

The Media Industry: Structure, Strategy and Debates

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DEFINITIONS

Conglomeration: The process of corporations purchasing other companies and thus becoming much larger and usually more diverse, often to include both media and non-media firms.

Globalization: The distribution of media products across national boundaries; large media conglomerates now own and distribute media across the globe.

Horizontal integration: An ownership structure in which one conglomerate owns or operates different kinds of media (for example, movie studios, television networks, music labels and radio stations), concentrating ownership *across* the different segments of the media industry.

Vertical integration: An ownership structure in which one conglomerate owns or operates all aspects of production and distribution within a single segment of the media industry; for example, movie studio, talent agency, movie theatres, DVD manufacturing plant and video rental stores.

Introduction

The media industry has undergone significant structural change, growing to become a pervasive and increasingly influential force in society. These structural changes are linked to the strategies pursued by the major media players as they respond to pressures from investors for short-term profits. In turn, these

structural changes and industry strategies have raised significant questions and prompted key debates about the role and future of media.

This chapter sketches out some of the ways that the structure of the media industry has changed. We link these changes to the strategies adopted by media conglomerates, and consider some of the debates that have arisen as a result. Our examination of the contemporary media industry draws largely from a political economy approach to the study of media, a theoretical perspective that Natalie Fenton has explored in Chapter 1.

Industry trends

The last quarter century has been marked by dramatic structural changes in the media industry. Some of the most significant include growth and integration, globalization, and concentration of ownership, each of which we take up separately.

Growth and integration

Recent decades have seen expansive media growth. Not only is the number of media outlets available via cable, satellite, and the Internet greater than ever but the media companies themselves have been growing at an unprecedented pace. In large part, this growth has been fueled by mergers. In 1983, for example, the largest media merger to date had been when the Gannett newspaper chain bought Combined Communications Corporation – owner of billboards, newspapers, and broadcast stations – for \$340 million (about \$677 million in 2006 US dollars). In 2000, AOL acquired Time Warner – a \$166 billion deal (about \$191 billion in 2006 US dollars), worth over *282 times* as much!

Beyond sheer scale, one of the key differences in today's media companies is the wide variety of media they comprise. Today's media giants are likely to be involved in almost all aspects of the media: publishing, television, film, music, the Internet, and more. A conglomerate by definition consists of many diverse companies. A media corporation that is *horizontally integrated* owns many different types of media products, such as broadcast and cable television, film, radio, and the Internet – all different types of media.

Technological change has facilitated the involvement of media corporations in many different media. It used to be that each medium was a distinct entity;

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all that has changed with the coming of the digital age. Digital data – the 1s and 0s that make up binary code – are the backbone of contemporary media products. With the transformation of text, audio, and video into digital data, the technological platforms that underlie different media forms have converged, blurring the lines between once-distinct media.

The convergence of media products has meant that media businesses have also converged. The common digital foundation of contemporary media has made it easier for companies to re-package the same content for different media. For example, it was a relatively small step for newspapers – with content already produced on computers in digital form – to develop online Internet sites that contain uploaded newspaper articles. Thus, newspaper publishers have become Internet companies. In fact, many media have embraced the Internet as a close digital cousin of what they already do. The music industry, to use another example, has responded to the unauthorized sharing and downloading of digital music files (early Napster, Kazaa etc.) by developing its own systems to deliver music via the web to consumers (iTunes, Rhapsody etc.) – for a fee, of course. The television and film industry's response to the sharing of digital files is not as fully developed but will likely follow suit. In 2006, for example, US television networks began offering single program episodes of popular television programs through iTunes for download onto color screen iPods. In addition, film studios are developing a new online distribution system which will permit audiences to purchase and download movie files shortly after theatrical release, although downloaded films can only be played on PCs and do not include all the DVD extras that are available through in-store distribution of films. The adult film industry is one step ahead of Hollywood, and has already developed a full-scale Internet distribution system that allows users to download pornographic films, burn the films onto DVD, and watch the films on a standard DVD player.

While horizontal integration involves owning and offering different types of media products, *vertical integration* involves owning assets involved in the production, distribution, exhibition, and sale of a single type of media product. In the media industry, vertical integration has been more limited than horizontal integration, but it has been playing an increasingly significant role. The supplanting of the advertiser-based 'broadcast model' by fee-based efforts has contributed to increased interest in more vertical integration. In the content versus conduit debate, as one *New York Times* profile put it, 'Now, many big media companies are concluding that it is more powerful to own both' (Schiesel, 2001: C1). Or as media pioneer Ted Turner colourfully explained, 'Today, the only

way for media companies to survive is to own everything up and down the media chain ... Big media today wants to own the faucet, pipeline, water, and the reservoir. The rain clouds come next' (Turner, 2004).

Mergers and acquisitions, therefore, are often carried out to bolster a company's holdings in an attempt to become more strongly integrated, either horizontally, vertically, or both. The numerous mergers that have left an industry dominated by large companies have also produced an industry where the major players are highly integrated.

Globalization

Growth in the size and integration of companies has been accompanied by another development: the globalization of media conglomerates. More and more, major media players are targeting the global marketplace to sell their products.

There are three basic reasons for this strategy. First, domestic markets are saturated with media products, so many media companies see international markets as the key to future growth. Media corporations want to be well positioned to tap these developing markets.

Second, media giants are often in a position to effectively compete with – and even dominate – the local media in other countries. These corporations can draw on their enormous capital resources to produce expensive media products, such as Hollywood blockbuster movies, which are beyond the capability of local media. Media giants can also adapt already successful products for new markets, again reaping the rewards of expanding markets in these areas.

Third, by distributing existing media products to foreign markets, media companies are able to tap a lucrative source of revenue at virtually no additional cost. For example, a movie shown in just one country costs the same to make as a movie distributed globally. Once the tens of millions of dollars involved in producing a major motion picture are spent, successful foreign distribution of the resulting film can spell the difference between profit and loss. *The Island*, a 2004 action movie about cloning, was a bust at the US box office (\$35 million), but earned \$124 million in foreign box office receipts. Overall, US domestic box office totalled \$9 billion in 2005, while movie ticket sales outside the US were \$12 billion; Hollywood films accounted for at least 80% of box office outside the US (Booth, 2006: A12). As a result, current decision-making as to whether a script becomes a major film, routinely includes considerations of its potential

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for success in foreign markets. Action and adventure films translate well, for example, because they have limited dialogue, simple plots, and rely heavily on special effects and action sequences. Sexy stars, explosions and violence travel easily to other cultures. Similarly, animated films and television cartoons can be repackaged in various languages at a relatively low cost, which makes animated content attractive to global media companies seeking a cross-national audience. Comedies, however, are often risky because humour does not always translate well across cultural boundaries.

International revenues are making up an increasingly large percentage of the income of such companies as Viacom, Disney, Time Warner, and News Corp. For example, Viacom's MTV Networks International operates music, lifestyle or gaming channels in Austria, Belgium, France, Germany, Holland, Hungary, Israel, Japan, Poland, Switzerland and the UK, and MTV Networks programming is available in 167 countries. Similarly, Time Warner's Cartoon Network is among the leaders in children's television in the US, as well as in Latin America, Spain, Italy, India and the UK; Time Warner's CNN International continues to increase its global presence, with new CNN programs launched in Latin America and India in 2005. As a result, all major media conglomerates are now global players, representing a major shift in industry structure.

Ownership concentration

While individual media companies grow, integrate, and pursue global strategies, ownership in the media industry as a whole becomes more concentrated in the hands of these new media giants. The concentration of media ownership is a phenomenon that applies to the industry as a whole, rather than to a single media conglomerate. The fact that media conglomerates are getting larger does not necessarily mean that ownership is becoming more concentrated. Growth in media companies may just be a sign that the industry as a whole is expanding – as it certainly has in recent years. The real question is whether the revenues of the industry as a whole are being channelled to just a handful of companies.

Ownership concentration in any industry is often measured by determining the percentage of total revenue in an industry segment going to the top four and the top eight companies. These numbers are referred to as the 'concentration ratio', or 'CR', of an industry. CR4, then, refers to the ratio of revenue going to the top four companies in an industry. CR8 is a calculation of the same ratio for the top eight companies. A common threshold for declaring an industry highly

concentrated is if the top four companies control 50% or more of the industry's revenue or if the top eight companies control 75% or more. The limited amount of work that has been done in this area suggests that most of the major media industry segments are highly concentrated, with the exception of newspapers (which fell just short of the 50% threshold) and local television stations (Albarran, 2003; Albarran and Dimmick, 1996). The same held true for the CR8 ratio. It is clear that some forms of media are more concentrated than others and that the level of ownership concentration can change. One of the reasons for variable concentration between media segments is the cost of entry. Publishing a magazine requires considerably less funding than launching a television network, to take just one example. As a result, large, big-budget media such as movies and television tend to be much more concentrated than lower-cost media, such as various forms of publishing and radio.

In the various editions of his book, *The Media Monopoly*, and most recently, *The New Media Monopoly* (2004), Bagdikian has also shown the dramatic increase in the concentration of media ownership. Back in 1983, when the first edition of his book was published, Bagdikian argued that 50 media firms controlled the majority of all media products used by American audiences. Over the years, Bagdikian tracked the remarkable decline in the number of firms controlling the media. By the 2004 edition of his book, he wrote that just five global conglomerates – Time Warner, Disney, News Corp., Viacom and Bertelsmann – 'operating with many of the characteristics of a cartel, own most of the newspapers, magazines, book publishers, motion picture studios, and radio and television stations in the United States media' (2004: 3).

Structure and strategy

Structural change is a means, not an end, for major media firms. Media companies grew, became more integrated, and developed a global presence to more effectively carry out some basic business strategies. While we discuss various strategies individually, it is clear that these are often overlapping approaches that make up an overall integrated business strategy. Major media corporations pursue these strategies to accomplish three general goals. First, media giants seek to maximize profits. This simple truth is the heart of any analysis of business strategy within the media industry. While the strategies discussed here have been popular in recent years, they will continue to be so only if they remain profitable. Structural changes have facilitated the use of new strategies

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that place a premium on profits. As once-distinct media companies have been transformed into collaborative divisions of single corporate conglomerates, one effect has been increased pressure to improve profitability. What might have been a respectable profit margin in a particular segment of the industry may now be unacceptable when compared against other divisions of the company.

Second, some of the structural changes have enabled companies to reduce costs by improving efficiency and streamlining departments. Efficiency can improve when conglomerates more fully utilize and combine assets into an integrated media strategy. Also, announcements of mergers and acquisitions are often accompanied shortly thereafter by layoffs, as redundant personnel are cut after the consolidation of key functions. Keeping costs low, relative to revenue generated, is a central goal of any for-profit business, including media companies.

Third, conglomeration has enabled companies to pursue various business strategies geared to reducing risk. In seeking to ensure continued profits, companies often try to control the environment in which they operate by reducing uncertainty and minimizing expensive competition. By doing so, they can better ensure lower costs and higher profits. One or more of these three general goals lies behind all of the specific strategies discussed.

Economies of scale: taking advantage of size

The most obvious change in the media industry's structure has been the growth of the major media companies. While there are notorious difficulties involved in managing such vast global enterprises, companies also enjoy some distinct advantages when they grow to be such large media players.

One advantage is that they can afford to develop more expensive projects because they control or have access to enormous amounts of investment capital. By 2003, the *average* cost of a single Hollywood film exceeded \$63 million, while the average cost for that year's top seven movies topped \$102 million (Germain, 2004). Only a select few companies can afford this sort of risky investment. Other very expensive areas of the media business - such as national television networks - are also accessible only to a few megamedia corporations. That means competition in some very lucrative areas of the media business is limited to only a few corporations that develop huge war chests of resources. Such limited competition helps to ensure the profitability of these ventures, despite their enormous costs.

A second advantage of size is that media giants have the resources to advertise and promote a product with expensive, multifaceted campaigns. For

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example, the cost of major advertising and promotion often amounts to an additional 50% of a movie's entire production cost. For studios, therefore, it is important to carefully pick and choose the films to receive big-time promotion. Usually, such support goes to films featuring well-known box office stars aimed at teens and young adults – the industry's best customers. Studios launching such expensive projects cannot afford to experiment with risky, unproven efforts. Instead, major Hollywood movies tend to follow a few select formulas with records of past success, such as the action-adventure genre. Coupled with stars that are proven box office draws, such formulaic films are the trademark of a 'Hollywood' production. In the end, studios hope that a big investment, following a proven formula and combined with heavy promotion, will result in substantial profits. This strategy is largely unavailable to smaller competitors.

A similar strategy is also used in other fields. Publishers have increasingly turned to their own version of the blockbuster strategy, increasingly relying on 'big name' authors and books. In recent years, as a direct result of consolidation in the media industry, pressure has increased to make book publishing as profitable as other forms of media. To achieve these profit goals, publishers have focused their resources and attention on a few titles they believe may become bestsellers. A handful of celebrity authors receive huge advances, while lesser-known authors receive minimal pay. Meanwhile, while focusing on these 'big books', some publishers have been known to slash the overall number of books they publish and keep in print, especially reducing the number of 'mid-list' books that can be costly to promote but are not likely to become bestsellers, and 'serious' titles that reach a more limited readership.

A third advantage of size is that companies can develop economies of scale. Traditionally, economies of scale refers to the fact that the cost of producing individual units of a product (books, CDs etc.) declines as the volume of sales goes up. The investment in studio time, for example, remains the same whether a CD sells 3,000 copies or a million copies. Even the per-disk cost of actually manufacturing the CD can go down if larger quantities are produced. The bigger the sales, the less, per unit, the production and manufacturing costs are, because those costs are spread over many more units. This translates into more profit for the media company and is one advantage of the global strategy pursued by the big media firms. For media conglomerates with the capacity to promote heavily, it is more efficient to develop and support major hits with sales in the millions than it is to produce many products with much smaller sales. Products that reach smaller niche audiences are not likely to be as profitable.

A fourth advantage of size is the ability to withstand short-term losses. Despite following previously successful formulas, the reality is that for every

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blockbuster hit there are dozens of movies – or books or other media products – that make little or no money. Here too, being bigger is an advantage. Only a major conglomerate can afford to absorb the cost of an expensive media flop and still keep on making movies while they wait for the next megahit. Smaller companies, of course, cannot afford such a capital-intensive strategy.

Synergy: exploiting integration

Synergy is the idea that separate entities working together within a conglomerate can achieve results that none could obtain individually. In other words, the whole is greater than the sum of its parts. Maximizing synergy, therefore, is taking advantage of multiple media holdings to develop or promote a single project with many different facets. In this way, media conglomerates seek to maximize the benefits they can obtain from owning many different media firms.

One element of synergy involves developing and packaging a single concept for various media. A children's story, for example, may be packaged as a comic book, movie, soundtrack, television cartoon series, and computer game – each adding to the popularity of the other. By doing this, media conglomerates can take advantage of simultaneous revenue streams, thereby generating as much profit as possible from a single idea. It is now routine for executives from a conglomerate's different divisions to meet specifically to develop ideas that can be used across media. In fact, some companies base executive bonuses in part on how well managers can create ideas that are exploitable in this way (Orwall and Lippman, 1999). The result is that project ideas now often live or die based on how well they can be exploited across media – rather than just how 'good' they are on their own terms.

A second aspect of synergy involves cross-promotion – promoting a single concept via various media. Turning the notion of artistic creativity on its head, companies now often strive to develop an idea that can be successfully marketed, rather than trying to market an interesting idea. For example, after Disney bought the ABC television network, periodically some of the plots for the network's favorite sitcoms involved the characters vacationing at Disney's theme parks. Synergy can be seen most starkly in 'blockbuster' media projects that can quickly seem to saturate society. The popularity for a media product generated by cross-promotion can further be exploited by lucrative licensing deals with other companies. Consequently, conglomerates, with their enormous

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resources and diverse holdings, have an advantage in developing and promoting projects in ways that smaller competitors simply cannot match.

Of course, synergy does not always work. Some recently merged companies have found it difficult to coordinate efforts across various media – book publishing and movie making, for example – that sometimes have vastly different norms of operation and dramatically different industry cultures. The prominent failure of the AOL–Time Warner merger is one such example. Assumptions about the efficiency of synergistic relationships have also been challenged at times. Most often this has occurred when a division of a huge conglomerate is forced to do business with another of the conglomerate’s companies, even though the same work might be more efficiently done by an outside company. Still, despite such setbacks, the profits associated with a successful synergy project are a strong inducement for companies to keep trying.

Segmentation and specialization: the rise of niche media

Most companies that make consumer products operate in a single market: they produce goods that are sold to consumers. Media industries are different because they often operate in a ‘dual product market’. That is, they sell two separate products to two completely different sets of consumers. The first market involves the selling of media content (books, videos, CDs etc.) to audiences of readers, viewers and listeners. The second market involves selling the attention of audiences (as measured by ratings, circulation etc.) to advertisers. Because some media depend so heavily on them for survival, advertisers are media’s most important customers by far. While consumers and advertisers are two separate markets, they are closely related. TV ratings are directly linked to advertising revenue. Attracting a large audience to a television programme allows the networks to charge more for advertising time on that programme. The bigger ratings numbers translate into more advertising dollars. Some advertisers paid over \$2.5 million for a 30-second commercial during the 2006 Super Bowl because, in recent years, more than 130 million people watched at least part of the game.

However, ironically, one of the ways that big media conglomerates can take advantage of their size is by thinking small. That is, rather than simply targeting large audiences, media giants are now more likely to use new technologies to develop niche products aimed at specific market segments. Niche audiences are important to media companies because they can be sold to advertisers at a premium. When advertisers choose where to place their messages, they are usually interested in reaching fairly large audiences. As a result, they pay more

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for advertising time on a television programme or in a newspaper that has more viewers or readers. But more importantly, advertisers are interested in reaching the 'right' audience – those with sufficient income in the demographic group most likely to purchase the advertisers' products. By using specialized media products to segment the audience into specific demographic groups, media companies can more efficiently meet the needs of advertisers.

Some forms of media, such as magazine publishing, have long had significant niche audiences. However, some forms of media have always been wholly aimed at a single large mainstream audience. Broadcast television, with its limited channels, is a good example of an industry that used to rely on this approach almost exclusively. But the widespread adoption of cable and satellite has significantly changed television marketing. Audiences have slowly migrated to cable, with its cacophony of competing channels with relatively low-cost programming usually aimed at niche audiences. This requires a fundamentally different marketing strategy than the 'old' broadcast networks used in the past.

For media companies, the strategy of focusing on specific niche markets can be financially risky because it places all of a company's eggs in one basket, so to speak. If music videos become less popular, and your company's cable channel plays only music videos, you are in trouble. However, the solution to such dangers comes, again, from conglomeration. Major media companies generally do not own *single* cable channels. Instead, they usually own many different channels, either wholly or partially. That way, the media company can profit from specialized niche marketing via any single channel, as well as simultaneously enjoy the security benefits of diversification because of the overall mix of audiences tuning into its collection of holdings. For decades, this has been the situation in the magazine industry, where major media companies own an array of different titles.

The Internet offers advertisers the promise of being the ultimate medium for audience segmentation. Not only is the Internet highly fragmented with niche specialty interests, but a consumer's moves on the Internet can be electronically tracked via 'cookies' and spyware – placed on a user's computer, allowing a website to identify return visitors and monitor their use of the Internet. Sites that sell items, such as Amazon.com, can track a user's purchases, enabling customized advertising based on an individual user's past purchases to be presented to that user when he or she next visits the site. Buy a couple of mystery novels at such a site and, on a return visit, you are likely to be greeted by suggestions and advertising for more books in this genre. Thus, this technology

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allows for marketing based not on a person's demographic characteristics, but on their specific interests and past market behaviour. This is the ultimate in niche marketing. While the particulars vary by medium, the basic dynamic in all of these segmentation and specialization efforts is the same: offer a specialized media product to a particular audience segment to generate more interest from advertisers who want to reach this audience. The result has been an explosion in media products - cable channels, magazines, Internet sites - that obscures for consumers the concentration of media ownership. With so many choices available to consumers, it is usually difficult to realize that, more and more, a select few media giants are controlling many of these choices.

Globalization: reaching the global market

As we noted earlier, to varying degrees, all the major media companies have become global media players. This has meant structural transformations in how the corporations are organized. But it has also produced significant changes in the strategies companies employ to achieve maximum profitability and reduce risk.

One basic change is the increasing reliance by media companies on international revenues. In addition to pursuing basic economies of scale via expanded global markets, media giants have also set their sights on international revenues because market expansion is likely to be greatest in developing countries outside of the US and Europe.

Meanwhile, there are portions of the globe where media corporations see much more potential for rapid expansion. For example, News Corporation has probably been the most aggressive in pursuing a global media strategy becoming, in its own words, 'the world's most international media provider' (News Corporation, 2003). Beginning with a base in newspapers in both Australia (where it owns over 100 papers and controls more than two-thirds of all newspaper circulation) and Britain (where it owns the prestigious *Times* and *Sunday Times*, as well as the tabloid *News of the World* and *The Sun*), News Corporation has expanded to all forms of media. Its US holdings include, most notably, the Fox network, more than 30 television stations, Twentieth Century Fox studios, several cable channels (Fox News, FX, Fox Movie Channel, Speed Channel, National Geographic Channel etc.), HarperCollins book publishers (with over 20 imprints), DirecTV satellite television, *TV Guide*, and the *New York Post*, among many others (See Figure 2.1).

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Filmed entertainment	20th Century Fox 20th Century Fox Espanol 20th Century Fox Home Entertainment 20th Century Fox International 20th Century Fox Television Blue Sky Studios Fox Searchlight Pictures Fox Studios Australia Fox Studios Baja Fox Studios LA
Television	FOX Broadcasting Company Fox Sports Australia Fox Television Stations FOXTEL STAR
Cable	Fox Movie Channel Fox News Channel Fox College Sports Fox Sports En Espanol Fox Sports Net Fox Soccer Channel Fox Reality FUEL TV FX National Geographic Channel SPEED Stats, Inc. Sun Sports
Direct broadcast satellite television	BSkyB DIRECTV FOXTEL SKY Italia
Other assets	MySpace.com National Rugby League (Australia) News Outdoor Group
Magazines and inserts	Big League Inside Out Donna Hay ALPHA News American Marketing SmartSource The Weekly Standard Gemstar - TV Guide International, Inc.

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Newspapers	<u>Australia & Asia</u> Daily Telegraph Fiji Times Gold Coast Bulletin Herald Sun Post-Courier Sunday Herald Sun Sunday Mail Sunday Tasmanian Sunday Times The Advertiser The Australian The Courier-Mail The Mercury The Sunday Mail The Sunday Telegraph Weekly Times	<u>United Kingdom</u> News of the World The Sun The Sunday Times The Times Times Literary Supplement <u>United States</u> New York Post
Books	Harper Collins Publishers (various imprints) Amistad Avon Ecco Greenwillow Books HarperCollins Publishers Australia HarperCollins Canada HarperCollins Children's HarperCollins UK Harper Perennial HarperTorch Harper Audio Regan Books William Morrow Zondervan	

Figure 2.1 News Corporation Select Holdings, 2006

However, its global media holdings are far more extensive. News Corporation has been especially successful in satellite television services, including full or partial ownership of the British Sky Broadcasting (BSkyB), Sky Italia, Sky Latin America, Australia's FOXTEL, China Networks Systems, and Japan's SkyPerfectTV, among others. News Corporation also owns all or part of 90 different television channels, including Sky TV channels distributed through much of Europe. It has TV and radio stations in the US, Europe, and India;

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elsewhere, News Corporation owns publishing companies and other media interests. According to News Corporation's CEO, Rupert Murdoch, the company's satellite systems and television channels reach more than three-quarters of the earth's population (Gapper, 1997).

News Corporation has also cashed in on the global love of sports by owning valuable broadcast rights to sporting events, sports channels, sports venues, and even some professional sports teams. Fox first made a big splash as a competitor to the 'big three' networks in the US by obtaining the rights to broadcast NFL football games. The company went on to own regional sports cable channels in the US (Fox Sports Net), Star Sports (a set of sports channels in Asia), and Fox Sport Noticias in Latin America, among others. News Corporation's ownership of sports franchises has included the preeminent British premiership soccer club, Manchester United, and half of the Australian National Rugby League. In the US, it owned (and later sold) the Los Angeles Dodgers baseball team, has minority ownership in both the New York Knicks NBA basketball team and the New York Rangers NHL hockey team, has an option to purchase 40% of the Los Angeles Kings (NHL) and 10% of the Los Angeles Lakers (NBA), and owns 40% of Los Angeles' Staples Center.

News Corporation has used these vast holdings to develop a global strategy that reproduces a successful media model around the world. Thus, its satellite television services, along with some of the channels distributed over those services, have become staples in Europe, Latin America, Asia and elsewhere. News Corporation has also focused much of its attention on areas of the globe that have been less developed in terms of media infrastructure. It is in Asia and Latin America that the company has staked its ground for long-term growth.

News Corporation represents one of the most developed examples of a global media strategy. However, a business approach without borders is now a common characteristic of the new media giants.

Joint ventures: reducing risk

As mentioned earlier, in pursuing profits, companies try to reduce the amount of risk and uncertainty they face in their business environments. We have already seen various strategies, including diversification, that are used to reduce risk. However, to conduct business, companies depend upon the cooperation of other organizations. So, while media conglomerates are competing in some areas, they have simultaneously developed an extraordinary level of collaboration and cooperation. The resulting set of strategic partnerships is often

compared to the *keiretsu* (Auletta, 1997), a Japanese business model characterized by informal, collaborative associations between companies in related fields.

The tangled web of collaborative ventures is constantly changing. It has been most extensive in movie projects, cable channels, and Internet ventures where the largest of the media companies often cooperate through joint ownership of projects. For example, A&E Television Networks, which operates cable's A&E channel, the Biography Channel, and the History Channel, is a joint venture between network 'competitors' NBC (General Electric) and ABC (Disney), along with the Hearst Corporation. The British version of these channels has an additional partner: News Corporation, the parent company of the FOX network! Such cooperation, which some argue is more like collusion, has become a staple of the industry.

Technology has played a role in the rise of collaborative ventures. As digitization and technological convergence have brought telephone, cable, Internet and software companies into each other's businesses, they often choose to collaborate, rather than compete, on new ventures. Such developments can blur the distinction between media, computer and telecommunications companies. In perhaps the most high profile of these ventures, software giant Microsoft teamed up with media giant NBC to create both a cable channel (MSNBC) and accompanying website (MSNBC.com). But NBC was not alone. All of the television networks, to use one example, have collaborative agreements or joint ventures with Internet companies. Thus, the 'new' media of the Internet have become just as fertile ground for joint ventures as the 'old' media.

Resulting debates

The media industry, then, has been undergoing significant changes as companies have grown, integrated and become global players. In turn, these new media giants have pursued a range of strategies meant to maximize profits for investors. There is broad agreement about these basic trends. However, the significance of these trends is a subject of intense debate. Below we briefly mention four of the key questions raised by these developments.

Is media power too concentrated?

In the growth of media conglomerates, some critics see the concentration of economic, political and cultural power in the hands of a few major corporate players. On the economic front, the growth in media conglomeration and

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concentration in ownership present potential threats to the basic functioning of the market. In market economies, competition spurs innovation and keeps prices down because consumers have choices and can take their business to a competitor if they find one company is charging too much, not providing the products and services consumers want, or not keeping up with innovations in the field. A media industry with heavy concentration of ownership reduces such competition. For example, the music industry has used limited competition to keep the prices of CDs artificially high. In 1996, the largest music companies, along with major music retailers, were subject to a class action lawsuit on behalf of consumers. The suit charged that the music companies had conspired to keep prices high, despite the fact that technological advances have made CDs cheaper to produce. After a two-year investigation, the US Federal Trade Commission ruled in May 2000 that the five biggest music companies (Time Warner, Sony, Bertelsmann, EMI and Universal) used illegal marketing techniques to artificially inflate prices and prevent retailers from offering discounts.

On the political front, large media conglomerates pose the potential for intervening in the political process of free democracies by using their media holdings to promote political candidates and policies, skewing news and attacking opponents. Critics of media consolidation point to former Italian Prime Minister and media mogul Silvio Berlusconi, whose media empire was instrumental in his rise to political power.

Culturally, large media conglomerates are the 800-pound gorillas that can dramatically influence a society's culture simply by the sheer scale and pervasiveness of their messages. Media have been accused of, among other things, contributing to a culture of violence, exploitative sexuality, bitterly divisive political discourse, sensationalism and the erosion of traditional values.

However, defenders of the media conglomerates counter that such concerns are misplaced and overblown. They point out that the explosion in media technologies and channels in recent years has resulted in more choice than ever for consumers. The concentration of media ownership is the natural byproduct of a maturing industry, as young startups and older, under-performing firms are consolidated into the business plans of mature but innovative companies. The rapid growth in media outlets, the constant shifts in consumer tastes, and the ever-changing terrain of the industry itself makes any apparent domination of the industry by a few companies an illusion. No one can control such a vast and constantly evolving industry. Neither can the industry control the political environment of democratic societies. Indeed, defenders argue, attempts by major

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media players to influence political dynamics eventually backfire and are simply not good business decisions.

Finally, on the cultural front, defenders of the industry charge critics with elitism, arguing that media content simply reflects the diversity of cultural experiences in society, with media companies responding to consumers rather than imposing preferences on unwilling citizens.

Are global media producing cultural imperialism?

One of the most dramatic and far-reaching debates occurring today involves the perceived impact of global media. With media content such as films, television programmes, and music videos criss-crossing the globe, the debate about the meaning and influence of global media is far from settled.

On one hand, some critics (Artz and Kamalipour, 2003; Herman and McChesney, 1997) note that the term 'global media' is a misnomer, since most media products receiving wide global circulation are produced in wealthy Western countries, especially the US. Instead of a global exchange of images and ideas, these critics point to a dramatically uneven flow, and see the globalization of media as a form of cultural imperialism, in which Western ideas, values and interests seek to colonize the minds of citizens around the world. In some circles, the Western media are seen as undermining traditional cultures and promoting values and beliefs antithetical to local customs. Perhaps the most visible example of this perspective has come from Islamic fundamentalists who have condemned the role of Western media in their societies. In addition, these critics argue that expensive Western media content has a tendency to undercut local media, further enhancing the power of the major media conglomerates and undermining the potential for the development of successful local media content and companies.

Others, however, contend that the expansion of global media is challenging oppressive regimes and paving the way for free speech and expression. From this perspective, global media are engines of democracy, free markets and consumer power. Instead of imposing themselves on naïve audiences, those more sympathetic to global media conglomerates argue that media from the US and Europe are popular around the world because they connect with public tastes and desires across the globe. Enthusiasts for global media also point to new, hybrid media forms that emerge when media cross national and cultural boundaries,

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as media companies must adapt their products for local tastes and cultures. Supporters also suggest that global media are central players in the building of cross-national, global communities and a growing sense of global citizenship. Furthermore, the export of media may be more complicated, as when immigrants remain in touch with media from their home countries through the Internet and via satellite television channels. Finally, many argue that the spread of lower-cost media technologies is setting the stage for a more balanced flow of media as higher-quality production becomes accessible to more producers from a wider range of nations.

Is for-profit media undermining the quality of news?

With growing competition for advertising dollars and the attention of media audiences, and increasing demand for profits in all of a media conglomerate's different segments, there is considerable debate about the future of news.

The debate revolves primarily around the question of news quality and whether profit-oriented media conglomerates are willing to invest the resources that high-quality journalism requires. Some critics point to cuts in news budgets and, with the growth of news focused on the lives of celebrities and the world of entertainment, the decline in long-form documentary reporting on television in favour of inexpensive talking-heads cable news programme, and the generally weak commitment to investigative reporting, as signs that profit pressures are part of a dynamic that is undermining the quality of news. From this perspective, the growth of global media-entertainment companies not only weakens journalism, but blurs the boundaries between news and entertainment, creating lots of 'infotainment', but little useful news for active citizens.

While profit pressures on the news are widely acknowledged, not everyone agrees about the consequences. Some believe that news is becoming more audience-friendly, with new entertainment-oriented formats serving to attract the attention of a busy public. From this perspective, profit pressures may unsettle traditional forms of news, but will do so in response to public taste, with news reflecting what people want, instead of what elite critics think people need. Instead of news as a resource for citizens, these critics argue that news will be most helpful to people if it responds to consumer demand, just like any other product. Delivery of such a news product is significantly enhanced by niche outlets that can make available highly-relevant customized news for specialized niche audiences.

Conclusion: is the era of mass media over?

Mass media have been built on the model of a few large producers creating content to be consumed by a mass audience. As we have already seen, in recent years, the audience for media has been fragmenting as new technologies have enabled companies to target niche markets. So far, however, a few large producers have continued to dominate the media landscape. The power and influence of these major media conglomerates have been what concern many critics.

However, some industry observers point to two developments to suggest that these gigantic global corporations may soon become media dinosaurs. First, new technologies are enabling more people to become media producers, rather than merely consumers. Lower cost digital equipment is allowing for more easily accessible music recording, movie making, website construction, and much more. This DIY phenomenon is changing the media landscape, with new websites such as YouTube.com providing an online venue for people to upload, share and watch videos from around the globe. Second, the Internet is enabling new ways of distributing these new media products to substantial audiences. This involves the broadband capacities of the Internet and applications, such as BitTorrent, that enable easier downloading and distribution of large video and audio files. It also involves the growth of social networking websites where people can share their many interests, including favourite movies, music and more. Such networking, which has been enormously popular amongst teens and young adults, allows for unprecedented exposure and promotion for independent media products.

The result is an explosion of media content being produced outside of the major media conglomerates. Indie music, independent film and animation, weblogs, podcasts and independent news and commentary sites, are among the many media now being created by individuals who, in the mass media age, would have been solely consumers rather than producers of media. The influence of major media players will not disappear, but they will find themselves playing on a terrain populated by an ever-increasing number of media producers who will chip away at their share of the marketplace, leaving them with significantly less influence than in the past.

But wait, say critics, history has shown that the major media corporations are extremely adaptable and have the ability to absorb new media formats and turn them into profitable ventures under their control. Nearly all of the top Internet websites are operated by the same media conglomerates that dominate other forms of media. The podcast phenomenon began with independent producers

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but was quickly adopted by major media companies who issued content that became the most popular downloads – a theme further developed by Michael J. Breen in Chapter 3. The idea that small independent producers will be able to compete with the production, advertising and promotion capacities of major media conglomerates is simply naïve and underestimates the flexibility of the major media players. It also ignores the continuing success of many ‘big budget’ media products – the marketing and promotion of which the major media conglomerates have perfected – which are completely out of the reach of smaller independent media producers.

So have the structural changes that emphasize growth and conglomeration run their course? Will the next half century see the explosion of truly independent media challenging the traditional corporate players? Or will the resources and deep pockets of the major media enable them to retain control of the emerging media world – regardless of the form it takes? Such questions will continue to mark the debates regarding industry structure for some time to come.

Summary

- With continuing growth in cable, satellite and Internet-based content, the volume of available media has increased dramatically in recent years. At the same time, the major media companies have become large and highly diverse media conglomerates.
- The media industry is now a global industry; major media conglomerates emphasize a global marketplace as the arena for promoting and selling media products.
- Major media conglomerates enjoy distinct advantages associated with their large and diverse holdings, including access to capital for expensive productions, resources for multi-media promotion campaigns, and the ability to withstand short-term losses while waiting for the next blockbuster.
- Rather than targeting large ‘mass’ audiences, media conglomerates use new technologies to develop niche products aimed at specific market segments – offering specialized media products to a particular audience demographic to generate interest from advertisers who want to reach this specific audience segment.
- While media companies compete against each other for audiences and advertisers, they have also developed new forms of cooperation in the form of joint ventures and strategic partnerships aimed at reducing risk for the major media conglomerates.
- Key debates about the consequences of the emerging global media industry focus on the power of major media conglomerates, the influence of Western media that circulate throughout the world, and the impact of profit pressures on the quality of journalism.

GOING FURTHER

Baker, C. E. (2001) *Media, Markets, and Democracy*. New York: Cambridge University Press. An analysis of the structural limitations of commercial media and the complex relationship between media, regulatory policy and democracy from a leading scholar of media law and policy.

Croteau, D. and Hoynes, W. (2006) *The Business of Media: Corporate Media and the Public Interest*. (2nd edn.) Thousand Oaks, CA: Pine Forge Press. The authors' overview of trends in the global media business in the early twenty-first century.

Hamilton, J. T. (2003) *All the News That's Fit to Sell*. Princeton, NJ: Princeton University Press. A leading media economist explores the economics of the news business, analyzing how information is transformed into a familiar news product.

McChesney, R. W. (2004) *The Future of the Media*. New York: Monthly Review Press. A critical analysis of the crisis of US media and an impassioned call for reform of the media industries.

STUDENT ACTIVITY 2.1**Mapping Media Ownership**

Figure 2.1 on pages 44–45 shows a selection of the holdings of one media conglomerate, News Corporation, as of 2006. In this assignment, you will explore two other media corporations, analyze their holdings and comment on what you find.

1. Choose two of the companies listed below to explore.
2. Use a search engine to find the company's main website. Visit the websites of the companies and carefully catalogue both their media and non-media holdings.
3. Make an 'ownership map' – a list of the companies and products owned by the two corporations, grouping the holdings by type of media.
4. Write a brief two to three page combined profile of your companies, drawing upon the key concepts from this chapter: conglomeration, globalization, vertical and horizontal integration, synergy, etc. Don't just repeat what you've catalogued in your 'map'. Many of the corporate websites include a recent company 'Annual Report', which can provide important insight into the company's business strategy and view of their holdings.

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5. Finally, comment on what you've found. (Did you recognize some of the media outlets or products owned by your company? Were you surprised by anything you found? Explain.)

Major Media Conglomerates

Bertelsmann

Clear Channel Communications

Comcast

The Walt Disney Company

General Electric

Hearst Corporation

Sony Corporation

Time Warner

Viacom

Vivendi

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