.S. targets were more likely to be from English-speaking countries such as Canada and UK, and cable acquirers with the U.S. targets were mostly from Canada and France.

Mergers and Acquisitions Target Preferences

To assess the target preferences of international M&As in the four media industries, this study first compared the top acquirers and top target nations (Table 7). It is evident that top acquirers were also most attractive targets. While the U.S. and U.K. were the leaders as both the acquired and acquirers, Netherlands was more likely to be the acquirer than the acquired and France was more likely to be the acquired than the acquirer. If one considers international M&As in the top 5 nations over time, it seems that top target nations have had similar activity patterns except for the US, which peaked in late 1980s and in 2000.

Table 7: Comparison of Top 10 Acquirer and Target Nations

Top 10 Acquirer Nations

	Frequency	Percent
United States	260	17.8
United Kingdom	197	13.5
Netherlands	185	12.7
Germany	136	9.3
Luxembourg	87	6.0
Canada	82	5.6
France	79	5.4
Australia	70	4.8
Switzerland	42	2.9
Sweden	38	2.6

Top 10 Target Nations

	Frequency	Percent
United States	229	15.7
United Kingdom	160	10.9
France	96	6.6
Germany	79	5.4
Australia	58	4.0
Spain	52	3.6
Canada	51	3.5
Sweden	47	3.2
Netherlands	44	3.0
Hungary	42	2.9

An examination of the top target nations of the top acquirer nations shows that the U.S.'s top targets included U.K., Canada, and Argentina; U.K.'s top targets included the U.S. and Australia, and Ireland; Germany's top targets included the U.S. and Switzerland; and the Dutch acquirers preferred the U.S., U.K., and France (see Table 8). It seems that the leading acquirers have preferred countries with high language or geographic relatedness. In terms of nation preferences in each media sector, newspaper acquirers generally preferred the U.S. and U.K., radio acquirers like France and the U.S., broadcast television acquirers like Germany and the U.K., and cable television acquirers preferred the U.K. and U.S. (see Table 9). In summary, the U.S. and U.K. were consistently top targets for all sector acquirers, followed by the second tier targets of Germany and France. Interestingly, South American countries were more likely to be the targets of newer media sector such as cable.

To further review the sector preferences of international M&As in these media industries, this study examines the top target sectors of the newspaper, radio, and television acquirers (Table 10). Newspaper acquirers seemed to prefer merging, internationally, with other print companies.

Radio acquirers seem to prefer merging with other broadcast properties, followed by newspaper, cable television, and outdoor. Similarly, broadcast television acquirers preferred merging with other broadcast properties, followed by cable television, information services, and motion pictures firms. Finally, cable television acquirers preferred merging with cable companies from other countries, followed by broadcast television, telephone, radio, and motion pictures. It is evident that product relatedness plays a role in the choice of target firms in international M&A in these media industries.

To see if different countries actually have different sector preferences, this study also examined the top acquirer nations' favorite sectors (see Table 11). The three European countries seemed to seek aggressively for print properties, while the U.S. acquirers were more interested in cable and broadcast properties.

Table 8: Top Target Nations of Top Acquirers

US Acquirers' Top 10 Target Nations

	Frequency	Percent
United Kingdom	60	23.1
Canada	29	11.2
Argentina	17	6.5
Australia	13	5.0
Mexico	12	4.6
Israel	12	4.6
France	12	4.6
Germany	11	4.2
Brazil	10	3.8
Sweden	7	2.7

UK Acquirers' Top 10 Target Nations

	Frequency	Percent
United States	42	21.3
Australia	28	14.2
Ireland-Rep	18	9.1
Netherlands	18	9.1
Canada	15	7.6
Germany	11	5.6
France	10	5.1
Spain	9	4.6
Hungary	6	3.0
Italy	5	2.5

German Acquirers' Top 10 Target Nations

	Frequency	Percent
United States	26	19.1
Switzerland	17	12.5
France	11	8.1
Austria	10	7.4
Hungary	8	5.9
Spain	8	5.9
Italy	8	5.9
United Kingdom	8	5.9
Netherlands	5	3.7
Czech Republic	4	2.9

Dutch Acquirers' Top 10 Target Nations

	Frequency	Percent
United States	41	22.2
United Kingdom	26	14.1
France	24	13.0
Germany	21	11.4
Hungary	12	6.5
Spain	10	5.4
Sweden	9	4.9
Italy	7	3.8
Belgium	6	3.2
Austria	5	2.7

Table 9: Top Target Nations by Media Sectors

Newspaper Acquirers' Top 10 Target Nations

	Frequency	Percent
United States	161	21.8
United Kingdom	75	10.2
France	52	7.0
Australia	36	4.9
Germany	33	4.5
Spain	32	4.3
Hungary	28	3.8
Poland	25	3.4
Canada	25	3.4
Sweden	21	2.8

Broadcast TV Acquirers' Top 10 Target Nations

	Frequency	Percent
Germany	21	8.0
United Kingdom	17	6.5
United States	16	6.1
Sweden	15	5.7
Spain	13	4.9
France	13	4.9
Canada	12	4.6
Italy	10	3.8
Poland	10	3.8
Australia	10	3.8

Radio Acquirers' Top 10 Target Nations

	Frequency	Percent
France	19	11.7
United States	15	9.2
United Kingdom	11	6.7
Germany	10	6.1
Israel	10	6.1
Netherlands	10	6.1
Australia	8	4.9
Finland	8	4.9
Ireland-Rep	8	4.9
New Zealand	6	3.7

Cable TV Acquirers' Top 10 Nations

	Frequency	Percent
United Kingdom	57	19.1
United States	37	12.4
Argentina	18	6.0
Germany	15	5.0
Brazil	14	4.7
Canada	13	4.4
France	12	4.0
Netherlands	9	3.0
Sweden	9	3.0
Italy	8	2.7

Table 10: Top Target Sectors of Newspaper, Radio, Broadcast TV, and Cable TV Acquirers

Newspaper Acquirers' Target Industry Sectors

		Frequency	Percent
Top 10 sectors	2711	241	32.7
	2721	109	14.8
	2731	82	11.1
	4833	34	4.6
	7375	32	4.3
	2741	28	3.8
	7372	18	2.4
	6799	12	1.6
	2752	11	1.5
	7389	11	1.5

Radio Acquirers' Target Industry Sectors

		Frequency	Percent
Top 10 sectors	4832	72	44.2
	4833	20	12.3
	2711	7	4.3
	4841	7	4.3
	7312	7	4.3
	7372	6	3.7
	7812	6	3.7
	7311	5	3.1
	2721	4	2.5
	4812	3	1.8

Broadcast TV Acquirers' Target Industry Sectors

		Frequency	Percent
Top 10 sectors	4833	109	41.4
	4832	35	13.3
	4841	21	8.0
	7375	16	6.1
	7812	12	4.6
	5999	5	1.9
	7372	5	1.9
	3663	4	1.5
	4899	4	1.5
	2721	3	1.1

Cable TV Acquirers' Target Industry Sectors

		Frequency	Percent
Top 10 sectors	4841	134	45.0
	4833	36	12.1
	4813	15	5.0
	4832	14	4.7
	7812	12	4.0
	4899	9	3.0
	7372	9	3.0
	7375	9	3.0
	4812	7	2.3
	3663	6	2.0

Table 11: Top Target Sectors of Top Acquirers' Nations

UK Acquirers' Target Industry Sectors

		Frequency	Percent
Top 10 sectors	2711	44	22.3
	4832	28	14.2
	4833	17	8.6
	2721	13	6.6
	7812	13	6.6
	2731	11	5.6
	2741	10	5.1
	7999	8	4.1
	7375	7	3.6
	4841	6	3.0

US Acquirers' Target Industry Sectors

		Frequency	Percent
Top 10 sectors	4841	80	30.8
	4833	41	15.8
	4832	21	8.1
	2711	18	6.9
	7375	9	3.5
	4813	8	3.1
	7372	8	3.1
	4812	7	2.7
	7312	7	2.7
	7812	6	2.3

German Acquirers' Target Industry Sectors

		Frequency	Percent
Top 10 sectors	2711	30	22.1
	2721	27	19.9
	2731	16	11.8
	4833	10	7.4
	7375	9	6.6
	7372	6	4.4
	2741	3	2.2
	4841	3	2.2
	5961	3	2.2
	7812	3	2.2

Dutch Acquirers' Target Industry Sectors

		Frequency	Percent
Top 10 sectors	2721	39	21.1
	2731	35	18.9
	4841	21	11.4
	2711	12	6.5
	2741	12	6.5
	7372	12	6.5
	7375	7	3.8
	8742	6	3.2
	4833	4	2.2
	7389	4	2.2

In summary, cross-border M&A levels have increased in the last 15 years but dipped significantly after 2000. While newspaper firms have been the most active acquirers in the time period, especially in cases of the U.S. targets, the international acquirers were concentrated in a few nations. Specifically, most active newspaper acquirers were the Europeans; most active broadcast acquirers were from the U.K. and U.S.; and the most active cable acquirers were from the U.S. Overall, the U.S. was still the most active country of acquirers, followed by U.K., and Netherlands. In addition, leading acquirer countries were often top target countries for international M&As and geographic/product relatedness seems to be important for selecting M&A targets.

Trends of Non-Structural Strategic Alliances

Figure 1 shows the amount of international joint ventures and other contractual agreements from 1988 to 2001. The numbers of these alliances grew until mid 1990s when it started to decline. Different from the previous M&A patterns, most of these international alliances were in the broadcast and cable television sectors with a very limited number of cross-border newspaper and radio partnerships. Comparatively, while newspaper was most active in international M&As, cable was most active in the non-structural form of international alliances. As cable and broadcast television have similar activity patterns for both kinds of alliances, radio was the least active sector for all forms of partnerships.

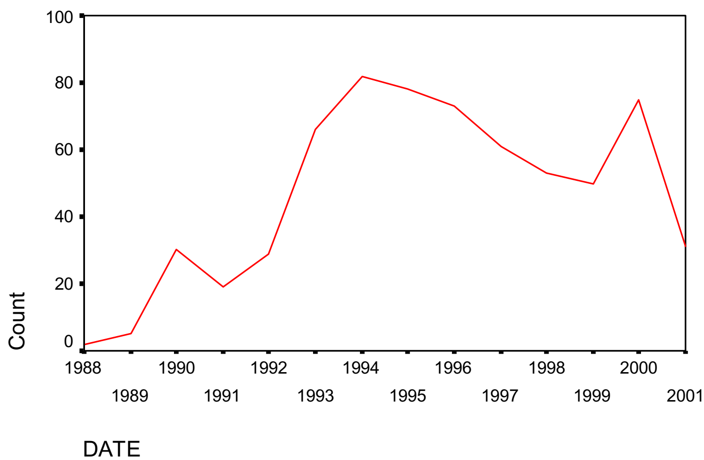

Figure 1: Total International Joint Ventures in the Newspaper, Radio, Broadcast TV, and Cable TV industries 1988-2001

Nation and Sector Preferences of Non-Structural Alliances

The top two nations where these alliances occurred were the U.K. and U.S., followed by Japan, a new comer in international alliances (see Table 11). An examination of the alliance locations by sectors revealed that most international newspaper joint ventures were located in Germany, U.K. and France. The U.K. and U.S. were the top locations for the broadcast and cable sectors. Overall, the U.K. was the most preferred nation in all four sectors as a venture location, followed by the U.S., which was on the top nations list for all but the newspaper sector. An analysis of the leading partner firms in these alliances shows that most of these firms were from the cable & broadcast television sectors. Interestingly, content providers such as motion picture/video production firms were the most active sectors for these ventures from outside of the four designated media industries. Furthermore, a preliminary review reveals that the U.S. has the most active leading partner firms, trailed by the U.K. & Australia.

Table 12: International Joint Ventures by Locations of Ventures

	Frequency	Percent
United States	90	13.8
United Kingdom	67	10.2
Japan	43	6.6
Multi-national	37	5.7
Germany	35	5.4
Australia	23	3.5
Canada	19	2.9
China	17	2.6
France	17	2.6
Poland	15	2.3
Spain	15	2.3
India	15	2.3

Discussion and Conclusions

There seems to be an interdependency that turns many media conglomerates not only into competitors but also into alliance partners. It is also evident that different media sectors have different partner preferences, at least in the choice of target industries and countries. While both types of alliances were mostly initiated by the media firms from the U.S. and selected European countries, the activity levels and dominant sectors were different for the structural and non-structural alliances over time. The analysis of the sector and nation preferences seems to indicate that geographical and product relatedness is important to international alliances and target industry characteristics such as growth rates and market sizes make a difference in the choice of alliance partners.

What factors, both exogenous and endogenous, actually impact the entry strategies and, specifically, alliance strategies in the international media market? The trend analysis so far points to some drivers that seem to influence the directions of alliances. For example, it seems natural for media firms to reach out to other firms who hold resources complementary to their own. It is also likely for a media firm to seek out related product alliances so to facilitate content repurposing, marketing know-how, and sharing of production. Because of the importance of cultural sensitivity and understanding of the regulatory environment, a media firm would also be more inclined to ally with partners from related product/language/geographic markets to take advantage of the acquired local knowledge and relationships.

Many scholars have suggested models/theories in explaining the behavior of strategic alliances. They range from transaction cost economics (Hennart, 1988; Williamson, 1985); game theory (Parkhe, 1993); strategic behavior model (Hagedoorn, 1993; Porter, 1985); strategic decision making model (Das & Teng, 1996; Tyler & Steensma, 1995, 1998); social exchange theory (Axelrod, 1984; Blau, 1964); power-dependence theory (Chisholm, 1989; Pfeffer & Salancik, 1978; Schmidt & Kochan, 1977; Van de Ven & Walker, 1984); to resource-based alliance theory (Das & Teng, 2000: 34). Adopting the industrial organization and resource-based notions of alliances, this study proposes a framework for analyzing international strategic alliances in media-related sectors (see Figure 2). As in the industrial perspective of diversification, the external environment shapes the strategic behavior of a firm. In this case, the general environment of a target country such as its regulatory, economic, technological, cultural, and social (e.g., education) environment influences not only the attractiveness and characteristics of the media industries in that country but also another set of important country specific external factors—the communications/media environment such as a country's communications/media infrastructure (e.g., Internet connectivity and broadcast facilities) and demand for multimedia products (e.g., cable programming and Internet usage). These environmental factors also directly impact the attractiveness of each media industry in that country. Continuing on the IO theory of diversification, a media firm's decision to enter a specific industry is likely to be determined by its target industry's basic characteristics such as market size, growth rate, profitability, and competition, as well as the factors of product/geographical relatedness and content-distribution complementary alignment as discussed previously. As in the resource-based perspective of diversification, the firm characteristics also shape the options of the international entry strategy available to a media firm. This includes a firm's business unit capability/resources in operations, marketing, and so forth; as well as its corporate structure. It is proposed that for international strategic alliances the two sets of variables in target industry attractiveness, and resource alignment, relatedness, and windowing efficiency would be the most relevant factors.

The next step of this study in international alliances of media firms would be to investigate empirically the relationship between the suggested drivers and media firms' alliance strategies (e.g., choice of alliance format and partners). As for other future studies, examinations of failed alliances would also be an interesting area of investigation. In general, cross-border alliances are more complex and risky than domestic ones. Partly because of this complexity and risk, cross-border alliances have higher dissolution rates than do other modes that are used to enter international markets. Studies have shown that the higher rate of failure might be due to cultural, strategic, and management differences and objective/vision differences. It is also possible that the alliances were opportunistic instead of strategic. In other words, uncertainty prompted the players to take anything that was available in order to experiment, defend themselves, and keep their options open. As a result, there might be alliances that are poorly defined and accomplished little. An examination of dissolved international alliances in media industries might uncover interesting patterns of alliance behavior and factors that impede the successful integration of international alliances of media firms. Finally, studies focusing on the relationship between different international alliance types and the resulting performance are always beneficial in assessing the relative contribution of alliance strategies and, indirectly, alliance drivers.

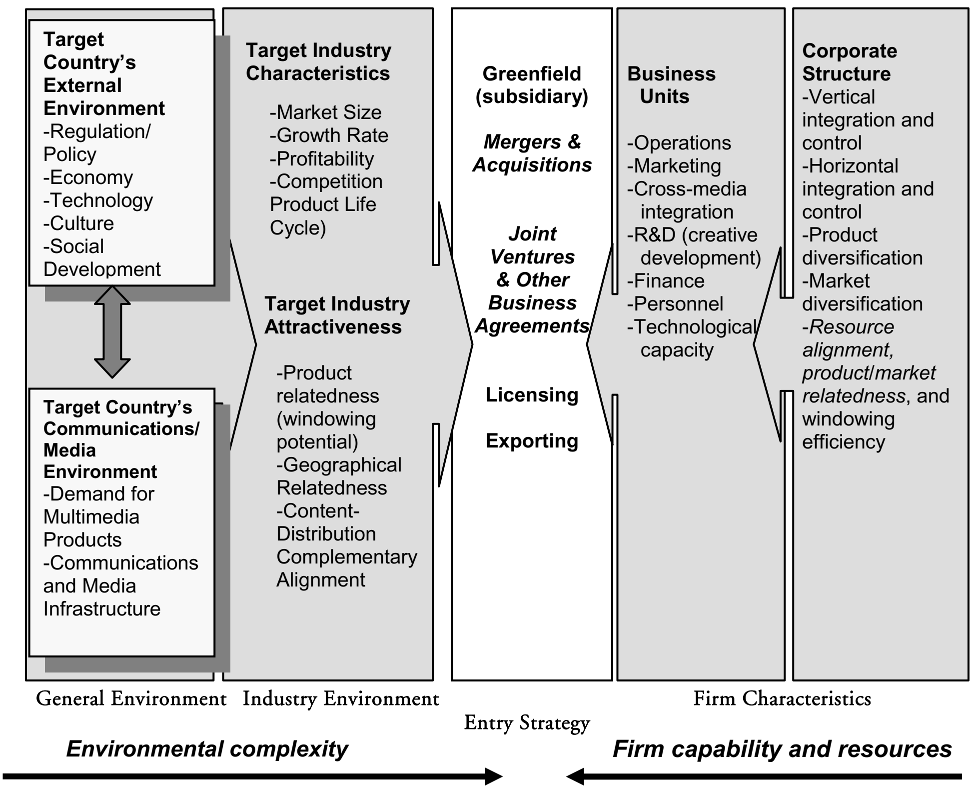

Figure 2: A Proposed Framework for Analyzing the Drivers of Strategic Alliances in Media Industries

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What Makes Media Firms Tick? Exploring the Hidden Drivers of Firm Performance

Lucy Küng

This book addresses strategic responses to media market changes. The selection of topic is apt. Apt because as we all know, those changes have been extreme. Over the past decades media organisations have been confronted with a new competitive environment characterised by turbulent, complex and rapid change, high and multivariate competition, new forms of production and distribution and perhaps most radically, entirely new types of products.

Market change mandates strategic change, and viewed as a whole, the media industry has embraced far-reaching strategic change in recent years. But strategies do not always succeed. In recent years we have witnessed some surprising strategic failures in the sector, failures that occurred despite a set of preconditions that might seem to lay a perfect foundation for success: high levels of CEO support, significant resource allocation, strategic advice from eminent consultants and analysts.

But during the same period there have also been a number of notable successes. Some companies have managed to crest environmental turbulence, especially technological discontinuities, and produce a steady stream of products that have found enduring favour with the market.

This chapter could have been entitled 'A Tale of Three Companies', since it explores three companies responses to media market change. Its particular focus is the role of organisational factors in firm performance, which is analysed through applying a framework based on socio-constructivist understanding of firm creativity.

This chapter falls into three parts. First it outlines the theoretical underpinnings, social constructivist approach to organisational creativity. The second part provides a brief summary of the application of this theory to three cases – BBC News Online, Home Box Office's original programming division, and Pixar. Part three provides analysis and conclusions drawn from these cases[1].

[1] BBC News Online was researched using primary sources. All other cases are based on published sources.

Socio-Constructivist Approaches to Organisational Creativity

This is a body of theory that is surprisingly seldom applied to the media industry. Creativity is in many ways the motor of all businesses. Creative ideas provide the raw material for new products, ideas and procedures (Amabile, 1988; Staw, 1990; Woodman, Sawyer & Griffin, 1993), and such new products, ideas and procedures are a cornerstone of an organisation's ability to adapt, grow, and compete (Kanter, 1983, 1988; Van de Ven, 1986, Porter, 1985).

Creativity plays an even more central role in the media industry, since creativity lies at the heart of content, the generation of which is the sector's fundamental activity and *raison d'être* (Towse, 2000). In the words of Scase (2002:8) "without their employees coming up with ideas that can be turned into commercial, saleable commodities [media firms] are dead". And the market changes that are the focus of this conference have enlarged the latent need for creativity. First, the need for creativity is always magnified during periods of profound environmental change (Bettis & Hitt, 1995; Hitt et al, 1998; Schumpeter, 1942; Eisenhardt & Martin, 2000; DeVanna & Tichy, 1990; Danneels, 2002). Second, the dynamics of emerging technologies make particular demands in terms of innovation (Yoffie, 1997).

In recent years a broad stream of research has demonstrated that creativity in organisations is determined in part by the social context, by the work environment. Such 'interactionist' or 'social constructivist approaches' assume that while characteristics of the individual - cognitive skills, personality and so on - are a central causal factor in creative responses, structural elements, that is, positive and negative environmental variables, also play a role.

Most contemporary researchers have adopted a definition of creativity focusing on the product or outcome of a product development process (Oldham & Cummings, 1996). This chapter also adopts this approach and defines creativity as the output of cognitive processes engaged in by individuals working creatively:

> *"A product or response will be judged as creative to the extent that (a) it is both a novel and appropriate, useful, correct or valuable response to the task at hand, and (b) the task is heuristic rather than algorithmic" (Amabile, 1996: 35).*

On the basis of this definition, a creative product should meet four criteria:

1. It needs to be novel or unique, where unique is understood as representing a solution where there is no established path to a solution, no known formula for the outcome (heuristic rather than algorithmic). In practical terms, this means that the task must be open-ended, with no clear and straightforward path to solution (Amabile, 1983: 127).

2. It needs to find resonance with a market. A novel product which is enthusiastically received by industry experts, but ignored by the public, cannot be judged a successful creative entity.
3. Critical acclaim. Assessments of creativity are socially constructed – meaning that it is not enough for a media organisation to say a product is creative, it must also be judged so by users as we have seen, but also by industry peers. A useful metric here is industry awards.
4. Critically, and here the organisational perspective comes to the fore, it must also fit with the needs of the organisation, which includes working within available budgets and timeframes.

Core Components of Creativity

Interactionist approaches to organisational creativity identify aspects of the work environment that have a positive or a negative impact on creativity. The primary reference for work in this field is Amabile's componential model of creativity in organisations (Amabile, 1983; 1988; 1993; 1996; 1998; Amabile *et al.*, 1994; 1996; 2002). This is rooted in the intrinsic motivation theory of creativity, whereby high levels of creativity require high levels of intrinsic motivation. According to the intrinsic motivation theory of creativity, creativity has three core components:

1. Creative-thinking skills. These refer to the ability to think creatively and can include any problem-solving approach that helps generate different alternatives. Individuals who have access to a variety of alternatives or potentially relevant ideas are more likely to make connections that could lead to creativity (Amabile et al, 1996).
2. Expertise/domain-relevant skills. These comprise knowledge of facts, circumstances, and issues surrounding a given problem or area (Amabile, 1996). They involve the technical expertise and experience necessary to be able to come up with feasible solutions to a given problem. This is necessary for creative success because immersion in a field over a period of time engenders a level of familiarity necessary for a creative output. This includes knowledge of prior work in the field (Bailyn, 1988).
3. Motivation, specifically intrinsic motivation. Intrinsic motivation arises from the intrinsic value of the work for the individuals. Because cognitive flexibility and complexity are most present when intrinsic motivation is high (McGraw, 1978), high levels of creativity demand a high degree of intrinsic motivation. Individuals are intrinsically motivated when they seek enjoyment, interest, satisfaction of curiosity, self-expression, or personal challenge in the work. Under such conditions individuals are free

> of extraneous concerns, and have high levels of task engagement, interest, and involvement, which in turn makes them more likely to take risks, explore new cognitive pathways, and be playful with ideas and materials.

Intrinsic motivation is also the component of creativity most strongly influenced by context. Five aspects of the work environment have been identified as particularly important:

1. Encouragement. Creativity needs to be encouraged explicitly: it must be evident to those required to be creative that their work has real intrinsic value. Ideas must be evaluated positively – even unsuitable ones. This extends to recognising value even in concepts which are ultimately unsuitable – failure to do so will hinder experimentation. Encouraging creativity rarely involves setting explicit external rewards in return for a creative goal achieved: extrinsically motivation narrows the cognitive focus to achieving the goal, not finding the most creative response to the task.
2. Autonomy. Staff required to produce creative results require autonomy, but the level of autonomy needs to be carefully gauged. There should be freedom concerning the means by which the goal is to be achieved (process), but not concerning the nature of the goal itself. Autonomy concerning process fosters creativity because it heightens a sense of ownership and therefore intrinsic motivation and allows employees to approach problems in ways that make the most of their expertise. The nature of the overall project outcome however should remain clear, constant, and unambiguous throughout.
3. Resources. The critical resources are money and time. As with autonomy, the levels of both granted to the project need to be carefully judged. These should be sufficient to allow the task to be achieved, but not over-generous since resource slack can reduce project focus and discipline. However if funds are too restricted, creativity can be channelled into finding additional funds. Similarly, in terms of time, if deadlines are too unrealistic staff will have no time to 'play' with concepts and solutions. Creativity results from the formation of a large number of associations in the mind, followed by the selection of associations that are particularly interesting and useful. Time pressures tend to remove scope for this combinatorial process. There is also a risk of burnout.
4. Challenge. One exception to the rule that extrinsic motivators hinder creativity is the finding that creativity is enhanced by clearly defined overall project goals (Amabile & Gryskiewicz, 1989). However, job complexity can be conducive to creativity (Oldham

& Cummings, 1996). For example, jobs that are multi-faceted, less specified, non-routine, and which present a challenge are amenable to creativity (Amabile, 1988). But as with independence and resources, the degree of stretch needs to be calibrated carefully. First, it needs to be mobilising but not demotivating. Should the creative task be too extreme staff will feel overwhelmed and threatened by a loss of control. Second, the task needs to match the expertise and creative thinking skills of the individuals working on the process.

5. Team composition. Team composition should represent a diversity of perspective and backgrounds. Working practices need to be open to encourage the constructive challenging of ideas and shared commitment, which in time can allow the development of a strong sub-culture. Homogeneous teams are not conducive to creativity since too much social cohesion can inhibit the exchange of ideas and diminish creativity.

Firm Response to Media Market Change – Tales of Three Companies

Case 1. BBC News Online

BBC News Online was a key element of the BBC's response to the emergence of the Internet. It was officially launched in November 1997 after a two-year planning and concept development period with the task of repackaging the BBC's extensive news coverage for the Internet and to use this as the base for a public service news site.

News Online is not perhaps the first media product that would come to mind when looking for creativity, especially now, six years after its launch. But it does nonetheless meet many of the defining criteria for a creative product. In terms of uniqueness, it was not the first Internet news service, but it was the first to attempt to transfer the values of public service broadcasting to an Internet context, and to exploit the potential of online content – for personalisation, community-building, feedback, 'rich' information, multi-media story-telling, and so on, to create a viable extension of the public service broadcasting mandate in for the digital world. It also met the second and third criteria of a creative product – public and critical acclaim. The service found immediate resonance with online users and reached its page impression target for 1998 after only three months. From its launch until January 2001 it achieved an average monthly growth rate of 7.3%, leading all UK news competitors, and traffic to the combined News and Sport Online site increased significantly faster than the UK Internet market. By June 2002 it was one of the most popular content-only websites in the UK and one of the most visited non-portal websites outside the US. In terms of critical acclaim it has been a consistent winner of online journalism awards[2]. The fourth criterion concerns the project's fit with the organisational purpose. Here, again, BBC News Online conforms to the model in that it was launched on time and on budget, and fit the BBC's overall goal of providing a means to translating the corporation's leading position in offline news into the online environment.

Contextual Factors Encouraging Ccreativity

The first key aspect of BBC News Online's creativity profile is that levels of latent intrinsic motivation were anyway very high, regardless of work context factors. This was because of the journalistic potential of the medium (unlimited space, the opportunity to use a broad range of media – audio, visual, text and graphics, and feedback from users) both inspired a staff anyway passionate about journalism and resonated positively with the strongly internalised commitment to public service news services. But in addition, other contextual factors were at work.

First, this was an important project for the BBC and this was recognised by all involved and constantly stressed by the project management. The priority given to it by the BBC's Director General, John Birt meant that there was a strong sense that the project was worthwhile. The project leader, Bob Eggington consistently recognised creative achievement and encouraged staff to take risks with the product. Eggington also ensured that the BBC's climate of critical peer review did not infect the venture, and deliberately shielded it from the BBC bureaucracy.

Second, it was a small, low visibility unit in the midst of a complex organisation, meaning it enjoyed a high degree of autonomy. Thanks in large part to Eggington's efforts, it was able to operate independently, and this meant it enjoyed great flexibility, to depart from BBC practices and traditions, to create new ways of working, to redefine its product as the market developed.

Third, the resources available to the venture were perfectly suited to the task. Funding was generous, although not excessive in comparison with investment levels by commercial peers, it had ideal parent brands (BBC News, BBC World Service Radio), a customised content production system that was designed to allow journalists to concentrate entirely the news task, and was staffed by a combination of experienced BBC hands at senior levels and fresh, enthusiastic new journalists in creative roles. Of course, it also had access to the BBC's newsgathering operation.

Fourthly, the composition and work style of the senior team guiding the venture was very conducive to creativity. It was multi-disciplinary, ensuring a diversity of views and experience, and its communications style was open and intense – there were frequent meetings and ideas circulated fast. This coupled

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[2] For example in 2003 it won one Webby Internet award (known as the Oscar of online journalism) and eight European Online Journalism awards, in 2002 two Webby Internet awards and seven European Online Journalism awards, and in 2001 four European Online Journalism awards.

with a good information base allowed the development of a collective 'creative intuition' which ensured the service could march in step with market needs.

Case 2. Home Box Office

> *"HBO has shaped a creative environment which almost anyone would tell you is the best place to work in town" (Peter Chernin, President and COO News Corporation, cited Financial Times, 1 April 2003)*

Home Box Office, or HBO for short, is a pay cable television network in the US. Founded by Time Inc. in 1972, as the name implies, HBO started life as a pay movie/special service cable operation in New York offering recent Hollywood films, and occasional boxing matches. It is now regarded as an industry leader in creative original programming[3], but this strand was initially confined to one-hour specials with stand-up comics, and the channel was noted for its frugal spending in this area (Shamsie, 2003). However, chain of critical and commercial hits including *The Sopranos*, *Sex and the City*, and *Six Feet Under* are credited with increasing subscriptions to the point that in 2003 one third of all US households subscribe to HBO or its sister channel, Cinemax. Under the slogan "It's not TV, its HBO" original programming is now central to HBO's strategic positioning as being different to mainstream television.

HBO itself claims that its original programmes such as *The Sopranos*, *Sex and the City*, and *Six Feet Under* are 'innovative and original'[4]. Application of theories of organisational creativity provides support for this claim. First, in terms of novelty, HBO is renown for its ability to create shows not available that disregard the elements judged pre-requisites of commercial successes by other broadcast networks - such as likeable characters or clear underlying premises (Shamsie, 2003) – but which are nonetheless successful. Second, in terms of commercial success, HBO is the most profitable television company in the US. In 2002, its earnings before interest, tax, depreciation and amortisation of $847m on revenues of just over $3bn, making it one of the most successful parts of AOL Time Warner[5], with HBO joint ventures reaching 16 million subscribers in over 50 countries[6]. The season finale of *The Sopranos* beat all other broadcast networks for the time period in total viewers[7]. Third, HBO also enjoys substantial critical acclaim. It won 24 Emmys in the 2002 Primetime Emmy Awards competition, tying with NBC for the most awards, and won seven Golden Globe awards in 2003, more than any other network. HBO's series have been nominated for twice as many Golden Globe awards as

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[3] It must be noted however that these highly-regarded original programming represents a third of HBO's output. Two-thirds of its films are low budget content focusing on sex or violence.)

[4] http: www.aoltweurope.com/en/companies/hbo_print.html

[5] Financial Times, April 1 2003: 8.

[6] http: www.aoltimewarner.com/companies.

[7] http: www.aoltweurope.com/en/companies/hbo_print.html

those of any of the broadcast networks[8]. Senior executives in competing organisations view the network as leading the way in creative programming[9].

Contextual Factors Fostering Creativity

HBO therefore can be judged a creative organisation. To find the roots of the creativity we can start with the core components of creativity. Here we see that levels of innovation are driven in part by deep sector expertise and high intrinsic motivation. Both stem to a large extent from the Chris Albrecht and Carolyn Strauss who are in charge of the original programming division, both of whom have a deep expertise in both entertainment (both had considerable prior experience as talent scouts) and a deep knowledge of the cable sector, having been with the firm for fifteen years previously and having risen through the ranks. Managerial expertise is supported by creative expertise. The critical praise received by HBO has served to attract high calibre writers who were willing to trade financial returns for the cachet of being involved in HBO programmes.

If we turn to the work context factors believed to encourage intrinsic motivation we see that many are present in the HBO work setting. First, in terms of creative challenge, HBO has a strong sense of purpose, with a core mandate "to be good and different" (Shamsie, 2003: 63). The company works hard to help its staff realise this goal, partly through allowing them to concentrate on the creative task – in the works of Alan Ball, screenwriter of *Six Feet Under*, "… there's less levels of bureaucracy to dig through …. To make a good show on HBO is almost easier work. You're living and dying by what you believe in, and you're not being nibbled to death by ducks" (cited in Shamsie, 2003: 64).

Second, in terms of autonomy, HBO, although part of the Time Warner empire, enjoys high levels of independence, being physically and operationally removed from the conglomerate's other TV activities. Its policy is to give its staff creativity within a tightly controlled operation – writers have high levels of artistic freedom, but must seek to create series that will garner creative acclaim and approval with the viewing public. HBO's business model also contributes to creative autonomy, since it means it does not have to chase ratings and can afford to take creative risks, and are less burdened by regulation than the mainstream networks.

Third, with regard to resources, funding is not mean, but neither is there resource slack: the firm recognises that its investments of $400 million annually are still under those made by its network competitors. However the fact that this funding comes from subscription fees means that it is relatively secure and not too sensitive to dips in the overall economy (which affect media advertising spend disproportionately). In terms of time, HBO is widely-praised for

[8] How to manage a dream factory'. *The Economist* Special Report on The Entertainment Industry. January 18, 2003: 68.

[9] TV Outside the Box: U.K. Broadcast Executives Ponder Why U.S. Programs Beat Theirs for Creativity. Wall Street Journal Europe. 26 August, 2002: A7.

investing enough time in creative projects. It is unique in the industry for offering writers 5-year contract, with the explicit goal of providing creative stability and the psychological freedom to take risks.

Case 3. Pixar

> *"the most reliable creative force in Hollywood" (Kenneth Turan in the Los Angeles Times, cited in Slate, June 5, 2003)*

Pixar Animation Studios Ltd was founded in 1986 when Steve Jobs, co-founder and chairman of Apple Computer, Inc. purchased the computer development of Lucasfilm for $10 million, and incorporated it as an independent company of which he became Chairman and Chief Executive Officer. The goal was to establish a major movie studio working exclusively in computer-generated animation. Its first decade was a struggle financially. Revenues were gained through software sales[10] and its film output was focused primarily on commercials - it was producing up to 15 a year in the early 1990s[11]. It did however start producing highly acclaimed short films, such as *Luxo, Jnr*. In 1986, and *Tin Toy* (1988), the first computer animated film to win an Academy Award. These developments served as the foundation for its first major success, *Toy Story*, which was released in 1995 and was the world's first full-length 3D animated feature film and the first computer animated film to win an Academy Award. Since then the studio has developed into a "hit factory"[12], with a solid progression of box office hits. In 1991 Pixar signed an agreement with Disney by which Pixar's first five movies were co-financed and profits were split evenly, after deducting a 12 per cent fee to Disney for distribution. Pixar has sole creative control.

Pixar meets all the criteria for organisational creativity. First, in terms of novelty and uniqueness, the Pixar approach to animated films re-energised and expanded the traditional Disney-driven model, allowing it to "lead the computer animation industry, both technically and aesthetically"[13], allowing them to create a niche that is very difficult to duplicate. Not only did they abandon completely hand-drawn animation in favour of digital techniques, but they also sought to appeal to adults as well as children (in the 1980s Disney's output was geared to juvenile audiences). Indeed, Pixar's success rests also on the innate creativity of its business concept to combine new field of computer graphics with the long-established one of film animation. Pixar also meets the second criterion of successful creative outcomes, commercial success. Indeed Pixar is now described as a "hit factory"[14]. Its first release, *Toy Story*, was the

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[10] http: Fortune.com. Posted 1 February 2003.
[11] http: CGI/Who's Who 2002/Pixar.
[12] Financial Times, September 12, 2003: 12.
[13] Animation world Magazine, Isssue 3.8, November 1998. http: www.awn.com/mag/issue 3.8.
[14] Financial Times, September 12, 2003: 12.

highest grossing film of the year, making over $358 million worldwide, and since then the studio has developed a solid progression of box office hits (see Table 1).

Table 1. Revenue and Budgets of Pixar Feature Films

Film (Release Date)	Worldwide Gross	Budget
Toy Story (11.1995)	$356,800,000	-
A Bug's Life (11.1998)	$358,000,000	$45,000,000
Toy Story 2 (11.1999)	$485,800,000	$90,000,000
Monsters, Inc. (11.2001)	$523,100,000	$115,000,000
Finding Nemo* (5.2003) *until 9.2003	$389,000,000	$94,000,000

In terms of the third criterion, critical acclaim, Pixar's output has received industry awards from the start. *Tin Toy* (1988), the first computer animated film to win an Academy Award and *Toy Story* was the first computer animated film to win an Academy Award. By 2003 the studio had won 15 Academy Awards, primarily for its technical innovations. The fourth criterion concerns a product's fit with organisational requirements. Here we see that all of Pixar's films have been developed on schedule and to relatively modest budgets.

To turn to the core components of creativity, we see, first, that Pixar's quotas of expertise and intrinsic motivation are substantial. First, its expertise in the field is impressive. Its technological achievements are legendary, and centre on Renderman, a language that allows the disparate parts of the 3D production process to connect and communicate. This is available commercially and has become an industry standard, as have a batch of associated programmes covering other aspects of the computer animation process that it has developed and marketed. Its mastery of the artistic skills involved in animated film making are also widely respected (including expertise in story and character development including selection of subject matter, storytelling, script writing, portrayal of characters, and storyboarding). Important in this respect is the studios use of short films as a vehicle for extending its artistic and technological expertise. Levels of intrinsic motivation are also high: many working in the company share a passion for the animated film that started in childhood. In terms of creative thinking skills, the production process lays particular emphasis on team brainstorming (Pixar's term for this is "catalytic collaboration").

If we turn to the contextual factors that boost intrinsic motivation, we see, first, that in terms of encouragement and challenge, Pixar seeks to further the staff's existing love of the medium by enthusing them about the products in hand. The studio has also shunned the 'hit model' favoured by Hollywood, whereby many projects are started and a few are expected to succeed. Instead, all energies are focused on a small number of films, and all films are produced to the same, high standards In order to keep the creative challenge feasible, staff are encouraged to break larger tasks down into creative steps. Short films provide an opportunity to experiment with new concepts and techniques. Second, in terms of autonomy, it is an explicit goal at Pixar to foster a sense of creative ownership at team level and to grant such teams high levels of autonomy. Third, financial resources are adequate but not overgenerous. Deadlines are kept as reasonable as is feasible - efforts are made not to over-extend staff and to prevent burnout. Fourthly, teamwork is the basic building block of Pixar's modus operandi. It seeks to promote "unfettered group invention" and stresses that its films are the product of groups, rather than key individuals.

So What Does Make Media Firms Tick?

So what conclusions can be drawn from these cases? What insights do they shed on the drivers of firm performance in the sector?

An initial conclusion to be drawn is that social constructivist understanding of how the work context affects creativity provides real insights into the drivers of firm performance, and goes some way towards explaining surprising discrepancies in performance. But in each of these cases a wider constellation of factors than those highlighted in the model were at play. In particular, the organisational factors of cognition, leadership, business model, and competence base had a strong influence on the work context, which in turn influenced levels of creativity, and thence corporate performance.

Cognition

A number of theorists have identified a link between interpretive elements within a firm and innovation (if not creativity[15]). For example that shared perceptions, values and cultural assumptions are decisive in determining how incumbents react to disruptive innovations (Christensen, 1997; Christensen & Overdorf, 2000), or that the underlying cognitive frame concentrates resources on existing products and markets, rather than those emerging as a result of disruptive innovation (Gilbert, 2002).

This research offers empirical support for these assertions. If we consider BBC News Online, we can see that interpretative elements played a substantial role. In this case there were a number of different cognitive structures in operation at different organisational levels. To start at the very top, the Director General of the BBC, John Birt, initiated and drove (from a distance) the

[15] The terms creativity and innovation are often used inter-changeably, but they are different concepts with different scholarly associations. Innovation theory is rooted in engineering and general management, while creativity theory draws on psychology. Thus innovation literature focuses on processes that influence the utilization, but not the development of new products and technologies (Ford, 1995).

development of News Online in response to a very specific cognitive frame. His pre-existing conviction about the important national role played by public service broadcasting in general and the BBC in particular, coupled with his own background as newsman and head of BBC News and Current Affairs, led him to conclude (first) that the Internet would develop into a third mass broadcasting medium, after radio and television, (second) that in order to maintain its rightful position as national media leader the BBC must not only master the medium, but guide the British public towards Internet mastery also, and (third), that a news service should be a prominent aspect of the BBC's Internet activities. Cognitive structures were also in operation at the level of the BBC News Division. A particularly influential one concerned the potential impact of the new media platforms. This was that each new platform brought with it the risk of ceding BBC News's territory to newcomers, by allowing new news competitors into the field that might erode the BBC's long-standing international dominance in the genre, and perhaps further eroding the rationale for licence fee funding. This belief stemmed from past events. In the case of the two most recent new mass media platforms – cable TV in the US, and satellite TV in Europe - each had provided the launch pad for new players who were to develop into strong competitors. CNN had developed a dominant position in 24-hour news due to its early recognition of the potential of cable. BskyB had created a monopoly in satellite television, including a strong international news presence, through a series of bold strategic moves in the 1980s and 1990s. In response to these developments, BBC News concluded that new media platforms meant new competitors, and it was determined this time to be vigilant, and to itself dominate any new distribution platforms for news that might subsequently emerge. Positive organisational memories also contributed to a receptive attitude towards News Online. The successful launch of the news programme *Newsnight* over two decades ago provided a template for 'piratical' new ventures started by a group of long-standing news staff operating independently of established structures. This meant that while the news division accepted that a credible Internet presence was necessary, very little attention was directed to those responsible for establishing it. This provided News Online with operational and strategic leeway. This television bias, coupled with a corporate exasperation about the success of CNN, also combined to ensure that news division attention was directed at the BBC's response to CNN, News 24, which was launched the same week as News Online.

Leadership

In each of these cases, there is a strong connection between leadership and creativity, and a number of commonalities in the relationship between these factors.

First, in terms of promoting creativity, the leader has two core tasks. The first is to set the basic vision. In each case the driving vision stemmed from the leader of the venture, and in each case that vision was simple, achievable – if stretching, and inspiring. The cases therefore provide support for the proposal that leaders' and senior managers' 'theories in use' drive the core vision, strategic plans and thereby establish the boundaries of legitimate innovation (Daft & Weick, 1984; Kanter, 1988). The second task is to ensure the provision of an organisational architecture conducive to creativity. In the cases of BBC News Online, HBO and Pixar we see that all the contextual components identified as important for creativity: encouragement, autonomy, resources, challenge and team composition, stemmed directly from the firm leadership. Again, this confirms with theoretical propositions that the role of a leader is to engineer a work context or 'initiating structure' (Stogdil, 1974) that will ensure the development of a steady stream of novel products (Tushman & O'Reilly, 1997).

Another commonality concerns the type of involvement. In all the cases here, the overall leader of the venture played a role that can perhaps best be described as 'activist but not 'heroic'. They supplied a basic vision that represented a creative challenge, a new way of conceiving media products, and they also ensured that these projects had all the pre-requisites for success in terms of resources, expertise and support. But thereafter their role was relatively hands-off. John Birt never actually visited the offices of News Online. Steve Jobs spends only one day a week at Pixar.

A further intriguing aspect of the leadership dimension of these cases is that in two of the three cases the role of leader was not exclusive. Both BBC News Online and Pixar had dual leadership structures. At News Online John Birt, the organisation's Director General, established pre-conditions for success by setting the vision, providing the resources and ensuring autonomy, and Bob Eggington, the project leader, realised the vision by shielding the venture from the parent and establishing a positive work culture. At Pixar there was also a dual leadership structure, with Steve Jobs, CEO and Chairman adopting, like Birt, an unobtrusive role whereby he set the vision and left its realisation to the experts on the ground. In this case they were led John Lassiter, who was given free reign to recruit other experts.

Business Model

Another organisational element which contributed to creative success was the firm's funding basis. While each of the 'successful' firms profiled here had very different funding arrangements, in each case there was protection from extreme market forces; BBC News Online had licence fee income, HBO had subscription revenues, and Pixar had a co-financing deal with Disney. These business models were beneficial to product development. They allowed creative risk-taking and provided the 'space' to incubate ideas and experiment. Second, they meant the media organisations could allow audiences to build as they became acclimatised to the product and as favourable 'word of mouth' publicity spread.

Competence Base

Expertise features strongly in the creativity models applied in this paper. But there are additional aspects of the competences displayed by each of these firms that need stressing. First is the absence of 'technological determinism'. That is to say, the products were content- rather than technology-driven. In each case, new technologies were used to meet and enhance 'traditional' content functions – whether it be the use of digital technology to revivify the animated film genre, or of the Internet to revitalise public service news. Second, each of these firms incorporated a profound expertise in 'traditional' content competencies – be it creating believable and complex characters, telling compelling stories, or communicating the essence of key news events. Third, in each case technology was subordinate to content – it simply offered a means of delivering 'traditional' content benefits in new ways.

A Research Approach to Uncover the Drivers of Firm Performance

The architect Mies van der Rohe famously claimed that 'God is in the details'. This was meant as a plea for simplicity in building design, but the phrase functions equally well as a reminder that the roots of organisational performance lie within the organisation, in the constellations of internal factors that together create the work environment. And as this chapter shows, some of these factors really *are* details – five-year contracts for writers at HBO, the use of short films to experiment with new techniques at Pixar, the BBC News Division's deep-seated and long-standing irritation that they had allowed CNN and Sky to gain a toehold in the news arena through ignoring the potential of previous new distribution platforms.

But a critical aspect of these details is that they are constellated together into a coherent system. And while theories of organisational creativity highlight many components of such systems, they do not illuminate all of them. Other factors are at play, which do not feature in these models but have a strong influence on firm performance: the seeds of success or failure are contained in a larger constellation of organisational factors working together.

This chapter presents only a limited first step towards understanding the performance of the firms profiled. But taken together its conclusions, however tentative, do allow us to begin to scope out a methodological approach for understanding what makes media firms tick. God, clearly, is in the details, but uncovering those details and understanding their inter-relationship requires a specific research approach. This chapter will close by making a number of proposals for future research into firm performance in the media field.

First, it would seem important to avoid reductionism. Indeed, if we look at the difficulties encountered by the large media conglomerates with their Internet activities, it can be argued that these stemmed in part from their adherence to singular theories applied without respect to context – be it a belief in first mover advantages or that market share now equals profits later. This study shows that a single theoretical lens is insufficient to truly understand all the contributory factors to firm performance. Instead a pluralist multi-lens approach combining insights from a number of theoretical disciplines is required.

Second, it is also clear that the factors that drive firm performance are context dependent. Performance is influenced by systems of firm variables, and these systems are intricate and idiosyncratic. This suggests that in addition to being pluralist, the research approach needs to be wide lens, that is, longitudinal, contextual and interpretive. It needs to understand organisations in the context of their wider environment, not just in the present but also in the context of that firm's historical past. For example, how did Steve Jobs' experiences with Apple shape his vision, leadership and management style at Pixar? What was the influence of the Riethian heritage on the design of the BBC News Online site?

Third, the research approach needs to be fine-textured. In order to understand firm performance in the media sector, and specifically to be able to separate the idiosyncratic and the ephemeral from the broadly applicable, a 'fine level of magnification' needs to be applied. In practical terms this means that the level of analysis probably needs to be the business unit, rather than the firm as a whole. Perhaps in this way we may be able to truly understand what makes media firms tick.

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Fuzzy Market Structure and Differentiation: One Size Does Not Fit All

Stephen Lacy

About 10 years ago, I wrote an article for *Newspaper Research Journal* titled: "Understanding and Serving Readers: The Problem of Fuzzy Market Structure" (Lacy, 1993). The point of the article was that the declining demand for most individual media products reflected a growing "fuzziness" in understanding aggregate demand in the marketplace. I wrote, "Fuzzy markets exist when one or more of the three market structure characteristics are difficult to identify, describe, and define" (p. 55). These characteristics were the probability that consumers will substitute products, the number of firms in the geographic market, and the barriers new firms face when trying to enter markets.

It seemed to me then, as now, that media managers face far more fuzzy market structure than do managers in most other industries. For example, take the automobile industry in the United States. During the past 35 years, we have seen companies from other countries, particularly Japan, erode the market share of the Big Three. There is no secret why this has happened. The Japanese generally make automobiles that are a better value than those made by GM, Ford, and Daimler-Chrysler.

The problem that caused the American automobile companies to lose ground to companies from other countries was not fuzziness over market structure. Auto markets are relatively clear-cut. The issues were and are: quality of output and how a company can control it. With media, however, it is difficult even to define quality or understand the process of substitution of media products.

At the time I wrote the article, speculation had begun that the Internet would run other media out of existence. I believe this speculation grew from the very uncertainty of media markets. And while non-Internet companies have survived, the fuzziness of the markets has not declined. It has grown. This fuzziness comes mostly from the ambiguous nature of media product markets and has three sources: (1) a failure on the part of economists to deal with demand in a sophisticated manner, (2) accelerating technology that has increased choices for media consumers, and (3) the growing diversity of populations in Europe and North America.

A better understanding of demand for media products will require considerable amount of work and must begin with theory construction. Today, I want to share a few preliminary and limited ideas about how we might begin to improve existing demand theory as it applies to media. These ideas are based on the belief that inadequate demand theory is the major weakness in applying microeconomic theories to media products. Price often plays a minor role in media demand, or the price is for bundles of goods. Bundles makes it difficult to examine the impact on demand for individual media products.

Media products are symbolic products, by which I mean products whose utility flows from the use of symbols. Symbolic products generate utility for consumers differently than do non-symbolic products. Indifference analysis is simply inadequate in predicting preferences for heterogeneous products. The key to understanding consumer demand starts with properly identified product markets. By assuming products to be homogeneous, perfect competition theory provides no guidance in this identification.

I will use the idea of fuzzy markets as a jumping-off point to discuss the utility of media products. I believe the nature of utility for these products is the main reason media managers have so much trouble predicting and understanding demand. I will also address briefly the two other factors contributing to making media markets fuzzy—technology and population diversity. Together, these factors contribute to media managers' misunderstanding of aggregation demand for symbolic products.

Fuzzy Markets and Strategy

Before getting into the central discussion, I will explain why this topic is applicable to a conference on media strategy. The recent trends in general economics and in media economics have evolved toward exploring the logical consequences of various strategies within a given set of market structures. If one assumes a given structure, scholars can use analytical tools, such as game theory and models, to explore the outcomes of various strategic options. Of course, the ability to anticipate strategic outcomes depends on the assumptions about the geographic and product markets. Market strategies will be ineffective if these assumptions are unrealistic.

Assumptions about the geographic market are fairly easy to verify. A geographic market is simply where a product is available. Assumptions about the product market are more problematic. The number of firms a media company competes against depends on the substitutability of products, which stems from individual demand. Media managers must constantly deal with changing forms of products and with consumers who vary greatly in preferences, which makes these preferences unstable and difficult to predict. The instability comes from the nature of utility and the choices consumers have. Media consumers often don't know what they will like until a choice is offered. For instance, U.S. television viewers did not know they liked reality programming until it was offered.

In America, we see this instability of preferences in the yearly network ritual of developing new programs that the managers hope will stop the declining ratings for network programs. So far, they have failed. Programs that might have had a 13-week run 10 or 15 years ago disappear almost overnight – sometimes deservedly so. Networks are so unsure of the future that a star who has a hit program can bargain for an incredible salary. Every January, U.S. network executives kneel and thank the TV gods for the existence of an American football Superbowl and its built-in large audience.

Reducing fuzziness is a key element to selecting better strategies. Incorrect assumptions about the product market, which reflect consumer demand, will lead to strategies that may or may not succeed in the short run but are doomed to fail in the long run. To better explain this point, I will discuss very briefly the concept of economies of scale for media products.

Media Products, Economies of Scale, and Economies of Consumption

Economic histories of media typically state that mass media developed because of economies of scale. In the United States, the penny press in 1833 lowered the price of newspapers to one cent and created a mass medium. The story goes that by selling newspapers for a penny, which was about one-fifth of the price for the average mercantile paper, the penny press tapped unserved demand. This allowed them to take advantage of developing technology to create economies of scale in printing plants. Within a decade of the beginning of the penny press, some of the newspapers had reached circulations exceeding 30,000. The margin of return on these large numbers of readers made newspapers the money machines they remain today.

This story rings true but is incomplete. While lowering price was a crucial element in the creation of mass media, another element of the penny press is often neglected. The penny press also changed the nature of newspaper *content*. They created the reporter model and collected information and news that provided more diversion than found in the mercantile papers. This new content involved human conflict in its various forms. One could call them "reality newspapers" because the papers had much of the same appeal as reality TV today. It was the change of content, not just the lower price, that allowed the penny press to attract the large number of readers whose attention could be sold to advertisers. The heavy dependence on advertising support was not new. Some of the American mercantile papers were two-thirds advertising even in the 1700s. The key to the penny press newspapers' success was the large readership collected through new forms of content.

The history of commercial broadcast television in the United States is similar to that of the penny press, although broadcast TV became the ultimate mass medium. It was not uncommon during the early 1970s to have more than 80% of the households in the U.S. watching the three commercial networks. They did this by providing programming at no monetary cost and by influencing the regulators to keep cable distribution of original programming out of the market. Once regulations limiting cable programming disappeared, the large audiences enjoyed by networks began to disappear.

My point in reciting a history many of you already know is that the economies of scale for production enjoyed by mass media depend on **economies of consumption**. It was the ability to concentrate media consumers through price, content, market strategy, and regulation that has allowed media companies to take advantage of production economies. Although price may play a role for some media, it is more often content, marketing and regulation that determine audience size and demographics. Yet, these variables are assumed constant in neoclassical economic models.

Historically, these economies of consumption depend to a great degree on the ability to limit consumer choice. Returning to the idea of market structure, the ability to limit choice results from limited numbers of sellers. By limiting the number of sellers, manager can reduce the numbers of strategies they must evaluate and from which they will select. More importantly, the fuzziness of consumer demand becomes less influential in determining the appropriate market strategy. From the perspective of an individual firm, the goal is to reduce choice to the point that most consumers must watch or read only its product. Under these conditions of pure monopoly, “one size fits all” and the declining marginal cost of economies of scale is constrained only by the limitations of individual production facilities.

Of course, the media managers’ nirvana of one size fits all, where monopoly profits abound, has never truly existed and never can. Readers, listeners, and viewers always have the option of not attending to content. Even at the height of mass network TV in the United States, some chose not to watch television. In addition, there were always some imperfect substitutes. Many of the consumption economies throughout history resulted from artificial constraints due to regulation, collusion, or concentration. Such an artificial market cannot maintain itself in the long run. Technology will eventually open markets and provide choice; and with media markets, choice contributes to fuzziness. In effect, many past media regulations have helped to reduce fuzziness by limiting choice. But if choices increase, then the uncertainty associated with media products markets takes over and makes the market more difficult to understand.

During the past 20 years, with less regulation and improving technology, we see media audiences becoming more and more fragmented. As a result, the ability to built economies of consumption through various content and service strategies has declined. Corporations have move increasing toward diversification and concentration. The managers hope that what corporations call synergies—a term that encompasses vertical and horizontal integration—will compensate for declining mass audiences and the corresponding threat of lower profits. Because most business strategies to build larger audiences have proven unsuccessful, corporations are embracing market strategies that lower costs and alter the number of competitors. The long-term implications of such a shift in strategy remain open for argument. However, the genie of consumer choice is out of the bottle, and it will be difficult alter the consumers' expectations of having many options. In the long run, companies will have to return to content strategies.

Fuzziness, Differentiation and the Nature of Utility from Media Products

Developing a theory that could adequately explain or predict demand has always been problematic in microeconomic theory. Demand involves psychology and social psychology, which did not exist as social sciences when Marshall wrote *Principles of Economics* in 1890 (Marshall, 1930), and they were in their infancies when Chamberlin wrote The *Theory of Monopolistic Competition* (Chamberlin, 1933). In the absence of knowledge about tastes, the perfect competition solution to the demand problem was to create a theory of demand where goods are homogeneous, making taste constant, and preference is determined by price, income, and price of substitutes (Stigler, 1952). However, it is through the variable "taste" that differentiation affects strategies and markets.

Chamberlin recognized the perfect competition approach was highly artificial. He wrote in the first edition of his book: "A comparison of the conclusions with those of perfect competition indicates that economic theory is often remote and unreal, not because the method is wrong, but because the underlying assumptions are not as closely in accord with the facts as they might be." (1962:xi). To help correct this problem, he developed the theory of monopolistic competition, which suggested that products can be differentiated through production or advertising. The result of differentiation is increased inelasticity of demand curves. This creates both elements of monopoly and competition for the same product, and this causes people to make tradeoffs among imperfect substitutes.

The problem is that the theory of monopolistic competition does not explain in great detail the process by which elasticity is altered. Although Chamberlin describes differentiation as changes in product or as changes in information about products, he does not develop a new theory addressing the nature of demand and the role that consumers play in determining the utility of a product or service. Differentiation, and thus utility, is very much a function of perception about a product as well the nature of the product. Perception of a product can vary greatly from consumer to consumer.

Without considering the role of consumers in differentiation, it is difficult to understand how substitution of imperfect substitutes occurs. If managers do not understand causes and patterns of substitution, differentiation as a market strategy faces inherent roadblocks to success. But Chamberlin was not unusual. Most economists have shied away from struggling with what many see as unmeasurable—variation in utility among consumers due to taste.

I want to address briefly the limits of applying traditional demand theory to media products by examining the nature of utility. Perhaps the type of utility, or satisfaction, people receive from using products and services varies with the kinds of goods and services and even with the brands of goods and services. In other words, the process of generating utility from consumption is not the same for all consumers and for all products. To some degree, this reflects the assumption underlying "uses and gratifications" research in communication. This approach assumes that the way a media product is used and the type of satisfaction (gratification) it provides vary with the communication and with the person receiving the communication. A further assumption is that knowing the type of use and gratification is important in predicting use of media products.

We do not have the time to examine the validity of the uses and gratifications approach, although I have addressed this issue briefly elsewhere (Lacy & Simon, 1993:26-32). Rather, I want to question the assumption that satisfaction received from all goods and services is basically the same and to explore how relaxing that assumption relates to fuzzy market structures and product differentiation.

Along these lines, I think utility can be divided into two types: physiological and psychological. **Physiological utility** occurs when the consumption of a good or service provides benefits to the body that do not require cognitive interpretation. Eating, drinking, and exercise all have utility that occurs without the consumer dwelling on it. They keep a person healthy. Goods and services that provide physiological utility can also provide psychological utility, but that is in addition to, not exclusive of, physiological utility.

Psychological utility comes from cognitive reactions to the consumption of goods and services. This utility requires the interpretation of a behavior or a collection of symbols. One person may listen to music to relax, while another person in a similar situation would be annoyed. These are benefits that depend on the mental state of the consumer. Riding a roller coaster has a physiological utility from the adrenaline rush, but it also generates emotional reactions that provide psychological utility.

Psychological utility can be divided further into experiential utility and symbolic utility. **Experiential psychological utility** comes from previous experience with a good or service that developed a cognitive association with the good or service. If you drive a particular model of automobile and it makes you feel younger, the future physiological utility of transporting oneself by driving that car is supplemented by the experiential psychological utility of this enjoyable feeling. **Symbolic psychological utility** comes from a similar cognitive reaction to a product or service, but the feeling was created by the communication of symbols. So, you might get a similar enjoyable feeling from driving the car not because of previous experience but because you saw a television advertisement that made you associate the driving with a youthful feeling.

Psychological utility can be derived from symbols, experience, or both. The two types can reinforce each other. The distinction between experiential and symbolic utility is particularly important because media work through symbols.

I want to make one further distinction in symbolic utility. It can have denotative and connotative symbolic utility. I have taken these terms from semiology (McQuail, 1994: 246-247). These two utilities derive from the meaning people associate with symbols. Denotative utility is the utility the majority of people receive from a symbol or collection of symbols. It is something that is agreed upon by the vast majority of users as a utility of consuming that product. For example, a photograph of a smiling baby will make most people feel warm and provide positive utility. Denotative utility is learned through culture and allows for predictability in how people will react to symbolic products.

Connotative utility is the utility that an individual receives from symbols that is not denotative utility. It is personalized utility. For example, a particular song might cause someone to recall a particular event that has very personal meaning. Couples might speak of "our song," which represents feelings associated with a moment when the symbol (song) was heard by the couple. The song will take on utility unique to the couple. The song symbolizes the experience, and future utility comes from hearing the symbolic product. This example shows a possible connection from experiential utility and subsequent connotative utility. One person might see a Mercedes as a statement of accomplishment, and another might see it as an extravagant waste of money. If either of these perspectives came from communication, the result is symbolic utility. Of course, just as products can produce utility, they also can product disutility. This is especially true for psychological utility.

The total utility from using a product or service can be summarized with this equation:

Equation 1: $TU = PU + [EP + (DU + CU)]$

TU = total utility
PU = physiological utility
EP = experiential psychological utility
DU = denotative symbolic utility
CU = connotative symbolic utility

The concept of four types of utility allows one to examine the relationship between consumer demand and heterogeneity (differentiation) of goods. Theoretically, one could create a continuum of utility from 100% physiological to 100% psychological, although perfect examples of the continuum's ends may be scarce or even non-existent. The position for a product would be defined by the physiological ratio, shown as equation 2. It is the ratio of physiological utility to total utility from a product or service. The lower the ratio, the more heterogeneous the products.

Equation 2: Physiological ratio = PU/TU

For example, an orange would have a high physiological ratio because its nourishment is not dependent upon awareness of the value of eating the orange. Fashionable clothing would have a moderate ratio because it protects the body with warmth but also has symbolic utility by attracting the envy and admiration of others. A mystery novel would have a low ratio because such novels tend to be an acquired taste, and their utility does not dependent on a physiological reaction to the product, other than the occasional goosebump.

As a caveat, I must tell you that I have not developed these ideas far enough to argue over exact placement of products on such a continuum. These are purely theoretical concepts at this point. Measurement would be extremely difficult, which is one of the main reasons economists pursued indifference analysis rather than grappling with the nature of taste. However, I believe that at least an ordinal relationship among products could be created on the basis of types of utility. One might envision such a continuum for each consumer along which products fall. An interesting issue concerns the stability of such an ordinal ranking. Would the total utility change over time as a product's symbolic utility changes? If so, it could affect the products position along the continuum. What would this do to predictability in analyzing market strategies?

Another ratio of interest would be the relationship of symbolic utility to total utility. This would create a symbolic ratio, which is shown in Equation 3.

Equation 3: Symbolic ratio = (DU + CU)/TU

The higher the ratio between zero and 1, the greater the symbolic utility from consuming the product. Products with a high physiological ratio and little symbolic utility, such as tomatoes, would be at the lower end and abstract art at the other. In between we might find a red convertible, which has physiological utility but high symbolism for us men over 50.

Another ratio of interest is the connotative ratio, which equals the connotative utility divided by the total symbolic utility (connotative and denotative). This connotative ratio is given in equation 4.

Equation 4: Connotative ratio = CU/(DU+CU)

This equation suggests a continuum of products with symbolic utility. At one end of the continuum with a ratio close to zero would be products such as basic news reports, which are aimed at being accessible to and understandable by all. At the other would be poetry with a ratio approaching one.

The relationship between denotative and connotative is a function of both the sender and receiver. One might argue that the distribution of a product's symbolic utility between denotative and connotative utilities is a way of deciding whether a media product is aimed at mass distribution or not. For a mass symbolic product to be successful, it must attract many users. This is difficult to do if the bulk of its utility comes from connotative utility. Poetry has more connotative utility than do mystery novels, which would be one explanation of why poems are rarely the basis for blockbuster movies.

How does the concept of different types of utility relate to demand theory? If developed in more detail, this typology of utility might help to explain how symbolic product differentiation works. Altering the potential connotative and denotative utility in a product would differentiate it. In addition, product differentiation can involve using advertising to create perceptions that a product brand has utility that similar brands do not. This involves a company using symbols to create symbolic utility. One can also use media to influence the symbolic utility of media products--advertising of movies for example. A detailed examination of this process is far beyond this presentation, but most advertising seen on television aims to change connotative utility. The connotative utility comes from identifying a product with pleasurable experiences or with admired celebrities.

With this concept of four types of utility, it becomes easier to see why media managers face fuzzier markets than do the makers of cars. Predictability of consumer behavior declines with the increase in the symbolic and connotative ratios. Psychological utility has more variation across individuals than does physiological utility. Symbolic utility has far more variation across individuals than does experiential utility. Connotative utility has more variation across individuals than does denotative utility

Of course, this is a matter of degree. Many, if not most, products have elements of both physiological and psychological utility. Psychological utility deals more with the concept of taste than does physiological utility. Market structure fuzziness increases as the percentage of media consumers' total utility derived from symbolic utility increases. Fuzziness makes understanding substitution patterns increasingly difficult, which in turn affects the selection of content strategies.

Perhaps researching variations in utility across products and consumers will help us better understand and predict media demand. As I mentioned above, this might be related to the idea of media uses that comes from "uses and gratifications" research and dependency theory. I have addresses this connection in a preliminarily way in two earlier articles (Lacy, 1989, 2000).

Technology and Choice

This typology of utility helps explain the uncertainty in understanding individual demand for media products, but two other elements also influence market fuzziness. The first is technology, and the second is consumer diversity. As you all know, the past 25 years have seen remarkable technological change in the media industries. In the long run, this change will actually help media companies better serve a fuzzy market because it will allow more personalized media bundles. But currently it is having the opposite affect of making things fuzzier.

The creation of new television networks, the boom in cable/satellite TV, and the development of the Internet continue to give users of media tremendous choice for information and entertainment. They are using that choice as never before. Twenty years ago, the lists of the ten most-watched television programs for white Americans and African Americans were the same, but not any more. This is not because tastes changed but because choice increased. More networks and cable channels have offered more options, which have allowed viewers to select programs that carry more symbolic utility for them. It is the increased number of options that allows consumers to find media products with enhanced connotative utility.

Thirty years ago, consumers who valued old movies had little choice during primetime. They could not receive the connotative utility of watching a Humphrey Bogart film. Today, consumers not only have the Turner Classic Movies and American Movie Classics channels that regularly offer these films, but they can rent or own DVDs and videotapes of these movies. Before the choices offered through these technologies were available, this connotative utility was not accruing to consumers.

As media managers better understand media demand, they probably can make more total profit from delivering symbolic utility. This will come when they have theory and research to reduce fuzziness. However, serving connotative utility is more expensive than serving denotative utility, and the issue will be one of costs and benefits. These costs and benefits, however, remain difficult to understand using current demand theory.

Fuzziness and Diverse Populations

The final element of fuzzy market structure concerns the growing diversity of populations in Europe and North America. Understanding aggregate demand for media products in any market requires two steps. The first is gauging for individuals the mean contribution of denotative and connotative utilities to total utility from various media products. This is the measurement of central tendency in a product market. The second step is calculating the variance of denotative and connotative utilities among consumers of media products. This is the measurement of dispersion within the product market. Both of these are important, but the latter is tied to diversity of demand in a product market, which in turn reflects the diversity of consumers' backgrounds and experiences.

Marketing aims to reduce this variation in several ways. For example, companies use advertising to reduce the variation in connotative utility. Also, companies identify subgroups that have less variation in connotative utility for a particular media product. This allows for more efficient marketing of products such as movies and TV programs to demographic and psychographic groups. The goal is to reduce limited variation even further.

As populations become more diverse in a variety of dimensions (race, ethnicity, education, etc.), the nature of aggregate demand will become fuzzier. Connotation is connected with perception, which is related to experience. The United States certainly is undergoing drastic changes in population diversity. Within 75 years, there will be no majority group as defined by race. My impression is that a similar process of diversification is occurring in Europe. The nature of a global economy makes it impossible to limit growing diversity. The flow of goods and services requires the flow of information and labor. We can only expect diversity of demand in media markets to grow as the diversity of experience drives diversity in connotative utility.

How Can We Reduce Fuzziness?

Of course, if there were a good answer to this question, scholars would have considerably less work to do and would inhabit higher income levels. So, in closing, I would like to issue a challenge and an invitation.

It is far from original to point out the limitations of perfect competition theory concerning utility and taste. Many economists have done this. However, fewer have done much to address the problem. In 1971, Gary Becker, who won the 1992 Nobel Prize in Economics for extending economic analysis to non-market variables, wrote:

> *"Although demand functions such as equation (9-1) can be used to describe the effects on tastes of various personal and environmental characteristics, they cannot be used to predict these effects in the way that they predict the effects of changes in prices, since economic theory does not explain the formation of tastes. Nor can one usually look to sociology or psychology since the theory in these fields has not been developed sufficiently to be of much help" (Becker, 1971:44).*

Twenty-nine years later Becker and Murphy wrote:

> *"While these indirect effects are enormously important, they do not capture fully the influence of others on a person's behavior. Presumably for this reason, anthropologists and sociologist have repeatedly told economists about the importance of culture, norms and social structure. Economists have not listened, however, mainly because these fields have not developed powerful techniques for analyzing social influence on behavior" (Becker & Murphy, 2000:3).*

Becker and Murphy dealt with the problem of taste by incorporating the variable "social capital" into their economic model of demand. Social capital represents the impact the social environment on demand and works as a strong complement in preferences for goods. This is obviously an interesting and fruitful approach, but it need not be the only one. Just as sociology, anthropology, and psychology have limits due to methods, so does economics. I believe one limitation of economic theory building is the traditional dependence on calculus as the primary analytical tool. As useful as this powerful tool is, it is limited by its assumptions. To use differential calculus, one must assume either maximization or minimization of goals, which limits our ability to understand a reality were maximization or minimization cannot occur because of imperfect knowledge. The argument that we usually act as if we are maximizing is of course untestable because without perfect knowledge we cannot know at what point maximization or minimization occurs.

I raise this point not to argue the usefulness of calculus in economic analysis and theory building. Economic theory based on calculus has influenced all of our lives. We are here because of the very understanding such analysis has generated. After all, there are no Nobel Prizes for scholarship in anthropology, sociology, psychology, or communications. Rather, the point is to suggest that those of us who study media economics from the media side use our cross-disciplinary backgrounds to explore alternative ways to explain economic demand for media products. Perhaps theories based on the relaxation of the maximization and perfect knowledge assumptions would yield some interesting insights. Perhaps economic analysis can be combined with approaches found in other social sciences to better help us explain taste, utility, and preferences. Perhaps not. However, we can apply cross-disciplinary approaches to media economics to improve our understanding of consumers.

Even if the resulting models and theories lack elegance, one possible outcome of such interdisciplinary activities would be to improve media managers' ability to develop strategies for serving consumers. Without knowing how and why consumers use media products, strategic planning will continue to struggle with fuzzy market structure.

Such a path will be difficult and might face opposition from traditionalists. However, on a practical level, developing interdisciplinary theories would suggest possible measurements of behavior that most economists have assumed to be unmeasurable. All behaviors are measurable. The issues are what type of measuring system can be used and how much measurement error it produces. Science, whether social or natural, advances with improved measurement and observation, which in turn advance through improvement in theory. The fact that developing theories of media demand will be difficult should not be a reason to avoid the process. It should be considered a challenge and invitation to interesting and possibly useful scholarly endeavors.

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Recent Evolution of the French Newspaper Industry: Decreasing Advertising and the Appearance of Free Newspapers

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Successive launchings on February 18, 2002, of *Metro* in Paris, Lyon and Marseilles by the Swedish Modern Times Group, and on March 15 of *20 Minutes* in Paris by the Norwegian group Schibsted threw a new light on the French press and singularly on the national daily press (PQN). These difficult launches were carried in a context of hostility, and even of physical confrontations, and can be regarded as revealing a latent crisis that has affected the French PQN for more than a decade. Developments in this press segment have gone badly, indeed, and the arrival of what it considered, wrongly or rightly, competitors coming in addition from abroad, added to its faintness. This chapter will describe the general economic environment of the PQN and then its reactions *vis-a-vis* the new comers.

The PQN General Economic Environment

The difficulties of the PQN are at the same time structural and conjunctural in nature. They result from several factors whose negative effects cumulate: 1) a fall of circulation and readership; 2) weak and irregular advertising revenues; 3) badly controlled production and distribution costs; 4) a high selling price; and 5) increased dependency on State subsidies.

A Fall in Circulation and Readership

Circulation and readership developments are certainly the major difficulty and induce cascading effects. Compared with the other written media (especially press magazine and news), audio-visual media, and more recently the Internet, the daily press, national or regional, are not very attractive media for the young people and the women in particular. The French are very poor purchasers of daily newspapers with only 150 copies sold per day for 1000 adults of 15 years of age and above. For the only PQN, the sales figures are falling strongly. Thus the annual total diffusion declined from 625.6 million copies in 1985 to 482.9 in 2000 (Source DDM). In 2002 the daily diffusion of paid copies for all the 11 national daily newspapers in France reached only 2,215,000. If the two sporting daily newspapers and the two economic daily newspapers are excluded, the paid diffusion amounts to only 1,584,700 copies (Source: Diffusion

Controle). There is no national daily newspaper whose diffusion on the territory is higher than 400,000 copies. Thus, in 2002, the first national daily newspaper *Le Monde* sold no more than 361,254 copies per day in France and *Le Figaro* 345,080.

Although the French remain very strong readers of magazines (between the 1990 and 2000, the number of magazine read by each French rose from 6.1 to 6.9), they become more and more occasional readers of the daily press. In 1973, 55% of French said they read a newspaper nearly every day. In 1997, only 36% said they did so (Enquiry of Ministry for the Culture). The very latest data available shows that the audience of the national daily press dropped by 3.9% during the period from the second half of 2002 to the end of the first half of 2003. Nearly one French adult out of five (17.7%) reads a national daily newspaper, two readers out of three are men, and two out of three readers are more than thirty-five years old (EuroPQN). Readership of the national daily press thus has become a marginal phenomenon.

Irregular and Weak Advertising Revenues

Although the press as a whole continues to receive a significant part of the advertising investments devoted to the "Great Media" (49.6% if one takes in account commercial and classified advertisements), advertising revenues very often represent less than 50% of the total income of this media, particularly these last two years. Advertising revenues represented only 48.5% of the revenues of the general information daily newspapers in 2002, but this figure is an average that covers very contrasted realities. Thus advertising incomes occupy a lower place in the resources of the French national daily newspapers than that occupied in the majority of their European or American counterparts. What is more serious still is that these revenues are particularly fluctuating and that their fall particularly affects the daily newspapers. One notices a steep rise between 1985 and 1990, a very brutal fall from 1991 to 1993, a slow and then spectacular recovery between 1994 and 2000, and finally a new brutal fall in 2001 then 2002. During these two last years advertising investments dropped in the press of 3.8% then 3.9% but the PQN was most affected with falls respectively of 9.4% and then of 14.3%. This volatility of advertising prevents serious forecasts in the short or the long term. It relates to commercial as well as the classified advertisements that are particularly sensitive to the depressed economic situation of employment.

Badly Controlled Production Costs

The PQN meets great difficulties of profiting from the potential advantages of the computerization of its production, which it carries out with large expenses. This difficulty is due in some extent to the influence—always very strong in Paris—of the press printers Union (affiliated with CGT) which traditionally militantly seeks to preserve not only employment, but also many acquired advantages: high wages, short working hours, early retirement, etc.). Indeed manpower decreases, but the fall of the production related to the fall of circulation prevents from achieving economies of scale. In the same way these weaknesses prevent papers from achieving economies of scale in the other activities of the companies: editorial, administration, commercial, etc.

High Distribution Costs

In France the essence of the sales of the PQN is single copy sales (75%). However, if certain countries envy the French co-operative system of distribution set up in 1947 with the birth of the Nouvelles Messageries de la Presse Parisienne (NMPP), certain voices rise to deplore its high cost and its lack of commercial dynamics. Indeed the system rests on copies deposited at the retailers who are compelled to handle them commercial neutrality. This generates a heaviness in the distribution due to the load of unsold copies that are too often abundant at the newsstands. In the final analysis the single copy sales system is based on contractual rate of taking away for all paper approximately 37.5% of the cover price of a newspaper. Sale by postal subscription is not very widespread (19%, even though it is given very privileged tariffs). Finally, home delivery (6%) has proven very difficult to put in operation despite many attempts and a State subsidy.

A High Selling Price

Lack of advertising resources and high costs lead, fatally, to a high selling price, whose growth for many years has been faster than the cost of living (From 1990 to 2001, whereas the general index of the prices rose from 100 to 120.3, the price index of daily newspapers increased from 100 to 129.2). This growth of the price is considered by many analysts to be one of the two essential factors of the reserve of the purchasers; the other factor obviously being the maladjustment of the contents and/or the style of the newspapers to the tastes of the real or potential readers. Here again the daily press is different from the non-daily press, which managed to limit its rise in prices and even to carry out press decreases.

An Increased Dependency to the State Subsidies

The tradition of an economic intervention of the State in the press goes back to the French Revolution. It is based on the will to maintain the pluralism of the press, which is regarded as guarantor of the democracy. None the less, the increased difficulties of the press, and particularly of the PQN, leads it to a complex system of direct assistances (subsidies) and indirect assistance (both reduced postal tariffs and taxes and reductions of various tariffs) that undoubtedly make the French press the most assisted press in the Western world. In addition, each difficulty generates new help and one hardly sees how to retrogress in a time when the assistances could be questioned by the European Union authorities or affected by the budgetary difficulties of the State.

It is in this morose context that the free daily newspapers of general information (PQG) have been established and in which one can try to understand the reaction of the various actors of the press market.

The Reactions to Free Daily Newspapers

The arrival of free papers has shaken the practices of the groups of the existing press, raised various hostilities and controversies, and brought about unexpected alliances in a context of uncertainty about the future of the lately established titles.

The Existing Newspaper Groups

Concentration of the daily press in France is, like elsewhere, already old and the market has remained rather stable these last years. It is marked in the PQN by the presence from many titles, eleven specialized and seven general and political information titles, whose owners have changed little with time. The titles belong groups: *Le Figaro* to Socpresse (one of the companies of the Hersant group), *La Croix* to the group Bayard, *Les Echos* to the Pearson group, *Anujourd' hui–Le Parisien* as well as *L'Equipe* and *Paris-Turf* to the Amaury group, while others have being recapitalized by calling upon supporters (*L'Humanité*, *Libération*) or institutions (*Le Monde*) or businessman (*La Tribune*). The difficulties of one or others resulted in few launching in the past thirty years except for *Libération* launched in 1973 (although this title suffers from chronic deficit) and many projects (in particular those of the Lagardère group) that failed. Quite to the contrary, the groups have difficulties maintaining the lives of certain titles (such as *France-Soir* that has now fallen under control of an Italian group).

In the same way one notices no creation of new titles for a very long time in the regional press, which is marked by the dominant place of the Hersant group (in fact Socpress and France-Antilles) that controls 30% of the market and the weight of the group Ouest France. These two last, in addition to the various daily newspapers or various publications that they control, are very present in the market of advertising with free publications. While Socpress controls Comareg, Ouest France controls the Spir group.

One can then estimate that the daily press misses a creative dynamism and that it is satisfied in the past years with simple changes of layout or size. It fact it is primarily in the field of the periodicals, and singularly in the field of the magazines, that the French press is very creative and even an exporter. It is known that the Hachette Filipacchi Médias (HFM), subsidiary of the Lagardère group, publishes more than 220 magazines in the world, of which only 47 are in France. It is followed by two dynamic groups of foreign origin: Prisma Presse, a subsidiary of Bertelsmann, and Emap, the British group, which has just acquired one of the last independent family groups: the Excelsior group. This dynamism is explained by many largely analyzed factors: niche market, high advertising investments, easiness of distribution thanks to the NMPP, competition among printers, and State aids.

A Climate of Noticeable Hostility

Despite the weakness of the market of the French PQN that deterred many foreign investors (except for the Pearson group), and the launch in May 1999 of a free weekly magazine of information *A Nous Paris* on the initiative of a subsidiary advertising company of the RATP (Parisian subway) and distributed in the Parisian subway, two Scandinavian groups decided to establish in 2002 a new press form that until then has been unexplored in France: the free daily newspapers of information. Their formulas, just like their modes of production and distribution, were already well grounded in other countries with more or less marked successes. However, the French experiment was going to prove particularly difficult because it encountered various well-established actors that felt threatened.

First, there were initially, and quite naturally, some editors who were very anxious to see competitors develop that might be likely to attract one part of their (weak) dual product market of advertisers and readers. Incompetent at conquering or grasping young urban people, who are poor readers of the French PQN, they initially highly criticized—in certain leading articles—these competitors for offering only one substitute of newspaper containing dispatches of press rewritten by a very small number of unlicensed journalists. The daily newspaper *Le Figaro*, rather far away from the readership aimed by the PQG, was not very active, but that was not the case of *Libération*, nor of the popular daily newspapers (*France-Soir* and *Le Parisien*), or curiously of *Le Monde,* a quality evening newspaper that should not have been anxious. But each one feared either for its sales revenues or for its advertising revenues. Except for the Marseilles daily newspaper *La Provence,* which launched a free daily newspaper the same day *Metro* entered the city, no other daily newspaper launched any counter fire.

Second, the entrance of the free papers encountered the press printer trade union (FILPAC), which has a monopolistic situation in Paris. The union is powerful in printing plants but also in the NMPP distribution system. It saw the printing of these new free daily newspapers in printing works where the union's presence is weak or non existent and where remunerations are lower to be very unfavorable.

Thus, the Trade union initiated a very strong campaign aiming at clarifying the conditions of non-conventional production and distribution used by the PQG, which often used foreign workforces and sometimes irregular work situations. As a result, violent disputes—including seizure and destruction of newspapers—marked the beginnings of the two titles.

Third, newspaper agents—especially the kiosk operators close to the subway stations where the free papers were distributed—were indignant to see the free newspapers that were likely to make them lose the purchasers at the origin of their remuneration.

Fourth, there was mistrust if not hostility of advertisers, who were anxious to know the audience of the titles before investing there and their reserve toward a press whose readership aim appeared to them too "popular" and with weak purchasing power (young early morning users of the subway).

Appeasement with Unexpected Alliances

The general outcry the editors of PQG forced free publishers to make many concessions. They first had to agree to have their newspapers printed by press printing works at the much higher conventional tariff higher and to repatriate to France the editions that were printed in Luxembourg. They also had to make changes to their system of distribution. They finally created alliances with those that sometimes were the first to disparage them. Thus *Metro* is printed by *France-Soir* and *20 Minutes* is partly printed by *Le Monde,* which was one of the most virulent adversaries of the PQG! Also the Schibsted editor of *20 Minutes* divided his capital with *Ouest- France* through Sofiouest and Spir.

As regards the advertising tariffs, which appeared weak in cost per thousand in comparison with the number of distributed copies and the readership (badly known as it is), they looked high in comparison to the socio-economic profile of the readers touched. So they were re-examined in a very important way: tariffs were reduced by 38% in January 2003 for *Metro* and by 20% for *20 Minutes* in September 2002.

A Badly Known Impact and Dubious Results

In the autumn 2003, in a slightly alleviated atmosphere from when the free papers were established, it is extremely delicate to measure the precise impact of the PQG on the market of the French PQN.

The figures we have show that the targets in term of free paper readership have been fulfilled. Thus a Sofres survey show 1,266,000 readers of more than 15 years of age for *Metro* (in the three cities Paris, Lyon and Marseilles) with a total diffusion of approximately 500,000 copies. Ipsos indicates that *20 Minutes* is read by 1,360,000 readers in Paris area, ranging between 18 and 34 years, with a diffusion of approximately 350,000 copies. It also appears that the majority of these readers were not previously readers of daily press. The bet, thus, is successful as regards the conquest of readership. But it is far from being successful in financial aspect because both title show large deficits and take of heavy losses: for *Metro*, 15 million euros in 2002 with a turnover of 3.6 million and 7 million in losses are expected for 2003 with an unknown turnover; for *20 Minutes* there were 15 million euro losses in 2002 with a turnover of 5.5 millions (or 4.5 million according to other sources) and 10 to 11 million euro losses expected in 2003. The profitability of PQG will not be reached before 2004 or 2005 and success will depend on the advertising market that is still quite morose.

Impact on the French PQN

A serious study undertaken by one of my MBA students, Michel Sabatier, shows that in its introductory phase, the impact of the PQG on the economy of the PQN is very weak even if it produced very high circulation. In the Paris area, the PQG diffuses more than the PQN of general information (667,700 copies versus 578,000 by single copy system, without counting subscriptions whose sales were not affected by the arrival of the PQG).

While commercial and classified advertisements occupy only around 15% of the surface of the free newspapers (which is similar to the other popular national newspapers), the advertisers of the PQG relate to a small number of sectors: mainly mobile telephony, distribution, cars and tourism, which are similar to what is found in the popular daily newspapers. The whole of the advertising investments collected by the PQG represents only 7 million euros compared to the 455 million that the PQN gathered in 2002 (i.e. 1.54%), which is very weak.

Finally the meticulous study of Sabatier shows that the losses of sales imputable to the two free ones were small: an average 3000 copies specimens per
day for *France-Soir* and 4,500 copies for *Liberation*. Very few readers were thus diverted to the free papers to the detriment of PQN readership.

One can also state that the PQN, by the means of the Printer Union, has succeeded in imposing to the two free newspapers, distribution and production costs higher than those in other countries where they were launched, and the PQG does not receive, contrary to the PQN, State subsidies.

Conclusion

In many aspects the PQG was used as scapegoat by the PQN which could show its brittleness. However the economic model of the free press, criticized by some, caused others to become followers. Many launchings of free non-daily newspapers have been announced, and the audio-visual group TF1 affirmed its confidence in the free newspapers by taking, in September 2003, a participation of 34,5% in the capital of *Metro*. It argued that the chain of TV and the free daily press have a common culture. But some see the beginning of an advertising synergy between the newspaper and the chain, especially when the advertising screens of the French TV open with publicity for the press.

The future of the French daily press landscape is thus far from fixed and the arrival of the free daily newspapers raises many problems about the nature of the press: is it an ordinary public good only subjected to the market laws and marketing strategies or is it a cultural good that takes advantage of a particular status?

The German Newspaper Industry: A Case Study in Changing Media Markets and Strategic Options for the European Newspaper Industry

Gerd G. Kopper

Business models and their theory have become rather intricate during more than two decades of refinement before the turn of the last century within proper areas of scientific discussion. In our study the notion of a business model serves to focus on a specific and central assumption of market potential and its calculated and effective economic exploitation. In most cases under discussion, business models tend to constitute more than just one path to economic success, they provide for a certain amount of flexibility, and they form a certain hierarchy of (a) general and (b) sub-models plus (c) derivates.

Referring to a specific 'business model' underlying the newspaper industry in Germany, thus, gives a rather paradoxical impression. Are all of mentioned facets of derivation being included or do we refer to just the initial general status and overall idea of a business model? Our central hypothesis is that due to a number of historical, political and cultural circumstances, including abnormalities of newspaper market development in the era of post World War II, in both West and East Germany, the necessity for modern industrial strategic thinking within the newspaper industry never really occurred up to most recent times. It is only due to a manifest economic crisis of the newspaper industry during the last two years that strategic thinking has started to grow.

A particular undercurrent of company oriented and rather practically minded modus operandi within the industry, which instead ruled the management, proved to be rather successful. It is only through the ongoing economic crisis that the deficit of strategic orientation within the industry became apparent. Because of this lack of a minimum of strategic thinking within in the newspaper industry a number of deep rooted and fundamental problems concerning structures for development of this industry have, simply, been ignored over long stretches of time. It is due to this background that the impact of the present economic crisis in the industry has, apparently, been blown up to the dimension of a catastrophe. Our analysis will try to differentiate the real ills in this industry from considerations of magic cures, and also, from sheer economic gloom. The ground on which to start strategic thinking for and within this industry is to clear the empirical situation of the industry in general and to look for realistic options of development by way of a contextual analysis.

The 'business model' reigning within this industry almost up to the present has been one rid of strategic reflection. This is an obvious paradox in itself.

One practical element of this paradox in Germany, though, has been over most decades after WW II, a particular type of singular newspaper based company and its kind of company centered administrative thinking and tradition. The other practical element, on the contrary, has been, and this will be shown in further detail, an undercurrent of constant change within the structure of the newspaper industry that never forced the traditional minded newspaper leadership to venture into the kind of strategic thinking of its own. Thus, this element of change has never really inflicted upon the general understanding within the leading elite in the newspaper industry. In fact, the paradox can be retrieved by the obvious contradictions that exist between the structural changes and structural problems on the one hand and the horizons of adaptation on the part of the management and ownership on the other hand. The common and established ways of running this industry have created a particular understanding of the newspaper business model in this country.

Our second hypothesis is that this type of understanding is extremely limited. The limits reside, essentially, in three major axioms:

- Advertising revenue is the major source of income, and is essentially advertising of the local business.
- There is a 'natural demand' for local information and newspapers are the 'natural' response to this demand.
- Information to be provided by a newspaper covering local and regional affairs consists of a standard mix and standard ways of preparation (equivalent to the 'down to earth' winery).

Since the general structure of the newspaper industry in Germany is regional and local such axioms tend to become statutory wisdom in terms of expressing the true and practical side of the general 'business model'.

It has, nevertheless, become obvious during the last three decades that these axioms are constantly under increasing challenge. Just to mention a few of these:

- Detailed analysis of the sectors and kinds of advertising in local and regional newspapers show that the major source of income has changed away from local business in the strict sense to localized national advertising of big sellers in the consumer markets of food, textile and general merchandising chains and localized points of sale (POS) campaigns for national and global brands.
- The advent of local radio stations in Germany financed exclusively through advertising, since the middle of the 1985s, has strengthened competition exactly within the modernized advertising market just outlined.

- Consumer businesses of the large scale cash and carry type, not only serving vast metropolitan areas but having become a backbone of distribution of daily goods in the country, have, as early as fifteen years ago, started to inform the general public about their price campaigns through new media of their own because of their mounting criticism of an increasing lack of general newspapers concerning the household coverage that they provide.

Concerning the 'natural demand' axiom of the traditional business model the new challenges are:

- A constant and mounting decrease in the readership of newspapers by young readers.
- An increasing and dramatic decline of readings skills and reading interest in general among those being younger than 20 years concerning all printed media.
- The constant increase in local and regional information provided by media other than the newspaper.
- The increase of service information that had been privileged information resources of newspapers at the local and regional level through government agencies, independent institutions, organisations and citizen groups plus local and regional entertainment, sports and leisure sectors provided through websites on the Internet.

Concerning the standardized mix of content production underlying the basic axiom of the traditional business model the new challenges are:

- The decline of active membership in many traditional citizen groups that provided the events and information material to be reproduced in local and regional papers.
- The strengthening of 'professional' know how at major sources of social and political information, like governments, local industry etc., substituting the traditional type of journalistic work of local and regional papers, thus, turning major sectors of newspaper content into elements of covered public relations.
- An increasing degree of selection of spheres considered being 'public' and, thus, worth to be reported, thus leaving behind the 'universality' of content, which goes as part of the traditional mix.

The changes that one might observe in newspapers as market products during the last couple of years in Germany have been, mainly, those of packaging, of marketing, and of visual modernisation. Of course, there had been efforts and adaptations concerning links, integration, and services concerning the Internet.

However, there has not been an outspoken and detailed re-definition of the underlying 'traditional' business model.

The operating business model of a newspaper company in general – taking the case of the German newspaper history – derived at the end of the nineteenth century when the range of profitability through advertising was discovered by some advertising agents in metropolitan areas. Up to that point in history the development newspapers was mostly configured through sponsoring arrangements, e.g. by parties, church affiliations, and industrial interest groups. In a number of cases newspapers in local markets were niche products serving as a sideline within other businesses, e.g. book publishing, logistics, general printing etc., thus, these products were not cash cows at all.

Business models if turned into market operations have a starting point and, obviously, also an end. One of the considerations concerning the present status and further development of the newspaper industry in Germany, naturally, is the question whether the historical business model, so far underlying the newspaper industry, might be about to come to its 'natural' end in our epoch. The key ingredients of a more pessimistic evaluation of the industry's development are, in addition to some of the challenges to established and traditional axioms in the business:

- Constant increase in appropriation of consumer time away from daily newspaper readership.
- Constant increase of free access to daily media information.[1]
- Demographic changes in the structure of Germany population (a fast growing share of people over sixty; growing share of people without German as mother tongue).
- Loss of POS effects of newspaper advertising in comparison to other media
- Advent of the Internet and growing online access household saturation with the effect of substitution of selection advertisements through web services.

The central business model of the newspaper industry that is essentially based on the central information function of the newspaper within a beginning *consumer* world at the end of the nineteenth century, quite obviously, does not reflect the kind of structural changes that have been outlined. Alternatives to this business model are not being discussed, at least, not in Germany. There exists an ill, which is not being talked about in an appropriate manner. Furthermore, the kind of discussion that covers the obvious failures and structural problems of the newspaper industry tend to be rather in line with wisdoms of "magic medicine" or of rather banal company remedies: on the one

[1] A ruling of the Federal High Court of November 20 2003 (BGH I ZR 151/01) has waived all former competitive obstacles to protect local and regional papers against free of charge newspapers. Thus, competitors of the „Metro"-type have a certified legal right to enter the market. The major reasoning of the court is being based on the extremely high market entry barriers of the local and regional newspaper markets in Germany.

hand cutting cost at a most rigorous pace, on the other hand doing 'redemption exercises' e.g. in schools to, eventually, find young readers again by extending subventions to special projects like newspaper workshops etc.

Options for Expansion Inexistent

After the re-establishment of a free newspaper market in Germany in 1948/ 1949 there has been a continuous concentration process[2]. As is usual, phases of this concentration process are aligned with certain types of newspapers that become victimized[3] and, also, with certain market structures that serve as economic edge for a further step in concentration, in due course of time. Some of the significant phases of concentration by which one might better understand the undercurrent of structural change within the industry, despite its continued maintenance of a strategic, 'singular company mentality', are:

- Dwindling of the party papers that had been rekindled under military occupation rules in the area 1946-48; this happened all through 1949 and in the fifties of last century.
- Loss of very small local papers that had been re-founded after the end of their banning period until 1948/49 during military rule of the Allied authorities.
- Fusions and cooperation agreements among small and regional papers, starting in the 1950s and going on until the end of the 1980s, to arrive at integrated newspaper market structures with some plurality on the level of local editorial activity but increasing monotony on the level of general political sections, advertising, distribution, marketing and increasingly, also, printing and investment into technology.
- Joint operating agreements to combine adjacent independent regional papers of strong potential and in favourable market positions within conglomerate structures under the leadership of the strongest head company steering combined advertising markets, distribution and logistics, printing and technology, financial management and strategic leadership. These agreements depend on a government guarantee of editorial independence of each of the combined papers. This guarantee is being audited by the Antitrust Authority ("Bundeskartellamt" and Landeskartellämter"). The effect of these kinds of arrangements is the creation of very strong and large newspaper market. The biggest one is in

[2] During a period of 20 years (1954 to 1974) the number of newspaper publishing companies diminished by more than 50 percent.

[3] E.g. newspapers of less than 40.000 circulation, i.e. mainly local papers. In the second half of the 1970s these papers, after 20 years of concentration, represented less than 4 percent of the total circulation of all dailies (having started at more than 15 percent).

the most Western area of Germany, covering a market of around 2 Mio households.[4]

- Concentration processes involving central and strong metropolitan papers that took over papers in their vicinity entirely (era of the 1950s and 1960s) or became shareholders in surrounding smaller papers (era 1960s and early 1970s). During the end of the 1970s, and much after, these strong metropolitan winners expanded explosively further within the surrounding area of these large city conglomerates (e.g. Munich, Frankfurt, Hamburg etc.) creating newspaper markets very similar to the "umbrella model" of Rosse (cf. for background and discussion: Bridges, Litman, & Bridges, 2002) including, however, a specialty: a high degree of ownership concentration of strong oligopolistic structure within these large metropolitan markets. Based on the strength and profitability of these large and rich metropolitan newspaper markets the winning papers strengthened their national profile (*Frankfurter Allgemeine Zeitung*, *Süddeutsche Zeitung*)[5]. Mentioned papers, at present, though still being regional papers in economic terms, serve as accepted substitutes for national papers, that, in the true sense, do not exist in Germany, at all.
- One significant element of concentration incentive on a different level has been the regionalizing of the largest and strongest tabloid, *Bild Zeitung*, that started in the 1970s and forced not only smaller regional and local tabloids into defensive efforts but also forced the increase of market integration according to the metropolitan umbrella model or following the head company led joint operating agreements.
- Due to the privatisation process in the aftermath of German unification a number of especially large publishing companies bought up former large scale communist party papers. These activities could take place outside established rulings of competition law because of the fact that the markets where, evidently, outside the reach of existing relevant markets. The result of this kind of expansion and ruling, however, is concentration in a new key[6]: for the first time in Germany the newspaper chain model vaguely went into shape. Publishing conglomerates happened to operate a number of fully independent papers serving markets that had no economic or logistic connection, necessitating the kind of strategic and long range

[4] On this background five strong large newspaper companies in Germany (Axel Springer Verlag; WAZ-Gruppe; Stuttgarter Zeitungsverlag; DuMont-Schauberg; Süddeutscher Verlag) evolved out of the general concentration process, in total combining 45,5 percent of the daily newspaper circulation, already, in Germany in 1980.

[5] The flagship paper *Die Welt* of the Axel Springer media holding belongs into this category, however, over more than fifteen years now it has never been a profitable paper and has to be subventioned through the holding.

[6] The share of all privatized former party newspapers in the market of subscription newspapers in the regions of the former GDR amounts to 91,7 percent (figure of 1994). This constitutes a clear-cut oligopoly. There had been about 60 single efforts of market entry in East Germany after unification. All these exercises failed.

> thinking including a centrally steering strategic management. This kind of model is known to work successfully in the US and constitute the management formula of the US newspaper chains (cf. Giles, 1991). There is, at present, still some hesitation at the steering helm of these companies to fully turn into the US management lane. Discussion concerning the value of decentralized local and regional management, of course, is abounding in these major companies. The economic crisis of recent, consequently, shifts arguments rather into adherence of the US newspaper chain management model.

One of the strongest augmented effects of all these phases and dynamic types of concentration in the German newspaper market, so far, has been the complete and proven end to market entry in the regional newspaper market, as early as the 1970s (Kopper, 1983, 1984d, 1984b; cf. Picard, 1997). Furthermore, we see an end to any chance of market expansion in the sense of pushing paper X into the position of a valiant competitor within an adjacent newspaper market. There are no sensible chances left to reach out through such a strike into profitable margins. All competitors in the newspaper market have either accepted or resigned to take a tacit agreement for granted that there will be no border quarrels and that there exist fixed and indisputable claims. – And competitive quarrels of that nature are inexistent in Germany since more than 15 years. Instead of markets in the sense of textbook areas full of dynamism we see fiefdoms of long standing with all the problems involved with family heritage, a growing lack of productive fantasy, much feudal passivity and inertia is to be seen within a self made aristocracy of newspaper ownership (cf. Böckelmann, 2000).

This situation of course is relevant for the increasing acuteness of the question: where does substantial growth come from in the newspaper industry in Germany? Markets are saturated, market boundaries are settled, and an increase in demand is not to be expected, and innovative ideas are not available.

Collapse of the Advertising Market

Advertising, as is fundamental knowledge in the industry, constitutes the major part of revenue for newspapers. Since the 1950's the range, highly depending on market position within the local and/or regional competition and on size of circulation has been between 55 and 85 percent of total revenue. This extreme span of figures one will neither find in official statistics nor in textbooks. One arrives at this kind of insight into this intriguing extreme of span through recalculation and interpolation, taking on the one hand a small local paper of a circulation of about 6.000, family owned as is customary, but responsible only for the local section of content and advertising; whereas the general and political section is provided by one of the adjacent bigger regional papers. The regional paper in such a case is also responsible for large size and image advertising. In the majority of such cases this regional paper will, furthermore, own a share in the small local newspaper company. This share will be small enough not to touch the intricacies of competition laws in the country, but, on the other hand, will it be large enough to have a handy clout in controlling the kind of "cooperation" that ensues between a paper of a circulation of some 6.000 and one in the range of 120.000. Official statistics and standard accounting will in such cases read the total advertising in the small paper as entire revenue for the owner company. Recalculating, however, the cross-linking of practiced and very complex joint operating agreements – that are never declared to be "agreements" – the dependable element of advertising revenue for the small company, in a majority of cases, tends to be much below official data.

It is very clear, by now, that in case of a larger regional company that, usually, tends to be networking with a number of small local papers in the manner just outlined, the kind of revenue through advertising that is under control of the bigger central company, but in fact turns up in the smaller outbound local papers, does not inflate the figures of this central company. One way of handling these intricacies is to run this kind of advertising traffic through specially assigned companies outside the newspaper mother companies. At this place there will be no opportunity to explain the delicacies of this type of intermediary business sector of the German news industry.

In general, thus, statistics of the share of advertising revenue for larger companies tend to underestimate the real value span. It is at this end of the debate that we end up stating: The average percentage figure of advertising revenue in the German newspaper industry around 66. And we end up knowing that this kind of statistics does not tell us very much about the real mechanics of the newspaper business.

Why is it so important to look more intensely into the background of advertising and advertising markets as the most important fundaments of the German newspaper industry? Since 2002 the newspaper industry in this country, in general, has suffered from a severe cut in advertising revenue, a trend that still holds on. The main reasons for this decline have been the general economy and its depression. Some of the big metropolitan papers had large and profitable sections for job advertisements. Sections as these, but also those for car sales, housing etc. became extremely reduced due to economic depression. Newspapers, especially those of renown, started to cut back on staff, especially in the editorial offices, they cancelled side activities like special interest radio stations, the re-started meticulous cost reduction efforts, they even sold company property like buildings to put them into lease back schemes. In one, very harangued case, a land government had to underwrite a credit of a newspaper company that went out of liquidity to save full operability.

There is still a debate going on within the industry and among experts whether this tremendous decline of the advertising markets and the effect that it had on the newspaper industry constitutes a structural or a managerial, i.e.

temporal problem (cf. Picard & Rimmer, 1999). The difference, in fact, is significant. In case of a structural problem the fate of this industry in the future will be at stake.

The reporting of the crisis during the recent years has been very general and mostly relying on the impressive figures of general loss in revenue of some of the big and renowned players in the game. However, the general situation in the German newspaper industry is determined by the large line of regional papers and the kind of networking structures that they have entered into.

Table 1: General Figures of the German Newspaper Market

Categories	Number	Circulation (Mio)
All newspaper titles	1584	
Newspaper, full editorial production	136	
Daily newspapers, total	357	23,8
of those:		
- Local and regional papers	339	16,4
- National distribution	10	1,7
- Street sale (tabloids)	8	5,7
- Weekly papers	24	1,9
- Sunday papers	7	4,5
Total circulation		30,2

Source: BDZV (Publishers Association) 2001

And one has not heard that much about the tragic fate of these kinds of papers. One has to realize that "the newspaper industry" in Germany is a mixture of some very distinct operating sections (cf. Schütz, 2001):

1. A set of small family owned local newspapers.
2. An array of middle size and big regional papers, many of them in a monopoly situation.
3. Some bigger general publishing concerns, also maintaining regional newspapers.
4. Few big conglomerate multimedia companies including newspapers.

The crisis in the advertising markets has shown that there is an obvious difference in the underlying structure of operation between cluster 1 plus 2 and the special cases at levels 3 and 4.

Although one quality paper in the Berlin newspaper market is producing deficits, and is not being the front runner in the advertising market and is, furthermore, under the kind of pressures just outlined, it is, still, recently being offered to be taken over by a company of level 4. The price offered was 20 Mio Euro for a circulation 150,500. There are newspapers that will be maintained, also in the future, even on a deficit basis, because of the esteem and possible political influence. What we are talking about is the "Italian model" of the newspaper industry where industrial and financial interest groups maintain newspapers, exactly, for stated purpose.

We find structural elements in the analysis of the collapse of the newspaper advertising markets in Germany. They are:

- The advent of further, more intense, and more complicated networking operations on the levels 1 and 2.
- An increase in the number of dropouts and buyouts on the level 1.
- A strengthening of models like "newspaper chains" by which head companies maintain a chain of independently operating singular regional newspapers while centrally organizing advertising, sales, distribution, printing, technology, logistics and financial services plus all services for readership, marketing and leisure and recreation.
- The advent of the "Italian model" for singular newspapers and purposes.

Despite much talk about the severe first blow in a series of further killing collapses of the advertising market in the newspaper industry in Germany, the death of the industry due to shifts in the advertising market is still far away (at least 20 percent of the companies are still maintaining a gross yield on returns of over 10 percent). The effect of this crisis will, in fact, be a redefinition of the newspaper industry as it has been known since the early fifties and since the sixties of the last century (cf. Kopper, 1993a). The industry will become more European in its structure, and a number of structural elements that we know from the US markets will be adopted in Germany.

Structural Collapse of the Readership Market

Having outlined the essential grid of structural ills in the German newspaper industry it might serve only as an admonition to touch, again, the structural basis of the collapse of newspaper readership, at present, and in the future. The major elements have, already been mentioned; they are, in full context:

- The growing percentage of younger population not touching newspapers anymore, not to talk about continuous reading that is fading away within this segment of the population at even faster rates.
- The decline in household coverage within established local and regional newspapers markets taking the most significant share of distribution of newspapers which is subscription (generally over 80 percent of total distribution).
- The dying out of many inner city environments in German towns as newspaper market ground. The main reason being the drifting away of traditional family living which tends to move into the green belts of the city areas. On the other hand, the constant increase of dwelling of foreign

origin in the inner city sections of the majority of towns in Germany, which turns down demand for German language media in these areas, entirely.

- The general statistical increase of households including only one person fall into two majority segments: either belonging to the most active part of the younger generation or to be jobless. Within both segments newspaper readership on subscription basis is almost non existent.

We have mentioned competitive effects through usage of electronic media and through the Internet. These effects might turn into structural elements in the future; however, there are still options for competitive recovery for the newspaper industry. The impact of structural changes, however, on the level of socio-demographic and cultural patterns is, obviously, irreversible.

Scrutinizing the basic insights into the kind of structural ills outlined for the German newspaper industry it is inevitable to look into some of the considerations of cure that, so far, have been debated within management and among experts. We tend to think that most of these considerations belong to the kind of 'magic medicine' that often is the kind of last resort in situations of apparent deadlock and utter depression.

Touching Boundaries of Rationalization and Cost Management

The number One cure to be taken up in most cases, of course, is rationalization plus strict cost management: staff is being laid off, newspaper copies are being reduced in pages, editorial offices are being closed, and a number of services are being outsourced. There is a long list of decisions and procedures to be taken in industry, in general, if revenues and profits drop extremely and assets tend to flow away. There is nothing particular within the newspaper industry, to simply follow these kinds of management rules. The experience, though, in the newspaper industry, in general, and naturally in Germany, is to touch very fast fundamental boundaries of rationalization and cost management. Essential cost elements, like content production, print material, printing, distribution and overheads in advertising contracting etc. tend to be fixed cost elements. Minimizing, this way, simply stretches just across a certain percentage of general costs and has to stop there, lest to ruin the product within its market and with long term effects.

In most cases, the majority of newspaper companies in Germany have, due to the ongoing economic crisis, in the meantime, touched the inherent cost reduction boundaries. There is no vision how to go on from there.

One element, though, to be understood concerning this present situation is the fact that until the year 2000 the newspaper industry has lived through a period of extreme comfort and did so for many years. The year 2000 has been one of the peak years in revenue and profit over a span of 20 years. The newspaper industry in Germany, thus, has been used to general yields on return of more than 10, in many cases, of more than 15 percent. The general average in many industry sectors, even very renowned ones, like banking, insurances etc., usually, is below 5, in many cases below 3 percent.

Arriving at fixed cost boundaries still leaves margins of a yield on return much in line with the general industry in the country. The general business problem of the newspaper industry, thus, by comparison with the general industry is much more a problem of size – in all senses: company and market size, and size of demand. Competition law in Germany restricts relevant market concentration for newspapers at a consigned low level. These standards have been set in the mid 1970s to stall ongoing newspaper concentration of the classic, i.e. total ownership type characteristic for the 1960[7]. The operating mechanism of newspaper markets in Germany, however, have – and this became evident during the privatisation process during the unification era – favoured and pushed integrative elements to establish market power. The investments looked for and being necessary to develop markets in the Eastern states of Germany apparently required big players. By the same token, though, these big players constitute the only segment within the entire newspaper industry that can rely on company, market and demand sizes to sufficiently cope with the new boundaries of the business, foremost, when arriving at the boundaries of cost management.

It is obvious that in view of this background a discussion has started among experts and on government level to change the traditional anti trust and competition regulation for the newspaper industry in the near future. So far, this discussion, as has been outlined, is being pivoting around matters of size and regulatory criteria for size. In a general debate, though, a number of issues would have to be raised, just as well. To give one example: market entry as a constitutive element of economic viability has to be re-opened and just as much to be discussed.[8] It is interesting to note that elements of policy and regulation of US origin are being entered into the discussion. An expert paper launched by the Axel Springer group strongly favours adaptations of the press competition law in Germany following lines of the Newspaper Preservation Act of the USA (Hogan et al., 2002).

[7] Provision of the antitrust regulation stipulates a special regulation for fusions in the newspaper market: any fusion combining a total of more than 25 Mio German Mark (DEM) hat to go through the antitrust scrutiny. In other industry segments this sum was set at 500 Mio DEM. This meant that papers with a combined circulation of about 70.000 to 80.000 had to file for a special permit for a fusion. Due to price changes this range after more than twenty years will involve circulation groups of much lower figures.

[8] A short time after presenting this lecture, in October 2003, the Federal High Court has moved forward on this ground; see fn. 1.

Conclusions

It might have become evident, by now, that the traditional business model and operating formulae of the newspaper industry in Germany will not provide much optimism for success in the future. A strategic thinking that has been missing over many decades (Sjurts, 2001), at present, becomes inevitable. Solutions have to found based on changing existing formats and markets. The main avenue, so far almost untouched, is to re-engineer the business model of the 'newspaper' in general and to accelerate inherent formats of information and service that due to the traditional business model are not being reflected and analysed (Kopper, 2003). It is at this point of study that it becomes obvious that the general structure of the newspaper industry in Germany itself and its inherent effects upon management and personnel constitutes the biggest obstacle to develop more than just cures of magic medicine and to rely on established rules of economic crisis management.

It is very clear that the traditional business model of the newspaper in Germany is outmoded. It does not provide adequate answers for a number of deep-seated structural problems that we call the incurable ills of the newspaper industry in Germany. There is an underlying causal relationship between the kind of incurability and the element of structural irreversibility. Only in redefining the fundaments of a business model for the newspaper of the future will this kind of structural irreversibility be overcome.

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Stability and Change: Success and Failure of New Newspapers in Europe Since the 1970s

Karl Erik Gustafsson

The late 20th century saw the start-ups of new dailies in many countries. In the middle of the euphoria for new electronic media the old printed newspaper made its way to the front pages challenging the traditionally high barriers to entry. Some of the entrants succeeded not only to survive the crucial first three months but also the critical first year. Some even managed to conquer the top position among newspapers in their nations. However, most of the new enterprises in old shapes failed. The few successes as well as the many failures make it a tempting piece of research to find common patterns and reasons of the renewal process.

Prelude to an Extended Project

As a part of the completed project "Den svenska pressens historia (The History of the Swedish Press)," reported in four volumes 2000-2002, I made a full inventory of newspapers launched in Sweden since 1975. The results were presented in Spring 2000 at a symposium arranged by the project, and documented with the comprehensive account of the newspapers in the publication "Konkurrens och förnyelse" (Competition and Renewal), issued in the book series of the project *Sylwan* (# 7, Nordicom-Sverige 2000). To get an international perspective on the Swedish newspaper renewal a preliminary account was made of newspapers launched during the same period in Europe. The latter was neither presented at the symposium nor published in the book. It was saved for a later research project, to which this paper serves as a prelude.

The purpose of the extended research project on new newspapers is to find common patterns in the renewal process, highlight founders and their models, and explain successes and failures. The theoretical objective is related to barriers to entry. The practical side of the project deals with, for the publisher, how to make an entry successful, and for the venture capitalist, how to assess prospects of new newspapers.

Four Main Barriers

The results of the Swedish inventory showed that since 1975 no less than 120 publications of newspaper character started, one every third month, ninety low-periodicity papers (1-3 issues per week) and twenty-eight high-periodicity papers (4-7 issues per week). By 2000, of the former, thirty-nine survived, of the latter fifteen remained, which makes a failure rate of 57 and 46 per cent, respectively. The surviving forty three newspapers made up about one third of the complete stock of newspapers.

The main power of this renewal was the press subsidy system, introduced by the Swedish state at the beginning of the 1970s. Of the 120 new newspapers only twenty-nine made their way to the market without support from the state. By supplying a yearly subsidy the state made lower two barriers to market entry: attraction on the advertising market and need for risk capital.

There are four main, general barriers to entry, which I have used in earlier analyses of newspaper structure:

1. *Revenue structure:* In the Nordic countries the dominating advertising market (more than 50 per cent of the total revenue) determines the conditions of competition; every new entrant has to win over households in its place of issue in order to become a "must" for the advertisers.
2. *Cost structure.* Economies of scale in the functions of purchasing, production, and distribution create barriers to entry. New production technologies do not change the shape of the unit cost curve – there still are declines in unit costs as the absolute volume per period increases. The most difficult barrier is, however, access to distribution channels.
3. *Capital requirements* for start-up losses.
4. *Inertia of the market.* Readers as well as advertisers (the former more than the latter) are used to existing papers and not very interested in new ones. The so-called psychological costs – ingrained reading habits; finding your way through the newspaper – of changing from one newspaper to another might be high. Established newspapers have brand identification and customer loyalties, which must be overcome by an entrant.

Focus on Dailies of All Kinds

At the inventory of Swedish establishments of new newspapers a definition partly generous was used. Without changes, the criteria applied by the Swedish Board of Press Subsidies (presstödsnämnden) were accepted, but, of course, the consequences of so doing were exposed. This official definition explains some of the peculiarities of the present structure of the Swedish newspaper press.

For instance, by the state support Sweden got more regional and national weekly newspapers than any of its Nordic neighbours. Most common among publishers of these papers were organisations and political parties, mainly the Centre (Farmers´) Party. In these quarters, the opportunities offered by the state support system were exploited more than in other parts of the society. Another peculiarity became multiplication by fission in order to double the subsidies. However, this speculative amoeba strategy was not successful.

For research purposes, as this extension of the project to more markets, the Swedish experiences of a generous definition are useful when making a relevant definition for all sorts of newspaper markets.

In international statistics the concept newspaper is mainly defined by periodicity: publications issued at least four times a week are included, general interest as well as special interest (or niche) newspapers. In this project the focus would also be on dailies. International statistics, for instance *Press Trends* published by the World Association of Newspapers (WAN), do not include free sheets, even if they are issued four days a week or more. That restriction will not be maintained here. To be explicit, the Swedish daily free sheet *Metro* will be regarded as any daily.

The delimitation to dailies means that the transition of a newspaper from low (1-3/w) to high (4-7/w) periodicity will be counted as an establishment of a daily. The reverse case will be regarded as a closure of a daily.

A number of other questions of definition will be discussed in the following, here just a few samples:

- What about revived newspapers, e.g. the relaunching in 1987 of the Danish *Aktuelt* as *Det Fri Aktuelt* with *USA Today*, introduced in 1982, as model.
- What about mergers, e.g. the making in 1990 of *iDAG* by merging the two regional evening tabloids *GT* (Gothenburg) and *Kvällsposten* (Malmö), dissolved in 1995. Also here, *USA Today* was a model.
- What about the separation in 1989 of the afternoon edition *Aftenposten Aften* (5/w) from the morning edition *Aftenposten* (7/w since 1990), previously offered as a package.

The general idea is to accept these and similar borderline cases as examples of new dailies.

The establishment of a new daily will be front-page news in any established daily. That will not be the only reaction, not even the main. Some dailies might see the newcomer as an intruder and make responses to the move, in itself a proof of them belonging to the same industry. The reactions will also reach the front pages, which make press cuttings on the moves and responses one important source of empirical data. For the most recent years of the period since 1975, electronic databases of newspapers can be used.

The introductions of new newspapers make useful examples in textbooks (e.g. *Dagspressen i Norden*, 1996) and cases (e.g. *Vestkysten*, 1988, and *Metro*, 1996). More solid research is also to be found. Earlier this year, Ingela Wadbring, defended her doctoral thesis on *Metro* (*En tidning i tiden?*, 2003). A few years ago Elisabeth Stúr published her doctoral thesis on the Austrian news tabloid *täglich Alles:* "Vi och Dom". Läsarvärlden i den österrikiska dagstidningen täglich Alles (2000). Henrik Örnebring wrote a Norfa-course paper on *Dagens Politik* (1996). Nancy Westman published a critical text on *Stockholms-Tidningen* (1985) and Lars Bringert and Bertil Torekull gave all details on the start in a book on *Dagens Industri* (1995).

Swedish Cases

In order to further develop the purpose, most of the Swedish cases of new dailies will shortly be presented. The cases are grouped according to the four main barriers to entry.

As mentioned many Swedish secondary regional newspapers were divided into two in order to double the state subsidies. Only in one case, in the Kalmar region in southern Sweden – *Östra Småland* (Kalmar) and *Nyheterna* (Oskarshamn) – this strategy was successful when it was applied in 1990, successful in the meaning that the papers are still on market (with state support). Sverker Jonsson (1998) found that one reason was that the publisher returned to old traditions in well-defined markets, another reason that a renewed journalism and an intensive marketing accompanied the decision. In all other cases, nine in all, the making of two secondary newspapers of one secondary newspaper, for sure, doubled the financial subsidies but also the financial problems. The revenue structure made an insurmountable barrier to entry.

Variations of the same theme are revivals of closed secondary newspapers. There are two cases in Sweden since 1973, the one *Göteborgs Handels- och Sjöfarts-Tidning* (liberal morning daily in Gothenburg closed in 1973) and the second *Stockholms-Tidningen* (social democratic morning newspaper in Stockholm closed in 1966).

In autumn 1984 *GHT* restarted as a daily (7/w, in the old days 6/w). It was launched as an alternative to the leading daily in the area *Göteborgs-Posten,* also liberal. The main strategy applied to jump over the barriers to entry was to compete with low cost. It was the first completely computerised newspaper in Sweden. Two venture capitalists were backing the introduction. To compensate for expected low advertising revenue during the introduction years, a high price was charged for subscriptions (70 per cent more than *Göteborgs-Posten*). When the new newspaper showed every sign of suffering from the common problems of secondary newspapers the investors lost their patience and after 4-5 months the daily was closed.

In Stockholm the local social democratic organisation and Workers′ Union, main financial supporters of the revival of their closed daily beside the state, were somewhat more cautious. *Stockholms-Tidningen* was launched in two steps. In 1981 it started with five issues per week, which was increased to seven issues per week in 1983. It did not work; in 1984 it was closed for the second time. The advertisers were not at all interested in a daily offering a household coverage of one or two percentage points.

Name, layout and journalism of the merger in 1990 of two regional news tabloids into one (*iDAG*), was as mentioned influenced by *USA Today*. The combined circulation of the two – about 200 000 copies – was too low to make use of economies of scale, as their competitors were much bigger, and the single copy price was set by the leader, *Expressen*. The two regional tabloids were after their separation in 1995 made editions of *Expressen*, as a consequence of *Expressen* loosing its leader position in the news tabloid market to *Aftonbladet* in 1996, and as a means to match the economies of scale of *Aftonbladet,* the new price leader.

It should be added that mergers of primary newspapers have been successful, *Tidningen Ångermanland* in 2000, *Helsingborgs Dagblad* in 2002, as well as mergers of primary and secondary newspapers, *Nya Ludvika Tidning* in 1993. *Helsingborgs Dagblad* became the first daily outside Stockholm, Göteborg and Malmö with a circulation of about 100 000 copies.

A second influence explicitly from abroad came from Finland. In 1980 in Helsinki the secondary morning newspaper *Uusi Suomi* launched a noon single-copy sold edition *Iltalehti* as a competitor to *Ilta-Sanomat* published by its main competitor *Helsingin Sanomat* and started once as its afternoon edition. In Malmö, the secondary morning newspaper *Arbetet* copied its Finnish colleague and launched its noon single-copy sold edition, *Nyheterna* (5/w), in 1983 as a low price competitor to the regional news tabloid *Kvällsposten* (7/w, 108 300 copies). The circulation of *Nyheterna* never reached more than 6 000 copies, of which most were captured from *Arbetet*. It lacked capital to pursue the introduction. The Swedish copy died after three months, while the Finnish model survived, although as number two on the Finnish news tabloid market. However, *Uusi Suomi*, mother and first mover, closed in 1991.

Most Successful Entrants in Sweden

The most successful of all start-ups since 1975 is the business tabloid *Dagens Industri*. Out of financial reasons but as much out of opinion reasons the introduction of this daily was also made in steps: two days per week in 1976, five days a week in 1983 (so to say qualifying for this project), and six days a week in 1990. Also in this case, influences from abroad made themselves known, although from a newspaper owned by the same owner, in both cases the Bonnier Group. Relaunching the old tired Danish business newspaper Børsen in the beginning of the 1970s created the modern business tabloid. *Dagens Industri* as well as the Norwegian business newspaper *Dagens Næringsliv* imitated its strategies and became successes.

The business tabloid succeeded by creating a niche in the newspaper market. It moved the barriers to entry, joined the industry, but the barriers to entry remained, which has been the experience of dailies that tried to copy the pioneers. In Sweden *Finanstidningen* was launched in 1989, five days a week and somewhat up-market compared with *Dagens Industri*. Its model was *Wall Street Journal*. At the end of the 1990s the Stenbeck Group became its owner and gave it a stronger financial base. However, the revenue structure with dominating advertising revenues made it impossible for the paper to survive. After a controversy over the contents of the paper - it criticised the financial reporting of its owner Stenbeck - it was closed in 2002. Even in a niche of the market being number two means being in a weak position, says the law of the revenue structure.

Dagens Industri copied itself by an international expansion: Estonia in 1989, Latvia in 1992, Russia in 1993, Lithuania and Austria in 1995, Poland in 1997, Slovenia in 1999, and Scotland in 2000. Only the Scottish edition was a failure (2002), so far.

A niche strategy does not seem to be a cure-all way to enter the daily newspaper market. With *Dagens Industri* as a sort of model a political tabloid was launched in 1995. Other models were the free tabloid *Metro*, when it came to rely on news agencies, and *Finanstidningen*, mainly for its calculations on break-even points. The new daily, *Dagens Politik*, started with four days a week aiming at decision-makers in industry, private and public, in organisations and in political life at large. It was supposed that the employers, just as in the case of Dagens Industri, would pay for the subscriptions. Sixteen months was the time measured out for this political tabloid.

A niche daily for the Finnish-speaking population in Sweden, *Finn Sanomat*, was also a failure. It was published 1978-1982. It had no relation whatsoever to the introduction of business tabloid.

The modern free tabloid, *Metro*, climbed the barriers to entry, by being distributed in the Stockholm underground system. By reaching a circulation of 200 000 copies overnight it became attractive to advertisers as well as to printing houses and other service providers. It could make use of economies of scale of others. In case it was needed, it had the financial backing of the Stenbeck Group. Even the inertia of the readers was broken. By the underground system it received a captive audience.

The *Metro* concept was also used for an international expansion. The first station was Prague in 1997, the second Budapest in 1998, and after that stops in about twenty more markets. In 2002 the publisher entered a phase of consolidation. Two editions of Metro were started in Sweden: in Gothenburg in 1998 and in Skåne 1999.

There was a forerunner to *Metro*, which was introduced in Gothenburg in 1981. It met with a fifth barrier to entry, the campaigning by the organisation of the newspaper publishers and the union of journalists. The free tabloid in Gothenburg was published once a week, all in all during 22 weeks. After that, the owner decided to close the publication.

Metro got a competitor in Stockholm in 2000, *Stockholm News*, despite its name published in Swedish. In order to avoid face-to-face competition it was launched as a noon paper. However, *Metro* made a response in advance, before the start-up by *Stockholm News*, by launching a fighting brand, a noon paper called *Everyday*. It killed the competitor and was closed a few months after completed mission. In 2002 the Bonnier Group started the free tabloid *Stockholm City*.

Other Nordic Cases

Some cases in other Nordic countries but Sweden have been mentioned *en passent*. These examples will be repeated here in an enumeration of new entrants country by country along with some comments.

In Finland, as mentioned, the news tabloid *Iltalehti* started in 1980 as a noon edition of a morning daily, becoming independent when the latter closed in 1991. *Iltalehti* is still number two in the news tabloid market, which it made grow by challenging the market leader.

A dispute between the editor-in-chief of the monopoly daily in Åland and its owner ended in 1981 in the start of a competitor. The editor-in-chief left *Åland* and started *Nya Åland*. This new daily (first 4/w later 5/w) managed to survive with the support of state subsidies. The combined circulation of newspapers in Åland increased by the competition.

The Finnish business newspaper *Kauppalehti* was founded in 1898. No publisher dared to enter into competition with the paper until the Sanoma Corporation in 1997 started the business tabloid *Taloussanomat*. Both are published five days a week, *Kauppalehti* with a circulation of 83 000 copies, and *Taloussanomat* with 33 000 copies. Also in this case the total market increased by the competition.

In Norway, since the beginning of the 1970s almost fifteen non-dailies managed to become dailies. All of these were local newspapers except one, them Mao-communist *Klassekampen* (The Class Struggle), which started in 1969 as a periodical and became a weekly in 1973 and a daily in 1977. Its long survival makes it the most successful in the Scandinavian countries of the publications born by the left wave. Also in 1977, although at the other end of the spectrum in every respect, a single copy sold sensational tabloid, *Blikk*, was launched but failed within the same year.

In autumn 1987 a new daily called *Vestkysten* was issued in the prosperous Stavanger oil-region. The first plans of a new daily – a modern morning tabloid - in the region were revealed already two years earlier. The leading daily in the region, *Stavanger Aftenblad*, was an afternoon paper. According to the plans the new daily would be a part of a media centre, which would include local radio and local television. When the established dailies in the regional were convinced that a new daily would be launched, they planned for a response in advance. Two of them, *Stavanger Aftenblad* and *Jærbladet* joined forces and made a plan for a local newspaper, *Sandnesposten*, issued three days a week. This local newspaper was launched three weeks before *Vestkysten*, which entered the market with a changed strategy, on weekdays a city paper, Sundays a national paper. After about two months *Vestkysten* was closed. After eight months, in the beginning of 1988, *Sandnesposten* was closed. It became too successful and made a threat to the owners' old papers.

In 1988, the Schibsted Group, started a local daily in Oslo. It was called *Osloavisen*. It came as a surprise as Schibsted already published three newspapers in Oslo in three different time segments: *Aftenposten,* a subscribed morning paper, *VG*, a single-copy sold tabloid before noon, and *Aftenposten Aften*, a subscribed afternoon paper. It made sense when the rumour said that Schibsted launched *Osloavisen* as a competitor to *Aftenposten Aften* in order to make it change its formula. It was confirmed when *Osloavisen*, after the changes were made at *Aftenposten Aften*, was closed.

In Norway the business tabloid *Dagens Næringsliv* got its competitor in 1992, *Finansavisen*, still on the market. In 2001 the two local competitors in Bodø, *Nordlandsposten* and *Nordlands Framtid*, merged into one, *Avisa Nordland*. The merger, the first in its kind in Norway aroused strong feelings.

Denmark, the weakest Scandinavian market for newspapers, got its first new daily in modern times as late as October 2002. It was called *Dagen* and its slogan became "for those who can read by those who can write". The story of the paper was published as a book in the beginning of 2003: *Ingen kender Dagen* by Mads Brügger and Nikolaj Thomassen. The publisher of the paper invested money in the project he had earned by selling his magazines *Euroman* and *Eurowoman* to Egmont in 2000. One model for *Dagen* was said to be *International Herald Tribune*. Dagspressens Finansieringsinstitut supplied state support, 6 million DKr. As most new projects, *Dagen* attracted a number of talented journalists. However, the project ended by the closure of the paper in December 2002. The barriers to entry seem to be as valid as ever even in a weak newspaper market.

Moreover, Denmark's main contribution of new dailies consists of mergers, e.g. *Jydske Tidende* in Aabenraa on the east coast and *Vestkysten* in Esbjerg on the west coast were merged into *Jydske Vestkysten*.

In Iceland a second afternoon tabloid, *Dagbladid,* was started in 1975. A number of journalists at the existing afternoon paper, *Visir,* as in Åland, simply left that paper and started a competitor. The two merged in 1981 into *DV*. A few years later the local, monopoly paper in Akureyri, *Dagur*, became a daily.

Studies of the newspaper markets in the Baltic States add new dimensions to the subject. By and large, the barriers to entry protected the old newspapers to new ones but the movements creating the turning point also created some new dailies. The dailies became parts of, or even exponents of a modernization project, breaking through the entry barrier of inertia. The extension of the Swedish business tabloid *Dagens Industri* to the Baltic area was already mentioned. However, the first investment by the Bonnier Group in Latvia was not the business tabloid but a joint project between the Latvian state and *Expressen*. In 1990, they started *Diena*, a subscribed morning paper, which almost from the start became the leading paper in Latvia in most respects. The same year a competitor started, *Neatkariga Rita Avize*, but it has only reached half the circulation of *Diena*.

In Lithuania, the new wave brought about the start of *Respublika* by the Popular Front. Very soon the paper declared itself independent of the Popular Front. It was able to stand up against repression, as it owned its printing equipment, a gift from Denmark. By circulation *Respublika* is the third largest newspaper in Lithuania. Orkla, owning the second largest newspaper in Lithuania, is said to be interested in buying the *Respublika* in order to challenge the leading paper *Lietuvos rytas*.

In Estonia, in the beginning of the 1990s, during the turbulence after the privatisation, a new daily started called *Sönumileht*. In 1998 it was bought by the Schibsted Group and turned into a news tabloid with *VG* as a model. A price war broke out between this paper and the old afternoon paper in Tallin, *Öhtuleht*, controlled by Bonnier. The price war was brought to an end in 2000 when the two tabloids merged into *SL Öhtuleht*, which in no time became the largest paper in Estonia. In 2001 Bonnier withdraw from the Estonia market except for its business tabloid.

Other European Cases

Turning to the rest of Europe there is a need to revise the newspaper definition. In Great Britain, the Sunday newspapers make up a separate market. Conrad Black, owner of the Telegraph papers, tried to turn *Daily Telegraph* into a seven-day-operation but failed. *Sunday Telegraph* must still be regarded as a separate newspaper to the *Daily Telegraph.* Including Sunday papers does not mean that new Sunday papers have been very successful, to the contrary. *Krant op Zontag* failed in 1990 in Holland as well *Sunday Business* in 1998 in Great Britain. There were no such pockets in the market, neither a niche for a pan-European newspaper, i.e. Robert Maxwell's *The European* (1990).

In a young newspaper market as the Portuguese, it was created as late as in 1976, when freedom of the press was included in the constitution of Portugal, even weeklies have to be included. For example, in 1973 the weekly *Espresso* was started with the British Sunday newspaper *The Observer* as a model. It was a forerunner to the start in 1990 of the daily *Público*, which forced the old newspapers to modernize their products.

In continental Europe sport newspapers can boost of big circulations. There seems to be no end to the interest of sport papers. Probably, it makes the markets for news tabloids smaller than in the Nordic countries. Of course, new sport dailies started since 1975, e.g. in Portugal, where the two sport paper got a competitor in 1985.

In southern Europe, as well as in Eastern Europe, there are many new dailies, which like some of them in the Baltic States are exponents of the modernization project. New winds break through barriers to entry. In addition, many of these papers, as in Latvia, became the largest in their markets, even milestones in the history of the nations in question.

In Spain *El País* made a flying start in 1976 after the death of Franco and quickly became the largest newspaper in Spain. The paper surfed on a left wave, which in the end of the 1980s met a right wave, which in its turn brought about *El Mundo*, established in 1989. In Italy, *La Repubblica*, also started in

1976 and a quality tabloid as the Spanish papers mentioned, became a milestone in the modernization of Italy and its second largest newspaper. The French left wing newspaper *Libération* started in 1973 was not that successful. Again and again, the latest time this very week, last Monday (October 13, 2003), it launched "*encore une nouvelle formule*".

The best example from Eastern Europe is the Polish *Gazeta Wyborcza*. It was started by the Solidarity movement in 1989 but soon became independent of the movement. It was declared the first independent newspaper in the East. Today it has a very strong position. Its circulation amounts to almost 20 percent of the total Polish newspaper circulation, and it takes about 50 percent of all newspaper advertising. The second position in Poland is also occupied by a new daily. It is *Super Express*, a news tabloid started by journalists who left another newspaper out of discontent.

Adding all these milestone cases together it seems as if the single most important reason in the revival of the daily press by new dailies is political changes. That is why newspapers in southern and Eastern Europe often are regarded as symbols of the new, while they in northern Europe, albeit in another dimension, are regarded as symbols of the old.

Endeavours to launch new news tabloids in continental and southern Europe met with failures: in 1975 *de Daag* failed in Holland, and in 1991 *Claro* in Spain. Challenging established news tabloids also seem to be waste of money: *Super!Zeitung* in Germany (1991) and *täglich Alles* in Austria (1992). The only exception to the latter is *Aujourd'hui*, which started in 1994 and still survives. On the other hand, this paper is a national, low-price edition of *Le Parisien*.

Attempts of new tabloids have been more successful in Eastern Europe. The cases of Estonia and Poland were mentioned. With great success, the Swiss publisher Ringier launched copies of its news tabloid *Blick* in Zürich, in the Czech Republic, *Blesk* (1994), as well as in Hungary, *Blikk* (also 1994). The latter was about a year ago merged with a news tabloid from 1988. Both *Blesk* and *Blikk* are the largest dailies in the Czech Republic and Hungary, respectively.

Some new dailies of traditional type have survived, although by resources from financially strong owners. The best examples are *The Independent* in London (est. in 1986) and *Der Standard* in Austria (est. in 1988). The Springer Group gave *Der Standard* a helping hand and the Irish newspaper owner Tony O'Reilly saved *The Independent* from closure. In Russia some of the oligarchs keep some new dailies going. Berezovskij controls *Kommersant* (est. in 1998), regarded as the best and most influential paper in spite of a modest circulation of about one hundred thousand copies.

More Mergers in Mature Markets

The latest contributions to this project from the rest of Europe are mainly mergers. The best cases come from Switzerland, the fourth largest newspaper market in Europe (after Norway, Finland and Sweden). During the 1990s when Zurich lost its position as a financial centre, concurrently, the owner of *Neue Züricher Zeitung* showed an increasing interest for its home market. In 1991 it bought the leading newspaper in St. Gallen and after that the second largest paper in Bern. The largest paper in Bern was to 49 percent bought by the bigger competitor in Zurich to *NZZ*. This became the signal to the provincial newspapers to join forces and become a countervailing power to the Zurich newspapers.

Starting 1996 a number of regional newspapers were created out of local newspapers: *Aargauer Zeitung, Neue Mitteland-Zeitung, Neue Luzerner Zeitung* (of the two local newspapers in Luzern), and *Die Südostschweiz*. In was similar way, in 1977, *Basler Zeitung*, was created as a part of the "anti-Zurich-wing". In March 2002 *NZZ* raised the stakes by introducing a Sunday newspaper, *NZZ am Sonntag.*

The same type of mergers takes place in the French-speaking part of Switzerland. In 1991, the venerable but weak quality paper *Journal de Genève* bought the second largest newspaper in Lausanne. Shorly after, Edipresse launched a regional paper for western Switzerland, *Le Nouveau Quotidien*. Both failed to meet expectations and merged in 1998 to *Le Temps*, which was regarded as a misalliance but still happy.

The wave of mergers will probably make the barriers to entry even higher. The wave itself might be seen as a forecast for the development of the mature Nordic newspaper markets, particularly the Swedish and the Norwegian markets. Thus, the revival of the newspaper industry will to a greater extent depend on the ability of change of the established newspapers, well protected by barriers to entry.

Market, Organizational, and Strategic Factors Affecting Media Entrepreneurs in Emerging Economies

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Since the late 1980s, major changes have taken place in the global political economy. As a result of the collapse of the Eastern Bloc, the end of the Cold War, the expansion of global trade, and other factors, numerous countries have begun moving towards more open political and economic systems.

Accompanying these political and economic changes has been a corresponding liberalization of national media systems. Many nations, such as those in Eastern Europe, that have undergone transitions to democratic political systems, have abandoned government ownership of the media. They have moved, instead, to new media systems based on private ownership. Others, such as the People's Republic of China have slowly eased prohibitions against private ownership of some media even while maintaining more authoritarian political systems and some government control over media. Among nations using a more mixed approach to liberalization, the opening of the media to more private investment and competition reflects, at least in part, the recognition that access to information is a critical issue for nations wishing to compete successfully in the global economy.

Among Western policy makers, media professionals and mass communication scholars, these changes have been largely celebrated. A central tenet of the Libertarian political philosophy that underpins most Western political systems is that media that operate free from government control are a necessary condition for the functioning of democracy -- although scholars now recognize that in nations undergoing major socio-political transitions, the relationship between independent media and democracy is complex and potentially fraught with hazards (McConnell & Becker, 2002).

Similarly, media have come to be recognized as a critical infrastructure industry for economic development efforts. Economists have demonstrated that asymmetric access to information places the have-nots at a measurable disadvantage in economic competition (Vikery, 1961; Mirrlees, 1990). Also, over the past few decades, the economy of developed nations increasingly has been driven by innovation, which is an information-dependent process (Hollifield, Vlad & Becker, 2003). Media play a central role in distributing information in the marketplace and providing timely access to information necessary to innovation processes. Finally, copyright industries have themselves become a growth industry worldwide, generating jobs, tax revenues and export income in those nations where a strong media industry has developed (Hollifield, Vlad & Becker, 2003). Not surprisingly, then, research has shown a relationship between a nation's involvement in global trade and the openness of its media systems (Yang & Shanahan, 2002).

But the potential of the media industry to contribute to political and economic growth and stability in emerging nations is at least partly dependent upon the development of media organizations that are themselves economically viable. Organizations of any type are complex entities, and generations of research in economics and management have demonstrated that organizational survival is dependent upon the delicate interaction of numerous variables, including market and organizational structures, and agency-based factors such as strategic management, leadership dynamics, and organizational and professional cultures.

In nations in transition, these factors may well be more unpredictable than they are in developed countries. Market structures often are in rapid transition, shaped by ongoing changes in political and economic regimes. Underlying assumptions about the media's normative role in society may be under negotiation, which makes it difficult to predict long-term regulatory trends and undercuts the development of organizational and professional cultures and routines. Furthermore, the ability of media managers to negotiate difficult market conditions may be hindered by the lack of what can be described as a "professional management class," a group of leaders who are educated in management and experienced in finding the most efficient and effective ways of operating firms under changing conditions (Weber, 1964; Demers, 1998).

Economists argue that consumer welfare is maximized through competition, which produces the widest range of goods at the lowest prices. Communication theorists advance similar arguments about the importance of maintaining competition and diversity among media outlets, arguing that media's social and cultural externalities are maximized when diverse viewpoints are represented in content and the information needs of the local audience are met. In systems where media are privately owned and access is determined by the owners, debate tends to center on the need to maintain diversity and localism in ownership.

If these assumptions are accepted, it can be argued that social welfare will be maximized when the largest number of media organizations survive in the marketplace. This project seeks to address that need by examining the complex market and strategic issues being faced by independent media companies in countries going through political and economic transitions. The goal of this research project is to better understand how interaction of market and organizational factors influence organizational viability in independent media companies and to identify the "best practices" being developed by media entrepreneurs in emerging markets.

Conceptual Framework

Research on the strategic behavior of firms has been a key focus of organizational studies since the 1960s (Whipp, 1996) but has only more recently attracted the attention of media economists. Despite nearly four decades of research, "the core characteristic of organizational scholarship...is the divergent strands of theoretical approaches, analytical frameworks and empirical targets" (Whipp, p. 264).

Within those divergent strands, however, have emerged several valuable models that provide a framework for trying to answer the question of why some firms outperform others. The Industrial-Organizational model (IO) tries to address the question by looking at the structure of the industries within which firms operate (Whipp, 1996), while the Resource Based View (RBV) approach examines the core resources that a firm has at its disposal. Within the RBV tradition, a third framework has emerged that examines the strategic competition for resources among firms known as the "Theory of the Niche" (Dimmick & Rothenbuhler, 1984; Dimmick, 2003). All three approaches to studying strategic behavior provide valuable insights into the factors that affect firm survival in changing markets.

In the IO model, market structure is analyzed by examining the number of buyers and sellers in the market, barriers to the entry of new competitors, the degree of vertical integration among existing players, levels of product differentiation, and the industry's cost structures (Albarran, 1996; Barney & Hesterley, 1996). Market and organizational performance are defined strictly on the basis of economic returns.

The variables included under market structure in the IO model are highly interrelated. In consolidated markets where there are few sellers, organizations can capture economies of scale and thereby lower their cost structures. Vertical integration as both an element of market structure and an organizational strategy also reduces cost structures and uncertainties. Consequently, markets characterized by consolidation and vertical integration pose a barrier to entry to new players, who would find it difficult to enter the market and compete on price.

Similarly, the number of buyers in the market also can pose a barrier to entry. Where there are too few buyers in the market, it may become uneconomic for sellers to continue to serve the market. This can occur in two different ways: a small number of buyers may exercise such power that they can force concessions from sellers that make continuing to sell into the market unprofitable, or buyers may command so little purchasing power that there are too few of them able to pay the minimum price required to cover the production costs of the product.

Product differentiation is another key element of market structure. Hotelling's (1929) Theory of Optimal Location has been used to predict that in duopoly markets, product differentiation will be minimized as sellers regress to the mean in an attempt to appeal to the largest number of buyers. Conversely, competitive markets would be expected to create product differentiation, providing customers with more choice. However, for some products or services it is difficult to offer unique characteristics, forcing sellers to compete almost entirely on price. Additionally, too much differentiation can create a fragmented market that diffuses the number of buyers across the available sellers until the market available to each producer becomes too small to be sustainable. This last issue has been a key element in the failure of the online content industry to develop a viable business model.

In the media sector, these issues of market structure, which are common to most if not all industries, are further exacerbated by the specific economic characteristics of information products. As noted by Priest (1994), media products are costly to produce and are largely indivisible by nature. This means that the producer must incur virtually the full costs of production before being able to gauge the potential market for the product. It is difficult, if not impossible, to produce a small piece of a film or book and test it with audiences without committing substantial resources. This increases the risks and uncertainties of media production and encourages the reproduction of successful concepts or the repurposing of existing content, both of which reduce product differentiation. The relevancy of media products is also highly variable across consumers, further increasing the risks of production. Even if a media product is highly successful with one group of buyers, that group may not be large enough to offset production costs.[1]

These economic characteristics of information also increase the impetus for media companies to consolidate and integrate vertically, horizontally, and laterally. Consolidation and integration have the potential to reduce uncertainties and increase market share, helping producers to offset inevitable losses from media products that fail to attract sufficient buyers. Consequently, independent media producers may operate at a substantial disadvantage to consolidated companies in media markets.[2]

Unlike the IO model, the RBV approach to analyzing the strategic behavior of firms is not concerned with the industry in which a firm operates. Instead, it

[1] One counterbalancing outcome of these factors of high production risk and high variability of demand across buyers is a tendency to try to reproduce variations of successful products. This helps mitigate risk by tapping the market already created by the original program, book, or movie, increasing the likelihood of at least marginal success. While using sequels and spinoffs is a significant risk mitigation strategy, it also reduces product differentiation.

[2] Consolidation and diversification through vertical and horizontal integration strategies do not, however, guarantee improved performance. Research on other industries conducted in the wake of the widespread merger and acquisition activity of the 1980s suggests that very few companies succeeded in capitalizing on the opportunities for synergy and many found that the transaction costs generated from increased consolidation and diversification were larger than the financial benefits captured through economies of scale and scope (Stern & Chew, 1992; Copeland, Koller & Murrin, 1991). Recent research on media companies also raises questions about the degree to which consolidation and diversification improves the financial performance of media corporations (Jung; 2003; Vogt & Kolo, 2003).

emphasizes a firm's unique internal resources and its ability to successfully utilize them in the market (Chan-Olmsted, 2003). The RBV model focuses on the rareness, non-substitutability, value and uniqueness of the organization's core resources. Chan-Olmsted notes that while scholars differ on how core resources should be categorized for purposes of RBV analysis, generally they agree on at least two broad categories -- property-based resources and knowledge based-resources.

Niche Theory offers a slightly different approach to studying a firm's resources, examining the competition between firms for key resources. Dimmick (2003) argued that media competition is a measure of niche overlap -- that is the degree to which media firms are competing for the same limited resources of audience's and advertisers' time, money, and gratifications. The theory of the niche postulates that as competition intensifies, some firms will exit the field in a process of natural selection, while the survivors will strategically narrow the scope of their resource dependency through such strategies as increased product differentiation and target marketing.

Regardless of the model used, most research on strategic management is built upon the assumption that firms' behaviors reflect rational, purposive decision making in an environment in which the primary factors influencing organizational performance are knowable (Whipp, 1996). However, as Dimmick and others have noted, where environmental factors are not knowable, such as in emergent industries or those operating in turbulent markets, the industry often will appear chaotic with a high degree of innovation diversity and strategic behavior that might best be characterized as trial and error (Dimmick, 2003; Roehrich, 1984).

Research, observation, and anecdotal evidence on the media industries in emerging nations suggest that, in many cases, they exhibit characteristics of emergent industries. Because the bulk of published research in the field of media management and economics focuses on media in developed countries, little is known about the market structures and strategic management of independent entrepreneurial media organizations in nations going through political and economic transitions. Such evidence as there is suggests that market structures are complex. Some nations have attracted significant foreign direct investment (FDI) from Western media corporations (Hollifield, 1993), with as much as 80% of some nations' print media being wholly or partly owned by foreign interests (Sukosd, 1992). Such highly integrated markets pose significant competitive challenges to locally owned, non-integrated media organizations. The media industries in other emerging nations have attracted comparatively little FDI. Many of those nations appear to be characterized by weak economies and slower rates of movement towards more open political and economic systems. However, independent commercial media continue to emerge in these nations.

This study, which is still in its early phases, seeks to address the gaps in our knowledge of the market structures and strategic responses of independent entrepreneurial media organizations in nations in transition. The project seeks to use existing models of strategic management to understand the market and organizational conditions in which independent media operate in emerging nations. The study also expects to identify effective strategic responses to turbulent market conditions that have been developed by media entrepreneurs in such markets nations. If, as theorists postulate, a vibrant and independent media industry is a necessary condition for democratic political systems and economic development, then enhancing knowledge of the economic and strategic challenges facing media executives in emerging nations should be a key contribution toward the development of strong civil societies.

Method

This project used a comparative case study design. Data for the case studies were gathered through in-person interviews supplemented by completion of a written structured instrument. In both cases, questions were translated into the appropriate languages and the written questionnaire was distributed and returned electronically. Where responses were returned in the respondent's national language, a native speaker of that language was hired to translate the responses into English.

Because of the complexity of the project and the length of the questionnaire, the study has used a purposive sample of media managers in developing countries with whom the researchers have personally met and discussed the project. All three of the authors are involved in on-going international professional education and exchange projects, which provide extensive contacts with media executives in developing nations around the world.

The structured survey consists of 71 questions, 89% of which were open ended. The first questionnaires were distributed starting in late summer 2003. Most of the questionnaires were sent to respondents by email and returned the same way, although a few were administered entirely through in-person interviews. The chief executive officer of the newspaper was asked to complete the questionnaire and was encouraged to circulate it within the organization if there were others who were better able to answer some questions. To date, six questionnaires have been distributed to newspapers in three countries, and four fully completed questionnaires have been returned. Another newspaper respondent answered some of the questions through an in-person interview and has promised to complete the full questionnaire and return it. Data from that partial completion are included here.

The completed questionnaires are from five newspapers in two of the three countries where questionnaires have been distributed to newspaper organizations. The organizations included in this phase of the project include two newspapers from an African nation, one daily and one weekly, and four newspapers from a former Soviet bloc nation, one daily and three weeklies. Both nations included in this study are classified by the World Bank as "low-income economies." Low-income economies are defined as those with a Gross National Income Per Capita for 2002 of $735 or less (World Bank, 2003). Questionnaires continue to be distributed, and, eventually, the study is expected to include newspaper and broadcast organizations in Eastern Europe, Asia, Africa, and Latin America.

This chapter represents a very preliminary analysis of the data from the pilot phase of the ongoing project. This analysis is expected to lead to a further refinement of the questionnaire and an extension of the study. However, the authors find that, despite the small number of cases presented here, the data are wholly consistent with information they have gleaned over the past six years during extensive conversations with the owners and managers of independent media organizations in nations around the world that are going through political and economic transitions.

The completed questionnaires were analyzed using the comparative case study method. The analysis focuses primarily on analysis of market conditions in the two countries from which multiple responses were gathered.

Findings

Market Structure Variables

F1a: Economic Structure of the Markets. In both nations included in this study, the media industry was one of the sectors where vestiges of a command economy still existed. In both countries, independent commercial media companies were found to be competing against media organizations that were at least partly subsidized by the government and operated under the imprimatur of affiliation with the government in power. Additionally, in some cases, the independent commercial media were further disadvantaged in the market by being subjected to taxes that the government-subsidized media did not have to pay or by being precluded from privileges such as access to subsidized office space or government sources of information that the government-affiliated media enjoyed.

F1b: Geographic Structure of the Markets. In both countries, respondents reported that the nations' economic power and its media industries were concentrated in a single major urban area. Media executives from those countries were unanimous in their assertion that there was neither a significant circulation/audience base nor a significant advertising base to be gained beyond the geographic boundaries of the dominant city. However, in both nations, newspaper respondents reported that their newspapers were circulated throughout the entire nation and that their circulation figures included total national sales.

This widespread geographic distribution occurred despite unanimous agreement among respondents that most non-metro readers could not afford to buy the newspaper. Nor were those readers of interest to the papers' prime advertisers. Respondents also noted that there were few, if any, potential advertisers outside of the economic center.

F1c: Buyer Concentration. Buyer concentration appeared to be high in the countries studied in both of the industry's traditional dual markets: audience and advertisers. Although a lack of concrete market data made it difficult to use traditional measures of concentration, based on respondent reports, there were comparatively few available customers among either audience or advertisers.

In comparison to developed nations, media penetration rates in the two nations in this study were low. Daily newspaper circulation rates in both countries were 24 per 1,000 population in the year 2000 (Table 1 at the end of the chapter). By comparison, in the United States, daily newspaper circulation rates were 215 or more per 1,000 population and even higher in Sweden. Similarly, the distribution of television sets per 1,000 was 30 in one of the two countries and 61 in the other, compared to more than 500 in Sweden and more than 800 in the U.S. Radio set penetration in the two countries studied was similarly low.

Additionally, linguistic and cultural factors further reduced the size of the available audience by subdividing it into largely mutually exclusive niche markets. These linguistic divisions also reportedly affected the advertising markets. In one of the two countries, economic power was concentrated within the smallest ethnic and linguistic subgroup in the population. Media executives reported that as a consequence, most of the businesses that were potential advertisers were interested in buying advertising only in those newspapers serving the smallest but more affluent linguistic group. That put newspapers that targeted the larger population group in the country at a significant disadvantage in the advertising market.

In the second country, the population was divided into four major ethnic groups and many other smaller groups (Table 1). English was the official language, widely used by the intellectual and government classes and was, therefore, the primary language used by the media. However, many in the population used other languages as their primary language. Additionally, literacy rates among the population were low, only slightly above 50%.

Finally, economic power among the population was much lower than in developed countries (Table 1) and according to respondents, tended to be concentrated among comparatively few of the available buyers. In both countries, more than 50% of the population was classified as falling below their nations' poverty lines. Thus, only a relatively small proportion of the available population in each country could afford to regularly buy media products, and the majority of the population that might occasionally buy the paper were of little interest to advertisers because of their lack of disposable income. Consequently, buyer concentration in these markets was found to be relatively high.

F1d: Seller Concentration. Seller concentration in the media markets of all three countries was found to be diffuse (see Table 2 at the end of the chapter).

Respondents identified as many as 34 daily or weekly newspapers and magazines circulating in one of the two countries, with an even higher number of locally produced bi-monthly, monthly and quarterly publications available. In the other country in the study, 12 daily or weekly newspapers were reported to be circulating in the capital city. Because of the geographic concentration of economic power in those countries in a single urban area, respondents noted that all of the publications in each country were essentially competing for the same audience and advertisers.

In addition to competition from the print media, the electronic media were also well established in both countries, with numerous AM, FM, TV stations and cable channels. According to respondents, the majority of the electronic media outlets, including both commercial and government-supported, competed for advertising.

The high level of competition in these media markets would be expected to produce consumer welfare in the form of lower prices and product differentiation strategies. However, in markets where the Gross National Income per capita is low (Table 1), such high levels of media competition will be difficult to sustain economically.

F1e: Vertical Integration. Vertical integration among newspaper companies in the two markets examined appeared to be low. All of the newspaper respondents reported that their media enterprises had been founded by local individuals or groups. In some cases, one or more of the founding partners subsequently had exited the company, but none of the newspaper respondents reported any affiliation with a larger commercial media company. It is recognized that many media companies in countries in transition are more vertically integrated than they appear because of silent partners and unpublicized agreements. This study cannot rule out the existence of such ownership structures in the cases studied. However, all of the newspaper respondents claimed that they were not vertically integrated and that, to the best of their knowledge, none of the newspapers with which they competed were owned by larger media companies with multiple holdings.

None of the newspaper respondents reported being horizontally or laterally integrated with other media companies.

Not surprisingly, vertical integration among the electronic media against which the newspapers reported competing was much higher. Respondents indicated that most of the broadcast media outlets in their markets were either public service broadcast channels or were affiliated with large multinational media corporations. Many of them were also reportedly horizontally integrated, with one company operating multiple stations or channels.

F1f: Cost Structures. Few data were available on cost structures within these markets. However, most of the newspaper respondents reported that their operations were undercapitalized. In two of the five cases, at least one of the original investors in the newspaper had withdrawn further financial support and exited the enterprise. In one instance that withdrawal combined with other factors forced the newspaper to close. In another case, the newspaper nearly closed at one point but, as of the time of data collection, had managed to find enough additional financial resources to stay alive.

Two other newspaper respondents reported that they had, at least at some point in their history, received subsidies from NGOs, foreign governments interested in supporting the development of an independent press, or a local political party. One newspaper reported that it had recently secured additional capital from a new business partner.

None of the newspaper respondents reported owning a press. The availability of commercial printing services significantly reduces organizational cost structures in the newspaper industry and consequently, a barrier to entry in the market.

In terms of production costs, the volume of in-house content production was found to be significant compared with similar media organizations in the United States. Newspaper respondents in both countries reported they produced on average more than 80% of their news content in-house. Two of the papers produced an average of 24 pages per issue, including the daily paper. One reported producing an average of 16 pages per issue, while the last reported averaging 8 pages per week. The remaining content was purchased from news agencies.

As low-income countries, wage levels in the countries studied were low, further reducing cost-structures (CIA, 2003). However, some respondents reported that they suffered significant financial losses as a result of employee theft and deception. Productivity levels also were found to vary across the two countries studied and the publications within them. In the United States, the newspaper industry standard for daily papers is one news-editorial staff member per 1,000 circulation (Meyer & Kim, 2002). The daily paper in the African country reported having 160 full time and 30 part-time employees producing an average of 24 pages per day, serving a circulation of 15,000. With 74 full-time staff members in the news-editorial department, the paper was operating with 5 news-editorial staff members per 1,000 circulation, not including its 30 part-time news staffers.

Because data on the employment-circulation ratios for weekly papers in the United States were not available, an accurate comparison of editorial productivity for the weekly papers in the sample was not available. However, Meyer and Kim (2002) found that in the U.S., smaller dailies with circulations of 15,000 or fewer had slightly higher employment to circulation ratios averaging 1.15 news-editorial staff members per thousand circulation. The weekly paper in the African country reported having 32 full time and 11 part-time employees producing an average of 16 pages weekly for a circulation of 8,000. Of those, 12 were full-time news-editorial staff members for a ratio of 1.5 staff members per thousand paid circulation.

In the former Soviet Bloc country, productivity levels per employee appeared higher (Table 2). One weekly reported employing 13 full-time and 12 part-time people to produce an average of 24 pages for a circulation of 20,000. Of those employees, five of the full-time staff worked in the editorial department for a staff-circulation ratio of 0.25 per 1,000. A second weekly reported serving the same size circulation with 17 full-time staff members, of which were 8 news editorial, for a ratio of 0.4 news staff per 1,000 circulation. The third weekly reported using 6 full-time and 5 free-lance employees to produce an average of eight pages for a circulation of 11,000. Of those six full-time employees, three were assigned to the editorial department for a staff-circulation ratio of 0.27 per 1,000 circulation.

Advertising/Editorial ratios per issue also were lower than would be found in U.S. newspapers, where a ratio of 60:40 is considered the industry standard for weekday daily newspaper editions. Two of the four weekly newspapers reported an advertising/editorial ratio of 20:80. The third reported a ratio of 10:90, while the fifth did not respond to the question.

The daily newspaper in Africa reported a ratio of 40:60.

F1g: Product Differentiation. The high level of competition among sellers in the newspaper markets in the two countries studied would be expected to create significantly differentiated products (Dimmick, 2003; Dimmick & Rothenbuhler, 1984). Product differentiation was measured by asking responding media executives to describe how the content of their publication differed from others in the market. They also were asked to describe an advantage that they had over their competitors in attracting audiences and to describe the "focus" of their editorial content.

In markets with significant language subgroups, the language of publication was reported to be an important element of product differentiation for both audiences and advertisers. In those markets where there were strong language identities, respondents reported having little success in selling advertisements to businesses, if the owners or managers did not personally use the language in which the newspaper published.

In the markets studied, there also appeared to be some effort to differentiate products on the basis of price. Respondents in the same market reported differences in their per-copy circulation prices of more than 100%. Although information about advertising prices was not requested, some respondents reported giving some advertisements away for free in an effort to win business from their competitors.

Where content was concerned, 3 of the 5 newspaper respondents reported that what differentiated their product was its focus on "focused," "in-depth," "honest" reporting and analysis. These responses imply, of course, that others in their market were not taking a similar approach to news coverage. A fourth noted that his newspaper's product was not noticeably differentiated from any others being offered in the market. The fifth publication said the focus of its coverage was feature news and that it differentiated itself by using a "magazine" approach to news coverage.

Four of the five also argued that their publications were differentiated by their "independence" from the government and other political parties or by their journalistic stance in "opposition" to the sitting government. Among these four was one that said its initial political funding had come from a specific political party, although the financial relationship had been subsequently severed. Another respondent noted that the underlying purpose of the paper was to further the owner's non-media business interests. For all four, however, independence from association with the political party in power was clearly a central element of their product differentiation strategies.

These responses raise some interesting questions that this study is unable to answer with the available data. An obvious issue is the degree to which the content of the publications did, in fact, reflect the self-reported focus on hard news and in-depth analysis. A content analysis would be necessary to answer that question. Another issue is the degree to which being in "opposition" to the government refers to a stance in which the organization positions itself as an objective "watchdog" over the government such as is expected in many Western media systems or, conversely, the degree to which it reflects an a stance of active opposition to the sitting government and its policies.

Firm Resources

F2a: Product Differentiation. Product differentiation is more than just an element of market structure. The product is also the firm's key resource and differentiation is a measure of the uniqueness or non-substitutability of product from the customer's viewpoint. As noted, responses to the survey suggested that there was comparatively limited product differentiation among the publications in the study in terms of content, with most of them defining their products as focused on hard news and political "independence" or "opposition." If so, it could be argued that this represents a failure by media mangers to strategically manage their organizations' key resource. Such lack of differentiation may undermine the economic viability of the individual media organizations because the high level of overlap between their competing products would make it difficult for any one of them to attract the attention of audiences.

The alternative resource management strategy, however, also poses risks. Niche theory (Dimmick, 2003) predicts that as competition within a market grows, competitors will divide the market into smaller, highly specialized niches in order to minimize direct competition. However, in markets such as those examined here where buyer concentration already is high, subdividing the few available buyers according to a news/feature orientation or by a particular political viewpoint may fragment the market too much for any single niche to be economically sustainable. Additionally, such a strategy can have negative effects on advertising sales. At least partly because both markets studied here retained vestiges of authoritarian political systems, respondents almost universally reported that their advertising sales were affected by their paper's perceived independence from the government or opposition to it. Respondents said many potential advertisers did not wish to be seen as supporting media outlets that either didn't actively support or were openly in opposition to the government.

F2b: Financial Management. Dimmick (2002) noted that finances represent a key resource for organizations. Strategic financial management was a significant issue for all of the media organizations examined. Only one of the newspapers in the study reported having made a profit in any of the three most recent years in which they had operated, although one reported having some hopes of generating a profit for 2003. One paper surveyed shut down. The one newspaper respondent that said it had made a profit reported a profit margin of 5%.

Knowledge resources in regards to financial management also appeared limited among the media executives who responded. Most reported that their own backgrounds were in journalism and their primary focus was on managing the editorial side of the publication. When asked which of several specific financial management measures they used to monitor the financial performance of their companies, the majority of respondents who answered the question noted that they left financial management to professional accountants and auditors. Several did note the importance of careful cost control and said that they had had significant successes in managing expenses.

Internal controls over financial resources also appeared lax. Several respondents indicated there were significant problems with employee theft that affected profitability. Among the problems indicated were theft of equipment and resources and retention of advertising payments by account executives, who then reported that their clients hadn't paid. Although such problems are not unique to media in emerging countries, the financial impact was reportedly significant because of the financially marginal nature of the enterprises.

F2c: Sales Management. Advertising customers are among the most critical resources for media companies since the majority of the revenues for most media enterprises are generated through advertising sales. All of the responding organizations in this study said they sold advertisements. Most reported having between three and five full-time account executives, although the daily newspaper reported having 10. Three of the five respondents who answered the question said their sales staffs were paid on a salary-plus-commission basis, with commissions all listed as between 10% and 15%. One publication used a commission-only payment structure, while the other paid its sales staffs on a salary-only basis.

All of the respondents reported that competition for advertising was intense within their markets. The source of advertisements varied considerably across respondents and a significant weakness in the local advertising market was evident. Of the two respondents in the former Soviet Bloc nation who answered the question, one publication indicated that its advertising base was entirely national and international advertising, while the other indicated that local advertising made up less than 50% of its total advertising revenue. According to the respondents, these figures reflected a scarcity of local advertising sources because of the weaknesses of the local economy.

Both of the African publications indicated that local advertising was a significant source of revenue for them, providing between 60% and 99% of total advertising revenue. This may reflect the economic concentration of that country in the one city where both publications were located. The African publications also indicated that personal contacts were a central requirement for generating advertising revenue as advertising clients tended to use personal relationships with the newspaper staff as a significant factor in buying decisions. Thus, within the advertising market in that African nation, personal relationship represented a unique and less substitutable resource.

F2d: Marketing and Distribution Management. Distribution management was a significant problem for the newspaper respondents in both countries. The inability to control product distribution represented problems with both property and knowledge-resource management.

All of the respondents noted that their publications were distributed nationally despite the fact that there was neither a significant readership base nor advertiser base outside of the economic capitals of the respective countries. To some degree, the decision regarding circulation area was outside of the publishers' control.

In the former Soviet Bloc country, the federal postal system continued to control distribution for publications, although some private companies offering circulation management services appeared to be moving into the market. Under the postal distribution system, the Post controlled the publication's subscriber list and postal service employees were responsible for generating new subscriptions. Some respondents charged that those employees favored certain publications over others in selling subscriptions, particularly those publications at least marginally affiliated with the government. Respondents also noted that because the Post controlled their circulation list, they had no direct knowledge of their readership and no way to contact or market additional services to those readers.

In the African nation, sales outside of the metro area were handled through private newsstands. Many of the distributors were geographically distant from the publication, and according to respondents, it frequently proved difficult, if not impossible, to collect the money owed from single-copy sales made by those distributors. Respondents also reported problems with employees of the printing companies that printed the papers selling the papers off the press before releasing them to the papers' distributors. This undercut the publication's legitimate sales.

None of the publications in the study had independently audited circulation figures. Nor were any of them conducting systematic readership research. Respondents reported having only limited knowledge of the profiles of their readerships. Two publications reported occasionally printing readership questionnaires in the papers in an effort to gather information, and one of those also reported sending reporters out to interview selected readers and advertisers about their reactions to the publication. Most respondents noted that they didn't have either the staff or funds to conduct readership research, while one added that the limited national penetration of phones and the high cost of domestic mail made readership research almost impossible to conduct. Respondents had, however, invested in marketing and developed numerous creative approaches. Several reported purchasing ads for their publication in competing media as well as using various types of billboard, banner ads and in-house advertisements. Several indicated they did image advertising to both readers and advertisers. One respondent said her newspaper offered price promotions in the form of discount subscriptions to students and the elderly. Another offered similar discounts to new advertisers. One respondent also reported success with running contests for subscription sales, including giving away horses, bicycles, and cell phones to those who sold the most new subscriptions, while another respondent reported running contests in the pages of the newspaper to retain reader interest and boost single copy sales.

F2e: Portfolio Management. There was limited evidence of strategic portfolio management among the newspaper organizations studied. The newspapers all operated as independent companies at the time data were collected, without the ability to capitalize on the potential economic advantages of synergies, repurposing, or economies of scale and scope.

However, there was evidence that some of the executives who responded were beginning to strategize ways of growing their organizations. One respondent reported that her company was considering setting up an advertising agency as a sister operation. Another reported plans to move from weekly to daily circulation. A third was discussing the possibility of adding a second publication in a different language to its portfolio in partnership with a foreign media company that would manage most of the production of the second publication.

Not all of the media organizations' efforts at portfolio management appeared to be strategically effective. Two of the five newspapers had Web sites and employed one full-time person each to manage them. The sites were used primarily to repurpose content from the publication. However, both respondents reported that their Web sites were unprofitable and one of the two did not even attempt to sell advertising onto the site. Both sites were being operated in a country with very limited telephone and Internet penetration rates.

Discussion and Conclusions

The data from this project indicate that the media industries in the nations examined in this study did, indeed, exhibit the characteristics of nascent industries (Dimmick, 2003; Roehrich, 1984). The industries were characterized by high levels of direct competition, low levels of consolidation and integration, and significant concentration among buyers. The newspaper firms appeared to have been largely unable to capture economies of scale or scope at the time of data collection. The structure of the markets was further complicated by the co-existence of media organizations that operated under a command economy but which competed directly with the entrepreneurial media organizations examined here. The subdivision of these emerging nations into distinct language and culture groups also affected the market structure for media products much more significantly than it would for most other types of products.

While cost structures such as wage rates were low in these markets as compared to developed countries, by some measures, productivity also was low. More importantly, advertising-to-editorial ratios were low, suggesting that cost structures were high in relationship to the revenue potential of production. Further evidence for this was found in other statements made by respondents. Several reported that at least one of their initial investors had withdrawn financial support. Additionally, the majority of the respondents said that their organizations had never been profitable and none was consistently profitable. At least one of the newspapers studied had exited the market altogether at the time of data collection, at least partly because of ongoing financial losses.

Examining the behavior of the media firms in this project through a Resource Based View was equally valuable. The RBV approach revealed that the majority of the firms controlled few key resources of either property or knowledge.

In terms of property resources, the media organizations studied here held neither licenses nor contracts on content of specific value, and they shared key resources such as printing presses and distribution arrangements with all other competitors in the market. Some reported that because of their independence from the government, they were forced to buy or rent facilities at higher costs than some of their competitors. Only one respondent reported having an arrangement that could be deemed to have property value in the form of subsidy agreements with NGOs and other external funders. However, in at least two other cases, managers reported that they were trying to develop exclusive production contracts with suppliers of various services. This suggests that media executives in these markets may be starting to develop integration strategies that will expand their property resources.

Although one respondent reported having strong long-term relationships with advertisers because the language in which the newspaper published, most respondents reported a high degree of uncertainty in their relationships with advertisers and felt they were disadvantaged in the market because of either their language of publication or their relationship to the government in power, or both.

Even more scarce in the operations examined in these comparative case studies were knowledge resources. None of the publications controlled its most critical knowledge resource – detailed understanding of its audiences. The lack of available audience research -- and even control of subscription lists and distribution information-- reduced media managers to guessing about the needs and gratifications of their audiences. As Dimmick (2003) noted, the gratifications the audience receives from a specific media product are among the key resources controlled by a media firm.

Knowledge about financial resources and strategic approaches to financial management also appeared weak, even among those executives most directly responsible for the financial performance of their media firms. Many reported delegating financial management to internal or external financial specialists. Several noted that key aspects of their financial management processes were controlled by outsiders, such as the federal Post or distant newsstand operators. The inability of media firm executives to control such key knowledge resources as audience demographics and gratifications, sales and distribution data, and financial resources reduces strategic management to a process of trial and error.

Finally, a media company's product might be deemed both its central knowledge and its central property resource. Media content is necessarily the product of the individuals who create it and, consequently, it is presumed to be at least somewhat non-imitatable and non-substitutable. In very competitive markets such as those examined here, high levels of product differentiation would be expected as firms attempt to develop specialized niches where they can operate with less competition. However, among the cases examined, product differentiation appeared limited at best, with most of the respondents claiming to stake out similar editorial territory in the newspaper market.

Although research frameworks such as the IO and RBV models are designed to measure organizational performance in strictly economic terms, among mass communication scholars, the externality value of media products remains a primary concern. Traditional theories of the public interest in media maintain that diversity of ownership, content, and viewpoint are necessary for the maintenance of a vibrant civil society (Croteau & Hoynes, 2001; McQuail, 1992). It is for this reason the survival and development of independent media firms in emerging nations is of crucial interest.

For those who support the development of independent media organizations in emerging nations on the grounds that media are vital to the functioning of civil society, issues of strategic product differentiation pose a conundrum. If a large number of the independent commercial newspapers in a highly competitive market focus on hard news, in-depth analysis, and political independence, there would be relatively little product differentiation among them. That would increase the likelihood that many of the entrepreneurial media firms would fail, thereby reducing the number and diversity of voices in the marketplace of ideas.

On the other hand, one of most obvious approaches to creating product differentiation under such market conditions would be to tailor the content of a publication to a specific political or social point of view. This is, in fact, a common approach to media product differentiation. Although in the United

States and many other developed nations, political "objectivity" has come to be seen as the norm for the news media industry, historically this was not the case. In the 19th and early 20th centuries when major U.S. cities had multiple newspapers competing with one another, it was common for those papers to be aligned with political parties, points of view, or interest groups such as trade unions. Only in the middle of the 20th century when newspaper competition declined in the U.S. to the point where most daily newspapers were competing in duopoly markets did "objectivity" become the industry standard.

This strategic regression to the political mean in content reflects Hotelling's (1929) theory of Optimal Location, which notes that in duopoly markets, the optimal location for both competitors is in the market's center, where they have the best chance of reaching the largest number of potential buyers. Hotelling's theory has since been tested in numerous other settings, including on voting behavior in two party systems. The theory demonstrates that when there are only a few competitors in the market, minimal product differentiation is the most effective strategy.

Conversely, niche theory dictates that in markets with high levels of competition, media organizations will produce differentiated products (Dimmick, 2003). This phenomenon has been demonstrated in the U.S. in recent years among the broadcast network newscasts and the 24-hour cable news networks (Bae, 2000). As the number of such networks has grown, they increasingly have differentiated their news products by focusing on different areas of content and by aligning coverage with particular political philosophies.

In emerging nations that are undergoing significant transformations of their political, economic and social systems, media product differentiation strategies may produce unintended consequences. Research suggests that in such conditions, media organizations that define themselves as de facto opponents to the government -- or otherwise claim political, social, religious or ethnic territory and shape their content accordingly -- may be a destabilizing force in society, contributing to societal divisions and increased civil unrest (McConnell & Becker, 2002). Consequently, while a product differentiation strategy based upon establishing a specific political or social viewpoint might well enhance the survival rates of entrepreneurial media organizations in developing markets, it also could simultaneously undercut the very rationale for supporting independent media in emerging nations in the first place.

Over the long term, if market conditions stabilize, these problems would be expected to diminish. Industry life cycle theory predicts that where sufficient demand exists for a product, an industry eventually will move out of its initial nascent phase and begin to mature. The maturation phase is characterized by increased consolidation and integration among firms, which allows organizations to capture economies of scale and scope and reduce uncertainties. In the process, some competitors will exit the industry and competition in the market will be reduced.

The cases examined in this project suggest that, however valuable media pluralism may be in nations in transition, the media industries in these countries are characterized by too much competition in relation to the economic resources available. The imbalance is made worse by the existence of subsidized sellers in the market. Consequently, industry consolidation in these markets should not only be expected but is, from an organizational standpoint, desirable. With careful strategic management, it may be hoped that consolidation will contribute to the development of economically viable independent media firms capable of producing high-quality news and information products that serve the public interest.

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Table 1. Comparative Structural Characteristics of Media Markets

	African Nation	Former Soviet-Bloc Nation	United States	Sweden
Population	More than 10 million	Fewer than 10 million	281 million	8.9 million
Literacy	Below 75%	Above 75%	97%	100%
Ethnic Groups	4+	3		Swedish: 89% Finnish: 2%
Languages	English (official) Others	2	English (official) Spanish	Swedish
Urban Population	43%	46%	76%	83%
Per Capita GNI*	Under $735	Under $735	$37,600	$25,400
Percentage Population Below Poverty Line**	+50%	+50%	12.7%	N/A
Daily Newspaper Circulation (per 000)	24	24	215	484
TV Sets (per 000)	61	30	847	531
Radio Sets (per 000)	197	209	2,115	904
Internet Use	100,000 (2000)	15,000 (2002)	N/A	N/A

Source: New York Times (2003)
*Source: World Bank (2003)
**Source: CIA World Factbooks, (2003). Online. Available at: www.cia.gov/cia/publications/factbook/geos/sw.html

Table 2. Organizational Characteristics of Newspaper Firms in Study

	Newspaper A	Newspaper B	Newspaper C	Newspaper D	Newspaper E
Nation	African	African	Former Soviet-Bloc	Former Soviet-Bloc	Former Soviet-Bloc
Publication Frequency	Daily	Weekly	Weekly	Weekly	Weekly
Circulation[a]	15,000	8,000	11,000	20,000	20,000
Average # of Pages	24	16	8	24	--
Full Time Employees	160	32	6	13	17
News-Editorial Employees (full time)	75	12	3	10	8
News Staff per (000) Circulation	5	1.5	0.27	0.25	0.4
Advertising: Editorial Ratio	40:60	20:80	10:90	20:80	--
Percent of Revenue from Advertising	40%	20%	63%	37%	--

<u>Notes.</u>

[a] Newspaper B's circulation represents paid circulation. It is not clear whether the circulation figures for the other newspapers represent paid circulation only or paid circulation and pass-around estimates.

Strategic Responses of Policy Makers to Interactive Television: Issues of Consumer Relations, Personal Integrity and Privacy

Olof Hultén

This chapter introduces an issue that will become a growing concern in the years ahead, as new technologies for interactivity in television and video services find their way into more and more television homes and are used by viewers also in their role as customers of packages of new services delivered to their homes via television platforms.

It will only address issues of consumer integrity and personal privacy in relation to television, because that is the medium the author knows the best, so it excludes issues of data security and theft, etc.

We are all familiar with the great potential of new electronic services for value added services to consumers. They can be delivered by different networks, among them digital television. There is great potential but there are concerns about abuse by companies or dishonesty in collecting, using and selling information gained from households and individuals by way of interactive television.

Television is still not much connected to such practices, although the concept of Spy TV has been around for some time. The Internet is, however, more and more discussed.

This chapter focuses on two concepts: consumer integrity and privacy.

Consumer integrity is the broader concept. It is the quality of being complete or undivided based on indivisible self-determination. In television it means that one has authority over one's own viewing, consumption or usage. Classical market theory assumes that consumers have access to full and relevant information – if they want to – in order to make their decisions. Withholding that information is a breach of the consumers′ integrity.

Privacy is for many people a very fundamental matter. It involves the state of being private, of seclusion, of having things that are intended only for oneself. Media consumption and free and un-monitored television viewing in the private home is a part of the privacy area to which this chapter refers. We all know that after September 11 that this privacy is perhaps no longer that self-evident.

Technical and Policy Issues in Interactive Television

There are a great number of very strong drivers behind the evolution of digital and interactive television. There are also a good many problems to be solved before such technologies are found in everybody's home.

Digital television has been put forward as playing a key role for eEurope, with access to new services and applications being made possible because of pervasiveness of television. It has been asserted that digital television will enhance business innovation and economic growth, increase competition and diversity, and improve consumer choice and satisfaction. But digital television development and introduction is also an extremely complicated process because of incompatible standards and software systems, the marginal added value that it provides to many viewers, and a deficit of consumer confidence in data protection related to digital television.

There are many industries and firms that are supportive of the development of digital television. These include broadcasters, content producers and managers, platform operators, network operators, computer companies, software developers, receiver/terminal manufacturers, the advertising industry, retailers, information miners and traders, and financial institutions. The list of actors pressing ahead is impressive, so there is no reason to doubt the direction of the journey.

The development of digital television involves different platforms. There are wireless platforms such as terrestrial and satellite television and there are wired platforms such as cable, DSL, and Ethernet. Across those platforms there are open, restricted, one-way and two-way access formats. Open platform are unconditional and provide un-encrypted free-to-air (FTA) signals. Restricted access is conditional and based on encrypted signals such as those used by pay television broadcasters. The technical formats can be based on one-way broadcast signals or two-way connections that permit network interactivity.

The funding of digital television is determined by the businesses models of different operators. The models that can be employed include the public service model, the free-to-air model, subscription, and content on demand. A related issue involves the funding of the set-top boxes needed for acquisition of digital television. This can be done by requiring users too make their own hardware investment or the boxes can be subsidized by the operator or rented to customers. The real questions regarding digital television are how long will it take for successful introduction and what kinds of infrastructures and business models will dominate in the future.

Digital television today has spread to about 40% of US households and less than 20% in Europe. There are big differences between countries in Europe, however, with the UK leading with about 45 percent. Almost all of these homes are subscribers to pay television packages, most common from satellites.

Being digital is one thing; being interactive is another. All digital platforms can offer modem connection, not so many bother to plug them in and use them. But with proper education and persuasion, that will also increase.

A first count of truly interactive European television channels by trade magazine Screen Digest found in September 2003 a total of 230 in the five big markets UK, France, Spain, Italy and Germany. The UK and France account for 2/3 of the number. A little more than half are what Screen Digest call enhanced television that carries applications running alongside broadcast content. The other less than half are dedicated interactive channels for games, betting, commerce etc. More and more channels are customized, that is accessible via a "red button" on the remote control. Screen Digest excluded PPV services because they are not considered interactive channels as such.

Compared to conventional analog broadcast television, digital television exhibits a much more fragmented map: different platforms, different distribution modes and access formats, different business models.

In a few years time, we can add a fourth platform, fiber based broadband networks. My company SVT is already invited to a growing number of field tests, in which television is considered an important element. Until there is a widely used IPTV standard and more clarity of roles and functions in that market we will wait. But our Board of Governors has already recognized broadband networks as a fourth distribution platform.

One of the biggest "educational" problems for digital television in the consumer perspective is the fact that the receiver set is a computer. It is software operated, has processing and storage capacity, and display functions that can be resident in a set-top box, interactive digital television box, DVR or PVR, or network. The computer capacity exhibits the same process of rapid ageing as in ordinary computers, meaning that the television set and attached hardware might only function properly a short while until it needs to be up-graded or its software replaced. One way of solving this problem is to have a standard base and then offer backwards compatible added-on features to those viewers who are interested.

There is, however, disagreement in Europe about the which standards to use for pay television services (encryption) and for interactive services (so called API software). Un-encrypted, free-to-air broadcasting does not need neither of those.

There are today three different models of interactivity in digital television: 1) receiver-based, virtual interactivity; 2) modem based, temporary interactivity; and 3) fixed wire, always available interactivity.

With receiver-based virtual interactivity, the viewer can use the remote control and simulate interaction. There is no return channel and there is no real interaction with the sender, but the software-operated set-top-box can be quite intelligent and can be up-graded by the operator. In this type of model, the operators of digital television platforms exercise a great deal of control.

Interactive material is downloaded to the integrated DTVs, STBs, and PVRs and allows users to interact with software already stored in the receiver. The memory is up-gradable or deletable by the operator. Downloads in receiver based systems can include content, self-promotion, advertising, content-related applications, Electronic Program Guides, and television shopping ability. Differentiated content offers and services can be based on subscription, viewer instruction, and software intelligence. The systems do not have a return channel and no data is transferred to the operator.

Most digital platforms today go beyond the receiver-based system to also offer modems for interactivity to their paying customers. The modem needs to be plugged in only when the viewer uses those services. Households have to be enticed to use the modem and educated in its operation. Because of the return channels, modem-based services provide operators with the capability to track customer usage and patterns of use.

The third model is fixed wired connection, such as cable or broadband. This kind of system employs a two-way network terminal and permits local and/or network based interactivity. Access to the system is controlled by customer identification and customer usage can be tracked by the operator. It is too early in the evolution of digital television to say where the computer intelligence for these systems will be located, in the receiver bought and owned by viewer or in the network owned and controlled by the operator.

In all three models, the operator has a great deal of control over what the subscribers can do. In the first model, no invasion of privacy in the viewing situation is possible, since there is no direct feed-back channel. In the other two models, the operator can collect information about how the remote control is used in the homes, *if the software systems allow such data to be registered and collected*.

My guess is that such capability will constitute an international standard in all digital television equipments in the future. There is strong lobbying of the International Telecommunications Union by the big industries in this field.

Let me just give a few examples. An American company called TiVo and its practice of controversial data collection has been featured in the media and discussed in the US Congress. TiVo offers subscribers a service in which information is downloaded via telephone and simultaneously user information is fed back to the company. TiVo describes how it registers and collects personally identifiable data about its customers as well as de-personalized data. The concerns have been: how separate will these sets of data be kept by TiVo and how trustworthy is the claim by the company.

Even if the data collected is de-personalized, there are methods of re-identification, methods which are more and more refined and can be used by third parties, such as data mining (or comparing aggregate data with separate sets of data with known identifiers), or perhaps just inviting people to identify themselves by participating in games, competitions or by offering to mail more information.

The company Double Click became well known when it wanted to re-identify a great number of web surfers by using data from lists of identified mail order customers the company had acquired.

An example of a broadcaster downloading content on PVRs is the BBC. It wanted to promote a show and used the list of known TiVo subscribers in the UK. Every one of them found a 30 min segment of the show on their hard disk the next morning. The explicit language in the show required it to be broadcast after nine in the evening, but children had no problem watching the program in the morning.

A third rather simple example is the Swedish platform operator Boxer which at the start of its digital terrestrial television service offered customers two different contracts to sign when they took out a subscription (including Boxer´s subsidized set-top-box): one at a lower price in exchange for information, the other at a higher monthly fee but with no survey data collected.

Applicability of Current Regulation

Developments in digital television will be affected by regulatory policies relating to issues such as privacy. In Europe significant protection of individual privacy currently exists. A general European directive on data protection (EC Directive on Data Protection, 1995) has been implemented in all member states.

A telecom directive on privacy matters in electronic services (EC Telecom Directive on privacy, 2002) is being implemented in the member states at the moment. This later directive requires the service operator to give full information about the purpose and data collection and allows various levels of consent. In Sweden, an opt-out opportunity is required for consumers who are not willing to let the operator use the collected information (except for billing and functional purposes). Five EU member states require opt-in, a system in which the operator must instead get the consent from individual consumer who are willing to have their data collected and used by the service provider.

In the USA, there is no comprehensive data protection, but there is some protection for customers of cable in the Cable Act of 1984. California extended this protection to subscribers of satellite television services in 2001.

A number of specific pieces of regulation have been introduced in both the EU and the USA in response to nuisances or public outcries. In the EU unsolicited email was outlawed in 2003, as did California. The problem is implementing and enforcing this legislation.

In the US, several specific areas of privacy related to digital media have been covered by new legislation as the problems have been discovered. These include the Video Privacy Protection Act of 1988, the US Telephone Consumer Protection Act of1991 that regulated unsolicited fax advertising, the children's online privacy protection act off 1999 that required verifiable parents´ consent for information collection, and the Federal Trade Commissions national do-not-call register that was implemented in 2003. Federal and state bills on digital television and broadband privacy are currently being considered.

In the area of interactive television, the common reaction from legislators is to *not make premature laws* that will stifle the growth and development of the technology and the services. Let the market actors work out the details and agree on their own conditions, as the future health of their businesses will depend on their own ability to balance its use of collected consumer information with its respect for the concern of many consumers regarding privacy and integrity.

Internet service providers, interactive television operators and mobile phone services all face the same need: to create an industry-organized and supported enforcement program which can handle disputes, which has sufficiently strong sanctions, and offers independent verification and auditing. If this fails, there is no alternative to legislation.

What are the New Concerns?

Several reasons make me believe that interactive television will be a sensitive area of growing importance in the future.

Private homes are considered sanctuaries and an identified customer of a digital television service makes it impossible to use an alias as when surfing on the net and increases opportunities for unsolicited content offers could really clutter and disturb television viewing. The tracking technologies of digital television in private homes can be viewed as an unwarranted search and even depersonalized data can be re-identified because of the technologies available. Further, unless some protection is available, third party use of the information can be made.

The concept of the "consumer is king" is true only if the consumer is fully informed and has knowledge about the content management technologies and data gathering abilities of digital television systems. If consumers are unaware and unprotected they cannot make informed decisions about how to protect their privacy.

Other issues involve the market transactions taking place. Can viewers be sure they pay the same price as their neighbors for programs and services? Few viewers know how to or have the ability to bargain the best value for the use of their personal information before they are locked-in by a digital television contract. Switching to another service can be costly.

These concerns are currently being put forward within the European Broadcasting Union (EBU), which represents the public broadcasters in Europe. The EBU has asked that the International Telecommunications Union (ITU) study the issue of privacy protection in interactive television systems. The EBU also recommends that its members take affirmative action and support the position that all interactive television systems should be opt-in systems in which viewers actively have to consent to allow their personal data to be collected, fed back to, and used by the operator.

The author's personal belief is that the appropriate answer to many of these concerns is clear rules for data protection and mandatory opt-in procedures.

Strategic Responses to Changing Media Regulations - the Case of Norwegian TV2

Rolf Høyer

The objective of this volume is to shed light upon how media companies respond strategically to media market changes. However, broadening the perspective, one may claim that the basic challenge is to respond strategically to the most important factors in a changing environment. In such a perspective, media regulations may be conceived as a significant and integral part of the market conditions. Regulations will be of variable importance for different types of businesses. For example, the pharmaceutical business is so strongly regulated that the regulations per se appear as the dominant set of limitation for doing business. Such strong regulations leads to several effects for the industry; market opportunities may not be exploited, revenues are controlled, and competition in a free marketplace may be distorted. When regulations are changed, the companies have to activate immediate strategic responses to adapt to the new market conditions generated by the regulators.

Other types of industry are enjoying much more liberal conditions, making strategic responses to regulations an issue of minor importance. The media industry may be categorized somewhere in the middle. However, the different segments of the industry have attracted different attention from regulators. Newspapers and magazines are in general enjoying mild regulations, while broadcasting—particularly television—always has generated keen attentions from politicians. This has led to extensive and detailed regulations, both of content and business modes of operation.

For the television business, one may actually assert that media regulation is one of the most important market conditions to which the market actors have to adapt in order to succeed. They have to develop strategic responses to the changing regulatory means that are inflicted by governmental agencies.

Media companies will in general strive to adapt in the most favorable ways to the means applied by public regulations, interfering with their operations. In this way, the premises, which the regulations build upon, are distorted, mainly because regulators have great difficulties by anticipating which adaptations will actually occur in the market. An implication of this is that regulations not at all in every respect actually work according to their objectives. Hence, the strategic adaptation processes of the companies will not only influence, but also in some cases determine, the degree of effectiveness of public regulations. And on the other side, the way a company deals with the regulations is a matter of strategic management.

Responses to Regulations as a Strategic Challenge

In common Porter-based theory for strategic analysis of competition, the analysis is based upon five fundamentally different competition forces. These forces influence and shape the business behavior of the company, when it responds to threats, challenges and opportunities. In this model, the success of the company is determined by how well the company designs and implements strategies for competition [Porter 1980]. Porter defines the five forces of competition as competition from suppliers of substitutes, the threat of competition from entrants, competition from established producers, and finally the bargaining power of suppliers and buyers.

In our view however, for some industries being in a strongly regulated market, the competition model ought to include *a sixth force of competition*, namely the power, attitudes and behavior of the regulators, while considering to which degree regulation interfere with the operations of the actors. Most authors on strategy do not acknowledge regulations as a determinant for competition; hence regulations are not regarded as a relevant issue for strategic analysis. Several authors waive such concerns simply by stating that the role of public regulatory interventions in a market mainly is to pave the ground for viable industrial growth and development. In such a perspective, there is no concern for regulations, which actually interfere with the competition process in the marketplace. Thereby one neglects the heavy constraints that regulations may impose upon the way business is conducted.

This chapter suggests that for many industries, the model for strategic analysis is not complete unless it includes the regulatory forces. In particular, this seems relevant when public policy is comprehensive and being enforced in a determined way by special agencies. This is the case in the media industry, however to a different degree in the various sectors. While the broadcasting sector is heavily controlled by regulators, the situation is far more lax in the newspaper and magazine sectors.

In the following we will concentrate upon the broadcasting market, which in most countries is heavily regulated. We will set out by defining four alternative categories of action and adaptation available to the media companies. Each category will be illuminated by empirical examples of actual strategic and tactical behavior drawn from studies of one company, the commercial television channel TV2 in Norway. TV2, a well-established and very profitable franchise, now some 11 year old, is by far the largest commercial national channel. It is slightly less than the largest competitor, the state controlled public channel NRK1. These two actors dominate the market, having always engaged into a strong competition process of being the market leader as measured by audience share. It is interesting to note that although they have completely different sources of income, advertising revenue versus license fee, they compete in the same marketplace. Furthermore, there are two other competing television channels in the same market as TV2--TVNorge and TV3--together with foreign channels distributed by cable and satellite.

Some of the examples of strategic response quoted below appear as excellent examples of strategic management, while others may seem to be of a more dubious quality. However, the popularity and outstanding commercial success of the channel indicates that the company not only has succeeded by developing attractive content, but also managed to cope ingeniously with the many restrictions imposed by the national public regulations. Although some of the actions taken by the company may be ethically disputable in a strict sense, our case of TV2 appears as interesting study material for students of strategic media analysis. Additionally, as a free bonus, it may be found rather entertaining.

The Interaction between Regulations and Media Companies

Evasion of, and smart adaptation to, public regulation is rather common in a modern, complex business society. Everybody is personally familiar to the phenomenon in areas like taxation and traffic control. In business schools, professional adaptation to tax law is a major on the curriculum, building upon a well researched area. Regrettably, not much research attention has been paid to how regulations in the media industry interact with business practice. Actually, the question of regulatory effectiveness has not been much elucidated. In a way, it may seem that one *a priori* assumes that agreed regulations are effective, once they are designed and implemented. How a regulation actually works in interaction with the media operators in the marketplace seems in a way to be conceived as a *black box*.

Media policy is realized through formulations of concrete objectives. The objectives are derived from intentions and well accepted qualities in the society. In the media field, examples of such intentional qualities are preservation and development of national culture and languages, concern for children and minorities, freedom of speech, pluralism in and among the media channels, and to some degree also promotion of national media industry. For example, press subsidy arrangements are meant to support freedom of speech and cultural pluralism. In regulatory practice, the objectives must be broken down into operational terms, for example that the number of daily newspaper shall not decline, that there are sufficient resources to produce high quality content, that advertisement in broadcasting shall be kept under a certain fraction of air time etc.

The operational terms are then built into provisions under the more general legal acts, supported by regulatory agencies that are set up and given mandate and resources to enforce the regulations. The interaction between those law enforcing agencies and the commercial actors determines the market effects of the regulations. However, the outcome of this process of interaction is not necessarily always commensurable with the original intentions of the regulation. Therefore it appears surprising that comprehensive, formal evaluations rarely are performed in order to investigate how the complex regulatory system actually works in practice.

The outcome of the interaction process between regulation and commercial actors is determined by many factors. Above all, like in traffic control, the resources and executive power of the regulatory agency during enforcement play a significant role. Passive agencies will allow development of sleeping paragraphs that tend to be neglected, gradually having no effect upon business behavior. Another factor influencing behavior is how the actors perceive the fairness and relevance of the regulation. Low acceptance of the formal rules, tend to induce a kind of lip service by the actors opening a hiatus between official and real behavior.

In practice, the interaction process will create a wide repertoire of efforts to adapt to and neglect the regulation, but also to circumvent it in various ways. In a professionally managed media company, such efforts will be subject to careful planning. In our managerial terminology, this may be conceived as a regular competition strategy analysis. An important implication of this is that the strategies chosen not only determine how successful the actor will adapt to the regulation per se. It will also influence the competition between the various actors in market. Thus, we may assert that cleverness in the process of handling public regulations appears to be an integral part of the sixth competing force in the expanded Porter model.

In order to study empirically the behavior of the media firms engaged in the interaction process with public regulations, we need to supplement our theoretical framework with a supporting categorization scheme. This is necessary for explaining the phenomena displayed in real life situations. The following four categories of behavior have proven useful for this purpose:

1. Influencing environment and authorities
2. Optimal (or convenient) adaptation
3. Evasion
4. Neglecting, and deliberately violating law

Media companies constantly employ excerpts of this repertoire of actions. Not only as an individual endeavor, but also though branch organizations and through minor ad hoc task forces. The purpose is to prevent that the regulatory environment interferes with the conduct of business in unfavorable ways. But they also explore new and optimal ways of conducting business under given regulatory conditions.

In practice, we observe that such efforts administered by the actors obviously yield effects. Regulations may be influenced, or even halted, in the preparatory stages. They may be favorably changed, or rendered passive, and finally abolished. This implies a kind of informal negotiation process, whereby the parties establish more or less official compromises. Such compromises may be acceptable and even productive both in relation to media policy and the industrial objectives. However, in some cases, each party's preferences are so incommensurable that commonly acceptable solutions are impossible to attain.

It may be very important to note that the outcome of the interaction processes not only influences the competition situations, but also partly determines the media industry structure, productivity and ability to change.

The Theory Meets Empirical Reality: The Case Study

In this section, we will employ the theoretical concepts derived above in a case study of the business behavior of TV2 during the period 1992 – 2003. The objective is not to analyze and judge the business history of the singular company TV2 per se, but to illustrate the applicability of a theory of organization behavior and some suggested analytical concepts. As a general framework, we will employ the four categories of action suggested above.

From a methodological point of view, the chapter presents an exploratory investigation of applicability of a theoretical framework based upon a one-case study. Although confinement to a one-case study represents a severe limitation for validity, it is claimed acceptable for the purpose of exploring applicability of analytic concepts. The relevance of the case may be considered very high, because TV2 is a very trend-setting actor in its line of business. Furthermore, one should take into account that it is an extremely profitable franchise, indicating that it employs very effective competition strategies.

Influencing the Environment and Authorities

Lobbying is probably the most common and effective way of influencing the formation processes of media policy and regulations. It may also be an effective tool to change current regulation. Lobbying means direct communication, often in a persistent way, with influential persons and decision-makers in the policy formation process. Central targets in this process are of course parliamentarians, but even more important are the political leadership and bureaucrats in the Department of Culture. The latter may in many cases represent an extremely important target, because they are delegated responsibility for formulating the provisions under the primary law. There is nothing wrong in engaging into lobbying processes; actually it is a plain democratic right. But it is no doubt that such options are more easily available to actors possessing strong resources of different kinds, being in position to support and professionally direct the communication process,

Obviously, the newspaper business is by far the most active and powerful actor in this category. It is often observed that newspapers, without inhibitions, use their editorial pages to argue in favor for own economic interests in regulatory matters. Typical examples of this are the recent propositions to include newspapers in the value added tax legislation, and to reduce press subsidies. In such matters, opinion building is not limited to the influential branch organization, which of course also is mobilized.

Not so much is revealed in detail about TV2's engagement in such activities. However, the superior financial resources allow the company to hire lavishly communication consultants. Furthermore, the company employs highly qualified legal experts to communicate and handle conflicts with the regulatory agencies, and with the Department of Culture. Such engagements have frequently been observed in connection with disagreements and conflicts regarding the proper interpretation of legal provisions. It is recorded that representatives of the major holding company together with the president of TV2, have had direct, informal access to the office of shifting Ministers of Culture to advocate the views of the company in matters of great importance to the company.

It is a global phenomenon, that individual media companies occasionally have mobilized themselves to influence the public opinion in order to selfishly promote own economic interests. While such behavior according to media history is not uncommon in some other countries, it happens more seldom and disciplined in Norway. However, it has mostly been limited to matters of general importance to the entire branch, as for example the rally for press subsidies and tax exemptions mentioned above. However, it has happened that individual newspaper has run campaigns using its editorial pages, promoting the company's own economic interests during ongoing conflicts with regulatory agencies.

Mobilizing editorial resources of own medium to promote commercial interests may, if handled delicately, be a very powerful mean for influencing the public and decision makers. Such practice may however, be questioned for ethical reasons. TV2 has provided a remarkable example of creative and original efforts to influence the public opinion in favor of own interests by deliberately manipulating content being under own editorial control. This occurred in connection with the channel's efforts to open for political advertising in television. Norwegian law prohibits such advertising, implying that the print media and radio stations enjoy a de facto monopoly in this market. The incident took place in connection with an action organized by the union of hospital nurses to promote in public their professional, economic interest. TV2 accepted to show a regular advertisement spot provided by the union, however with a black field inserted in the final sequence, covering the core political message. Only a reference to the Internet pages of the union was displayed, together with an excuse for not being able to transmit the core, political message. The nurses enjoyed a massive good-will for their action, and many viewers found the denial of free expression applied on a highly respected group of professionals to be quite unfair. According to plan, the incident fed more fuel to the ongoing public discussion of the relevancy of the prohibition of political advertising. The sympathy originally directed to the nurses, also spread to the television channel through a kind of halo effect, very cleverly administered by the editorial management of TV2.

While the advertising campaign was intended to influence the opinion of the general public, direct persuasion has been exercised upon influential decision-makers in the political hierarchy. In the early years of operation, TV2 managed to persuade the Minister of Culture to increase the upper limits of ownership in the concession document. This was accomplished trough a cleverly staged alliance with the most active owner, the dominant Schibsted group. Because TV2 was in financial trouble, an increase of the share capital was desperately needed. However, as the general economy was gloomy, only the two major shareholders were willing to put more risk money on the table, but only under condition that the new funds could be committed as share capital. Since the two owners already had reached the 20 per cent limit set for each shareholder, a capital increase was jeopardized. By presenting the matter to the Minister in a confidence and pervasive way, the actors managed to persuade the Minister to increase the 20 per cent level to the significantly higher level of 33. Because the matter was presented as a most urgent and threatening situation, the change was accomplished even without presenting it to the relevant Parliamentary committee. The cleverly conducted mission indeed impressed all professionals and students of lobbying and business communication.

This case may indeed be seen as one of successful strategic action against regulators. The hidden agenda of the actors was probably to obtain approval of higher limits of ownership as a tool to get better control of the company. But in the official communication, the threat to the survival of the company and the need for increased financial commitment from the major owners was highlighted as the only concern. Accomplishment of the underlying business objective required a change of the concession rules on ownership. In the offset, this was considered to be very difficult, if not impossible, to accomplish in a political environment which at that time was strongly against having too dominating owners in the national broadcasting business. By staging a possible shut-down of the then already popular television station, the company and its major got the upper hand in the process.

Optimal (or Convenient) Adaptation

As a general principle, businesses have the right to adapt their operations to current regulations in such a way that the costs incurred by being obedient to the formal rules are minimized. However, it is foggy borderline to an area where behavior may be labeled 'bending the rules' and rightfully be characterized as foul play. Bending the rules in dubious ways often represents great savings or added revenues, making temptation obvious.

Regulatory objectives are frequently expressed in non-operational, immeasurable terms. In traffic legislation the main paragraph as a general rule states that drivers shall be careful, show consideration to others, avoiding damage. Clearly, this gives plenty of room for subjective interpretation and conflicts in specific situations. This type of general provisions often appears in media regulatory practice, especially in the broadcasting area. The concession rules for both national radio and television contain numerous examples. The concession charter for TV2 states that there shall be special programming addressing specific minority groups, programming promoting national culture and languages, and content specially designed for children. It is easily understood that such objectives are difficult to formulate in a detailed way and in fully operational terms.

There are good business reasons for bending these rules in the process of adaptation. Minority groups represent by definition a small audience, hence being very unattractive to advertisers. Children on the other hand, may be very attractive, giving programming for minors a high potential for advertising revenue, were it not for the prohibition of advertisements directed to children, explicitly set out in the legislation. Furthermore, advertisement slots are not allowed just before and after typical children programs. Hence, the broadcaster has an imperative simply to avoid, or minimize, such programming, which actually only incur costs, but nil revenue. But on the other hand, a certain amount of programming of this type has to be produced, as a prerequisite to being allowed to run the channel under the given concession and obtaining a later renewal.

TV2 has always experienced this true dilemma. According to official statements issued by the company, the channel claims to have succeeded with good margin in fulfilling its statutory obligations about content as set out in the concession document. But on the other hand, the state supervision board of commercial broadcasting has on numerous occasions expressed concerns, and sometimes also grave criticism, upon the way TV2 (but other broadcasters too) fulfill their concessionary obligations. Members of parliament also at times have expressed pertinent criticism.

However, in the long run, TV2 has managed to reconcile such internal and external concerns to such a degree that the company managed to obtain renewal of the concession when it lapsed after the first ten-year period. At the same time, the corresponding commercial radio concessionaire, P4, was denied renewal of its concession.

As shown in these cases, adaptation to vaguely defined regulatory intentions represent a strategic management issue of the outmost importance. As shown here in the TV2/P4-case, it is actually a question of life and death of the company. For companies competing in the same market, the way the adaptation process is managed will obviously be an important strategic parameter.

Evasion

Evasion of regulations can be defined as a strategic action as a type of optimal adaptation, but although public agencies and policymakers perceive the adaptation as being against the spirit of a regulation, the behavior is not directly breaking any explicit paragraph or condition according to a strict legal judgment. While regular adaptation don’t get so much public attention, qualified evasion will tend to collect more public interest and excitement, particularly when some public authority is reacting upon the matter. The television business has over the years produced numerous examples of this.

The effects of evasion may have different degrees of graveness. Some incidents may appear in a forgiving light and are consequently overseen and waived, however sometimes reluctantly. When evasion is felt to challenge regulatory intentions in a totally unacceptable way, the media supervision agency may issue warning signals. However, because the offence is not strictly against a specific law paragraph, authorities having a dubious legal case, abstain from strong formal reactions. TV2 once staged a spectacular incident to outwit what the channel felt to be an improper reaction from the agency. The director of the supervision agency commented to a newspaper that TV2 had practiced a completely unacceptable and disgusting form of product placement in one of its popular entertainment programs. TV2 then drew him to court, suing him for unlawful and harmful insult. Although the legislation clearly forbids product placement, the law text in no way is helpful in defining what unlawful product placement is. After all, a stage inevitable has to be furnished with a range of various props, some inevitably bearing an identifiable brand name. Hence, the agency director did not have a strong case in a strict, legal sense. The matter was settled out of court in the last minute, forcing the director to announce an official halfhearted regret which TV2 willingly accepted.

This incident clearly has made the agency officials more reluctant to express serious warning signals, even when evasion is apparent, thereby widening the permissible area for product exposure in regular programs. It is not known to which degree this market increase later on has been exploited, but clearly the incident has broadened the scope of action.

Evasion has also been observed in other areas. For instance, TV2 has managed to escape criticism and interventions for programming advertisement interruptions in long sequential news programs, explicitly forbidden by law. To accomplish this, TV2 claimed that the programming, consisting of regular news coverage, weather forecasts and sport news, was to be seen as quite different and independent program units, thus opening for allowable interruption by advertisements. The authorities have reluctantly and tacitly let this practice pass without formal comments, although the evasion, without doubt, is against the intentions of the regulation. This successful evasion has probably led to a significant increase of advertisement revenue, because it increases allowable time for advertisement in prime time in a program that enjoys a high audience share.

The concession rules regarding maximum ownership will confine the strategic control of each major shareholder in a disturbing way because the ownership share corresponds directly to each party's voting power in the board of directors. In connection with a legal dispute, it was quite incidentally revealed to the public that TV2 had forged a clandestine *strategic alliance* with one of the other shareholders to increase each party's voting power, by combining votes in matters of great strategic importance to one party. In this way, TV2 to some extent cleverly outwitted the barriers set by regulators to limit the control of the company by one major owner. This evasion was designed by the two major shareholders, not by the management of TV2 itself, but the outcome of the evasion was clearly strategic beneficial for TV2.

The most recent example of evasion occurred in connection with the award of concession for commercial, national radio. TV2 indeed desired the concession as a potential area for further business expansion. However, allotment to TV2 being the dominating commercial actor in the television sector would have been impossible for the government due to strong political intentions to prevent cross-channel concentration of ownership. Consequently, TV2 only filed a half-hearted application, just to indicate interest. Immediately after the concession had been awarded to a consortium of national and regional newspapers, TV2 acquired 51 per cent of the shares of the new radio station, thereby obtaining enough strategic control for most practical purposes. The president of TV2 afterwards even had the nerve to announce that newsroom service in the new radio station would be integrated with that of TV2 already from the start of the new radio channel. Although control of multi channel news service represents the dominant reason for regulatory control of cross media ownership, the Department of Culture could not do anything to prevent this elegant, however exceptionally brutal, evasion of main media political intentions. From a technical point of view, the action may be characterized as extremely professional strategic craftsmanship opening a new and profitable line of business, originally denied the company by regulation.

Neglecting and Deliberately Violating Law

This category include adaptations and evasions that breaks the law and provisions of a regulation to such an extent that control agencies feel compelled to intervene. The actor then has to accept instructions for changing behavior and even taking punishment. Understandingly, there are not so many recorded examples of this, To some extent, this may be so because of forbearing and distaste of legal process by the media regulators. However, among the few recorded cases, TV2 is to be found several times.

The maximum allowed amount of air-time allotted to advertisement, each hour and each day, is clearly defined by the legislation. The actual amount of sent advertisement each hour is carefully monitored and recorded by the media supervision agency, thereby providing hard evidence for possible legal processes. TV2 has at least once broken this provision, accepting the following sanctions without objections. The penalty was one-day abolishment of paid advertising. One may speculate why TV2 broke the law in such an obvious way, as the chances of getting away with the offence were very slim. It might have been to test out the willingness of the surveillance authority to react, or to test out the character and strength of the sanctions. Because the sanction was immediate and surprisingly hard, the offence has not been repeated.

TV2 has two times deliberately violated law in order to provoke the authorities, either to abstain from reinforcing that part of the law, or go to court in order to get a confirmation that violation is a punishable action. The reason for the provocations was in both cases to show that the legislation over the years had become meaningless, and actually was against the European Charter for human rights.

The first case was a violation of the prohibition of taking photographs of, or filming, the defendant in a courtroom. TV2 recorded the defendant after he got the sentence and aired it in the news service. The company lost the case in lower courts, but won when the Supreme Court finally tried the case. This will eventually lead to a removal of this prohibition from the general legislation.

In the second case, TV2 violated deliberately the prohibition of political and religious advertising. The case is still pending, but it is assumed that TV2 will be fined by the media supervision agency. TV2 has however, declared that any form of sanction will be taken to court to test if the prohibition represent a violation of the right to free speech according to the European Charter for human rights and of the corresponding paragraph 100 in the Constitution of Norway.

In both cases, TV2 has declared that ideal motives are the sole reason for the deliberate violation of law. By launching test cases, the company wants to force an abolition of law paragraphs appearing in contrast to the company's conception of fair and acceptable legislation.

One should bear in mind however, that abolishment of the two paragraphs in question will increase the allowable area of action available to the company, implying a potential for increased revenue. Recordings of notorious criminals appearing in court represent attractive newsroom content for the general audience attracting many viewers. Political advertisement on television represents an unexploited, potentially profitable market. Although both cases rightfully enough are launched as test cases for rightful widening the freedom of speech, they may also be considered as examples of successful strategic actions taken against a hostile media regulation in order to promote business.

Media Policy is also Industrial Policy

Finally, one may ask why TV2, one of the leading commercial actors in Norwegian media industry, has engaged so vigorously in various forms of action to influence and circumvent current media regulation. One reason is of course that broadcasting, especially the television sector, is subordinated to a much more comprehensive regulatory regime than other types of media. Hence, regulatory matters appear as strategically more important for television than for other media channels. As shown in this paper, parts of the regulatory regime are of pivotal importance, not only to the way a profitable business is conducted, but it also represents a competition factor. This means that the way the company handles its relations to regulation, will also influences the competition among the companies.

Another reason is that television companies with a certain right, experience regulations as hostile and prohibitive. In principle, regulations may imply restriction to the constitutional right to free conduct of business, reducing potentials for revenue and often incurring significant costs. That is in stark contrast to regulations of the newspaper business which appear much more eliciting and supportive. In contrast to television, the best strategy of the newspaper industry will instead be to support regulation and rally for its preservation when it is threatened. The strategy of the television business on the other hand, has rather to be one of dismantling and discrediting regulation and regulatory bodies. This explains the behavioral difference between the television sector and other sectors in the media industry.

A third reason why many television channels engage vigorously in efforts to change and even fight regulation is that legislations sometimes is remarkably clumsy designed, representing regulatory practice of low technical quality. A common trait of impractical legislation is that it does not anticipate realistically how the individual firms will react to the regulations. When reaction occurs in practice, the assumptions on which the legislation is built will gradually not be fully valid anymore.

The fourth, and probably the most important factor, is that media policy mainly has been defined and managed primarily as part of a general cultural policy. Consequently, the policy formation process has been driven and forged by politician with a cultural scope and bias. But as we have shown in this paper, media policy shapes the operational environment in which media business is conducted. Hence, media policy also implicitly, but anyway *de facto,* appears as industry policy. Because the media industry policy do not appear as a consistent and deliberate policy, but instead appears as consequences of the cultural policy, it certainly does not work as a favorable policy for industrial development. Furthermore, a perverted industrial policy forces the actors to respond strategically to the regulation in a manipulative way, often just to survive. In this way the regulation appears as a strategic force of significant importance, seemingly of greater importance than other competition forces, for example the competitors.

This situation represents a great challenge for current media research. Greater attention ought to be paid to empirical studies of the effectiveness of different media regimes, i.e. studies how they actually work in practice as compared to how they were assumed to work. This might be seen as an imperative not only to promote sound regulation forcing media to contribute to cultural objectives, but also to promote a viable media industry.

For such purposes, analysis of strategic responses to changing media regulations and policies may represent a useful tool for getting the knowledge and insight necessary to design effective media regulatory regimes.

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Strategic Responses to Media Market Changes

Media companies are being confronted with market changes that are destabilising successful mature markets, undermining long-term relationships with audiences and advertisers, and threatening the sustainability of their business models.

Managers, shareholders, and employees are responding to comprehend the changes, to develop strategic responses, and to reorganize their activities to respond to technological, production, forces, social, and managerial forces.

This book is intended to help foster understanding of the change forces and the responses to the changes they are inducing. It explores the changes in the media environment, their consequences on existing media structures and firms, how companies are responding, and issues posed by those responses.

This book is based on selected papers presented to the Conference on Strategic Responses to Media Market Changes that was held October 17–18, 2003 at Jönköping International Business School. The conference marked the inauguration of the new Media Management and Transformation Centre at Jönköping International Business School.

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