3

The New Media Giants

Changing Industry Structure

The industry publication *Advertising Age* compiles an annual list of the 100 largest U.S. media corporations, based on their media-related revenue. The ranking only includes media supported by advertising and thus leaves out important sectors, such as movie studios, but it still gives a useful overview of a significant part of the media industry. In 1984, the magazine identified the American Broadcasting Corporation (ABC) as the largest U.S. media company, with $2.8 billion ($5.2 billion) in U.S. revenues. Twenty years later, in the 2004 edition, Time Warner topped the list with $29.3 billion in U.S. revenues—about 6 times as much as the 1984 leader, after adjusting for inflation, and roughly the equivalent of 1984's top eight companies combined. The revenue that made ABC number one in 1984 would not even have qualified it for the top 10 in 2004; it would have been 14th. In addition, in the years since 1984, the *Ad Age* list has changed in an important

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way. It now includes data for total worldwide revenue. As the 2004 list showed, Time Warner, America's largest media company, generated another $10.3 billion *outside* the United States, for total annual revenue of $39.6 billion—nearly 8 times ABC's revenues from 20 years earlier.[46]

As such numbers reveal, the scale of the media industry has changed. Media companies have gotten much bigger, often by swallowing up other media firms to form ever larger conglomerates. As new media technologies have gained prominence—cable, Internet, satellite—these too have been swept up in the consolidation process. A quarter century of such mergers has transformed the organizational structure and ownership pattern of the media industry, leaving behind a few media giants.

❖ MAKING SENSE OF MERGERS

As we saw in the previous chapter, at various points in history, antimonopoly concerns have resulted in the dismantling of media conglomerates. In more recent years, facilitated by an increasingly lax regulatory environment, major media companies have been buying and merging with other companies to create ever larger media conglomerates, all of which are now global in their activities. In the process, the dilemmas associated with the market and public sphere models of media have been dramatically highlighted.

From a market perspective, industry mergers can be understood as the rational actions of media corporations attempting to maximize sales, create efficiencies in production, and position themselves strategically to face potential competitors. Despite the growth in media conglomerates, many observers believe the profusion of media outlets made possible by recent technological developments—especially cable, the Internet, and satellite—makes the threat of monopolistic misbehavior by these media giants highly unlikely. How can we talk about monopolies, they ask, when we have moved from a system of three television networks to one that has hundreds of channels? How can a handful of companies monopolize the decentralized Internet? The media industry as a whole has grown, they also note, and the larger media companies simply reflect the expansion of this field.

The public sphere perspective directs us to a different set of concerns. Growth in the number of media outlets, for example, does not necessarily ensure content that serves the public interest. Centralized

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corporate ownership of vast media holdings raises the possibility of stifling diverse expression and raises important questions about the powerful role of media in a democratic society. Even with new media outlets, it is still a handful of media giants who dominate what we see, hear, and read. The expansion of new media technologies has only strengthened, not undermined, the power and influence of new media conglomerates.

To assess the utility of these competing interpretations, we must first familiarize ourselves with the recent changes in the industry. This chapter describes these structural changes. Drawing primarily from the market approach to media, the next chapter examines the common industry practices that have emerged as a result of these structural changes. In chapters 5 and 6, we draw primarily from the public sphere approach to assess the impact of these industry changes on media content and on broader social and political life.

❖ STRUCTURAL TRENDS IN THE MEDIA INDUSTRY

The basic structural trends in the media industry have been characterized in recent years by four broad developments.

1. *Growth*. Mergers and buyouts have made media corporations bigger than ever.
2. *Integration.* The new media giants have integrated either horizontally, by moving into multiple forms of media such as film, publishing, radio, and so on; or vertically, by owning different stages of production and distribution; or both.
3. *Globalization.* To varying degrees, the major media conglomerates have become global entities, marketing their wares worldwide.
4. *Concentration of Ownership.* As major players acquire more media holdings, the ownership of mainstream media has become increasingly concentrated.

Some of these phenomena are overlapping or interrelated developments. However, to describe the specifics of these developments, we examine each separately.

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Growth

The last 25 years have seen expansive media growth. Not only is the number of media outlets available via cable, satellite, and the Internet greater than ever, but, as we have seen, 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 ($652 million). In 2000, AOL acquired Time Warner in a $166 billion deal ($184.1 billion), which was *282 times* as much as the Gannett-CCC deal. No doubt, some other merger will produce an even bigger deal.

Such enormous growth in conglomeration was largely fueled by a belief in the various benefits to be had from being big. Larger size meant more available capital to finance increasingly expensive media projects. Size was also associated with efficiencies of scale. Most important, integrated media conglomerates could exploit the "synergy" created by many outlets in multiple media. *Synergy* refers to the dynamic in which components of a company work together to produce benefits that would be impossible for a single, separately operated unit of the company. In the corporate dreams of media giants, synergy occurs when, for example, a magazine writes about an author, whose book is converted into a movie (the CD soundtrack of which is played on radio stations), which becomes the basis for a television series, which has its own Web site and computer games. Packaging a single idea across all these various media allows corporations to generate multiple revenue streams from a single concept. To do this, however, media companies have to expand to unprecedented size.

While discussions about reducing media regulation dominated public discourse, the scale of media growth increased. Big media players—with sometimes stunning frequency—merged with or bought out other big media players (see Exhibit 3.1). Eventually, however, the scale and pace of these mergers produced growing public concern, which led to intense debates about the need to regulate media growth. Investor concern was also aroused regarding the benefits to shareholders of the increasing size of the media conglomerates.

To better understand this wave of mergers and acquisitions, it is informative to take a closer look at one example, the Viacom-CBS deal mentioned earlier.

(Text continues on page 85)

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Exhibit 3.1 Select Media Mergers and Acquisitions of $1 Billion (Current) or More (1985-2004)

Year	The Deal	*Value (in billions of U.S. dollars)*	
		Current	*Constant 2004*
1985			
	News Corp. buys Metromedia (six TV stations) as launching pad for new Fox network	$1.6	$2.8
	Turner Broadcasting buys MGM/United Artists	1.5	2.7
	General Electric buys RCA (owners of NBC network)	6.4	11.4
	Capital Cities buys ABC television network	3.5	6.2
1986			
	National Amusements (movie theaters) buys Viacom	3.4	5.9
1987			
	Sony buys CBS Records	2	3.4
1989			
	Time Inc. merges with Warner Communications	14.1	21.7
	Sony acquires control of Columbia Pictures and TriStar Studios	4.8	7.4
1990			
	Matsushita Electric Industrial Co. buys MCA (Universal Studios, Geffen Records, Motown)	6.6	9.6
1993			
	US West buys a quarter share of Time Warner	2.5	3.3

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Exhibit 3.1 (Continued)

		Value (in billions of U.S. dollars)	
Year	*The Deal*	*Current*	*Constant 2004*
	Viacom buys Paramount Communications (Universal Studios, Geffen Records, New York Knicks, publishing)	8.3	11
	Viacom buys Blockbuster	4.9	6.5
	Telecommunications, Inc. (TCI) repurchases Liberty Media, which it had spun off earlier (in prelude to failed Bell Atlantic takeover)	3.5	4.6
1994			
	Cox Cable buys Times Mirror Cable	2.3	3
	US West buys Wometco and Georgia Cable TV	1.2	1.6
1995	(Telecommunications Act introduced in Congress)		
	Gannett buys Multimedia Inc.	2.3	2.9
	Time Warner buys Houston Industries	2.5	3.1
	Time Warner buys Cablevision Industries	2.7	3.4
	Seagram's (beverages) buys 80% of MCA from Matsushita, renames it Universal Studios	5.7	7.1
	MCI buys 10% share of NewsCorp	2	2.5
	Westinghouse Corporation buys CBS (3 years later, Westinghouse changes the company name to CBS Corporation)	5.4	6.8
	Walt Disney Co. buys Capital Cities/ABC	19	23.8
	Time Warner buys Turner Communications	8.5	10.7
	TCI buys Viacom's cable TV system	2.3	2.9

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		Value (in billions of U.S. dollars)	
Year	*The Deal*	*Current*	*Constant 2004*
1996	(Telecommunications Act passed)		
	Westinghouse (CBS) buys Infinity Broadcasting (radio stations)	4.9	6
	News Corp. buys New World Communications Group, Inc.	3.6	4.4
	US West buys controlling interest in Continental Cablevision	10.8	13.2
	A. H. Belo Corporation buys Providence Journal Company	1.5	1.8
	Tribune Company buys Renaissance Communications (TV stations)	1.1	1.3
1997			
	Microsoft buys an 11.5% stake in Comcast Corp	1.1	1.3
	Reed Elsevier and Wolters Kluwer merge (print, electronic publishing, databases; Lexis/Nexis)	7.8	9.3
	Newscorp buys International Family Entertainment	1.9	2.3
	TCI buys one third of Cablevision Systems	1.1	1.3
	Westinghouse (CBS) buys American Radio Systems	2.6	3.1
	Westinghouse (CBS) acquires Gaylord (Country Music TV and The Nashville Network)	1.6	1.9
1998			
	AT&T buys TCI	53.6	62.8
	Bertelsmann buys Random House/ Alfred Knopf/Crown Publishing	1.3	1.5

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Exhibit 3.1 (Continued)

Year	The Deal	Value (in billions of U.S. dollars) Current	Constant 2004
	America Online (AOL) buys Netscape (Internet browser)	4.2	4.9
	Seagram buys Polygram (music)	15.1	17.7
1999			
	DirectTV (Hughes Electronics) buys PrimeStar	1.8	2.1
	Charter Communications buys Bresnan Communications (cable)	3.1	3.6
	AT&T buys MediaOne	54	61.9
	@Home Corp. buys Excite (Internet company)	6.7	7.7
	Columbia House (owned by Time Warner and Sony) merges with online retailer CDNow	2	2.3
	CBS buys King World (syndicated television programs)	2.5	2.9
	Yahoo! buys GeoCities, Inc. (Internet company)	4.7	5.4
	Yahoo! buys broadcast.com	5.7	6.5
	VNU (Dutch publisher) acquires Nielsen Media Research	2.7	3.1
	CBS (Infinity Broadcasting) buys Outdoor Systems (billboards)	6.5	7.5
	Viacom merges with CBS	38	43.6
	Cox Communications buys cable assets of Gannett Co.	2.7	3.1
	Cox Communications buys TCA Cable TV, Inc.	3.3	3.8
	Cox Communications buys Media General, Inc.	1.4	1.6

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		Value (in billions of U.S. dollars)	
Year	*The Deal*	*Current*	*Constant 2004*
	Clear Channel Communications buys AMFM, Inc. (260 radio stations, billboards)	23	26.4
2000			
	AOL acquires Time Warner	166	184.1
	Tribune Company buys Times Mirror Company	6.5	7.2
	Telefonica of Spain acquires Lycos (Internet portal)	12.5	13.9
	Gannett acquires Central Newspapers (six dailies)	2.6	2.9
	Vivendi buys Seagram (Universal, Polygram)	34	37.7
	NewsCorp (Fox) buys ten TV stations from Chris-Craft Industries	5.4	6
	Univision buys 13 TV stations from USA Networks	1.1	1.2
	Viacom buys Black Entertainment Television (BET)	3	3.3
	Clear Channel buys SFX Entertainment (concert promotion, sports talent agency)	4.4	4.9
2001			
	Disney buys Fox Family Worldwide (cable channel)	5.3	5.7
	AOL Time Warner buys IPC Media (British magazines)	1.7	1.8
	Vivendi buys USA Networks	10.3	11.1
	General Electric (NBC) buys Telemundo Communications Group	2.7	2.9
	Vivendi buys Houghton Mifflin (publisher)	2.2	2.4
	Comcast buys AT&T Broadband (cable)	52	56.1

(Continued)

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Exhibit 3.1 (Continued)

Year	The Deal	*Value (in billions of U.S. dollars)* Current	*Value (in billions of U.S. dollars)* Constant 2004
2002			
	Univision buys Hispanic Broadcasting	3.5	3.7
	General Electric (NBC) buys Bravo cable network	1.3	1.4
2003			
	News Corp. buys controlling interest in Hughes Electronics (DirecTV)	6.6	6.9
	Investor group led by Edgar Bronfman (formerly of Seagram's) buys Warner Music Group	2.6	2.7
	General Electric (NBC) buys Vivendi Universal Entertainment	5.2	5.4
	Liberty Media buys out Comcast's share of QVC	8	8.3
	Sony and Bertelsmann merge their music units into Sony BMG	5	5.2
2004			
	Kohlberg Kravis Roberts buy majority interest in PanAmSat (owned by DirecTV)	4.3	4.3
	Sony-led investor group buys MGM Studios	4.8	4.8

Source: Media accounts.

Note: Most dates refer to the announcement of the deal. Many deals were not finalized until the following year. Constant dollar adjustments are based on the Bureau of Labor Statistics' Consumer Price Index and should be considered approximate.

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The Viacom-CBS Merger

In September of 1999, Viacom announced its merger with CBS.[47] The huge deal combined CBS's television network, its 15 TV stations, more than 160 radio stations, and several Internet sites with Viacom's well-known cable channels (e.g., MTV, Nickelodeon, Showtime, TNN), 19 television stations, movie and television production (Paramount Pictures, UPN), publishing (Simon & Schuster), theme parks, and more. At the time, the $38 billion ($43.6 billion) merger was bigger than any previous deal between two media companies, resulting in a huge media conglomerate (see Exhibit 3.2).

CBS was created in 1928 and has long been a major broadcaster with a strong radio and television presence. Through much of its history, it was popularly associated with its news programming, especially with Edward R. Murrow and Walter Cronkite, who were among the preeminent journalists of their day.

CBS dominated network broadcasting through much of the 1960s. In 1963, CBS owned nine of the top ten prime-time shows and all ten of the top ten daytime shows. In its heyday, it was known as the "Tiffany Network" because of its high-quality programming. In the mid-1980s, the network went into decline after being taken over by Loew's, which instituted cuts in the CBS news division as one way to increase profits. Ten years after the Loew's takeover, CBS was sold again, this time to the Westinghouse Corporation, an electrical hardware manufacturer that changed its name to CBS Corporation.

Viacom is a much younger company. In 1970, the FCC introduced new regulations requiring networks to purchase their programs from independent producers. The rules meant that networks could not own their new programs and could not sell the rights to air reruns of their old programs—a process known as "syndication." The goal, according to the FCC, was "to limit network control over television programming and thereby encourage the development of a diversity of programs through diverse sources of program services."[48] This became known as the "financial interest and syndication" rules, or "fin-syn" for short. Viacom was created in 1971 as a spin-off of CBS to comply with these new FCC regulations. To sell the syndication rights to its old programs, such as *I Love Lucy* and *The Andy Griffith Show,* CBS was required to create a new corporate entity, separate from the network. Thus Viacom was born.

In 1986, National Amusements, a movie theater chain headed by Sumner Redstone, purchased Viacom for $3.4 billion ($5.9 billion), keeping the name for the new company. Viacom grew quickly,

(Text continues on page 88)

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Exhibit 3.2 Simplified List of Viacom Holdings (2004)

Television broadcast networks and stations

- CBS Television Network
- United Paramount Network (UPN)
- Viacom Television Stations Group (16 CBS affiliate stations, 18 UPN affiliate stations, 5 other stations)

Cable television

- Music Television (MTV), MTV2
- VH1
- Country Music Television (CMT)
- Nickelodeon
- Nick at Night
- Black Entertainment Television (BET)
- Comedy Central
- NOGGIN
- Spike TV
- TV Land
- Logo
- Showtime, Showtime en Espanol, Showtime Extreme
- Sundance Channel (joint venture with Robert Redford and Universal Studios)
- The Movie Channel (TMC)
- FLIX

Radio

- Infinity Broadcasting—175+ radio stations
- Westwood One (equity interest)—radio network syndicated program and producer, including Metro Networks/Shadow Broadcast Services, the largest supplier of traffic, news, sports, and weather programming to the broadcasting industry

Film and television production, distribution, and exhibition

- Paramount Pictures
- Paramount Television Group (including Paramount Network Television, Viacom Productions, Spelling Television, Big Ticket Television, Paramount Domestic Television, and Paramount International Television)

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- Paramount Home Entertainment
- MTV Films
- MTV Productions
- Nickelodeon Studios
- Nickelodeon Movies
- Wilshire Court Productions
- Spelling Entertainment Group
- Spelling Films
- Republic Entertainment
- Worldvision Enterprises
- Hamilton Projects
- United International Pictures (joint venture with Universal)
- CBS Production
- Eye Productions
- King World Productions
- BET Pictures
- Famous Players (Canada)
- United Cinemas International (joint venture with Universal)—more than 90 theaters in Asia, Europe, and South America

Publishing

- Anne Schwartz Books
- Archway Paperbacks and Minstrel Books
- Lisa Drew Books
- MTV Books
- Nickelodeon Books
- Star Trek
- Washington Square Press
- BET Books
- Simon & Schuster Adult Publishing Group (including Atria Books, Kaplan, Pocket Books, Scribner, Simon & Schuster, Free Press, Touchstone, Fireside Group)
- Simon & Schuster Children's Publishing (including Aladdin Paperbacks, Atheneum Books for Young Readers, Little Simon, Margaret K. McElderry Books, Simon & Schuster Books for Young Readers, Simon Pulse, Simon Spotlight)

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Exhibit 3.2 (Continued)

Music

- ❖ Famous Music (copyright holders of more than 100,000 songs)

Internet

- ❖ CBS.com
- ❖ CBSNews.com
- ❖ CBSSportsLine.com (equity interest)
- ❖ CBSMarketWatch.com (equity interest)
- ❖ CBSHealthWatch.com (equity interest)
- ❖ iWon.com
- ❖ MovieTickets.com
- ❖ MTV.com
- ❖ VH1.com
- ❖ Nickelodeon.com
- ❖ BET.com
- ❖ SpikeTV.com

Retail, theme parks, outdoor advertising, other

- ❖ Paramount Theme Parks: Carowinds (Charlotte, NC), Great America (Santa Clara, CA), Kings Dominion (Richmond, VA), Kings Island (Cincinnati, OH), Canada's Wonderland (Toronto), Star Trek: The Experience (Las Vegas)
- ❖ Viacom Outdoor
- ❖ Viacom Consumer Products (licensing for Viacom products)

Source: Viacom Web sites, Hoover company profiles, and media accounts.

purchasing other media enterprises. Most notably, in 1993, it bought Paramount for $8.3 billion ($11 billion) and Blockbuster Video for $4.9 billion ($6.5 billion). From a stepchild of CBS, Viacom had become a media giant in its own right. In 1999 the circle was completed, as Viacom returned to purchase its former parent, CBS, for $38 billion ($43.6 billion), creating a new Viacom that was estimated to be worth more than $70 billion ($80.3 billion).

Why was a much smaller media company broken up in 1971 because of fear of monopoly and a much larger company allowed to

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keep growing by acquisitions in 1999? The explanatory equation is something like this: Technology + politics = deregulation. It was the combination of changing communications technology, coupled with a conservative shift in national politics, that led to major deregulation of the media industry. This deregulation, in turn, allowed media corporations to expand rapidly, almost exponentially.

Changing Technology

New technology is one key element facilitating industry changes. When CBS was forced to spin off Viacom in 1971, television viewers usually were limited to relatively few options, namely the national broadcast networks (ABC, CBS, and NBC), public television, and perhaps one or two local independent stations. By the end of the century, there were six national broadcast networks of varying sizes (including FOX, WB, UPN), along with countless numbers of channels available via cable or satellite. In 2002, for the first time, the number of television channels receivable by the average U.S. household reached more than 100, according to Nielsen Media Research.[49] In this world of proliferating media outlets, media corporations argued that many ownership regulations were no longer needed.

If television offered abundant choices, critics of regulation contended, then the Internet was virtually limitless in its offerings. In its early days, especially, the Internet was seen even by many critics of mainstream media as an antidote to big media. Because of the apparently low cost of entry and virtually no-cost distribution, it was thought to be a way to level the playing field between large media conglomerates and smaller independent producers. This, too, was a part of the argument against regulation of big media.

Still, although technology has undoubtedly changed the face of media, these developments can come at a high price. For example, cable and satellite television technologies have made hundreds of channels available to consumers. However, these new options—unlike traditional broadcast television—are expensive alternatives that some Americans cannot afford. By 2005, a "basic" cable package cost consumers about $40 a month, and premium channel options could easily double or even triple that bill. As a result, nearly a third of American households had only basic cable, and another third had access to at least some premium options, for a total household penetration of about 62%—a figure that has fallen in recent years as satellite television subscriptions have expanded to reach about 20% of U.S. households. That

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leaves nearly one in five households dependent entirely on broadcast television.[50]

Perhaps more important, more channels have not necessarily meant more diversity. Instead, many of the cable options simply air either reruns of broadcast programs or a certain type of previously existing programming (sports, music videos, etc.) 24 hours a day. *More* content does not necessarily mean *different* content.

The Internet, too, has shown signs of becoming dominated by major media giants. For a short period of time, many major media companies were not heavily involved in Internet ventures. As a result, there was a brief window of opportunity for new companies to get established. However, as this first stage of the industry passed, a second consolidation stage took place.

Two major types of players were driving this consolidation stage. First, as successful new Internet companies saw the value of their stock rise, they often tried to solidify that value by buying something tangible with the money—often other media firms. That way, when stock prices on overvalued Internet companies fell—as they inevitably did—these companies still had valuable, although more traditional, media assets. Second, after small ventures began showing how the Internet might be used for commerce, major media players stepped in and either bought smaller companies or forced them to merge to remain in business. Thus established companies used their resources to buy their way into the expanding Internet market.

These large-scale companies make it difficult for new companies to compete independently. By 2000, the once relatively low startup cost of running a significant World Wide Web site—originally touted as a central reason for the Internet's revolutionary character—routinely exceeded $1 million.[51] As a result, media companies with major capital to invest now dominate the most popular sites on the World Wide Web.[52]

The Politics of Deregulation

If technology provided the tracks upon which deregulation was able to ride, then conservative, probusiness politics was the engine that propelled it along. The relaxation of key regulations was absolutely essential for the rapid expansion of media conglomerates.

Earlier antimonopoly regulation sometimes prevented the growth of major media conglomerates—or even required their dismantling. As we saw in chapter 2, the Justice Department's breakup of the

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Hollywood studios was one example of reaction to a single media company owning the means of producing, distributing, and exhibiting media products. The fin-syn regulations, too, were implemented to prevent control of production and distribution from resting in the hands of a single company. More recently, however, overall growth in media outlets and a more conservative, probusiness political environment has contributed to the significant relaxation of ownership regulations that eventually produced widespread public concern and legal challenges.

The 1980s was a period of deregulation that affected many different industries, including the media. Regulatory agencies—in this case, the FCC—became staffed by appointees who shared many of the basic probusiness and antiregulatory sentiments of the Reagan administration. This shift gave a green light to the first round of media mergers in the mid-1980s. In 1988, Time Inc.'s annual report to stockholders stated flatly that "by the mid-1990s, the media entertainment industry will consist of a handful of vertically integrated worldwide giants. Time Inc. will be one of them."[53]

Simultaneously, with the growth of larger media companies, the number of media outlets expanded, especially in the areas of cable and satellite television. These new technologies were a key reason that, in 1993, a U.S. District Court ruled that broadcast networks should no longer be subject to many of the fin-syn regulations. Previously, television networks acquired programming from outside producers, who continued to own the programs. However, after the elimination of fin-syn rules, networks were free to air their own programming.

With deregulation, networks pressured independent producers to give up ownership rights, and they increasingly relied on programming produced by their corporate parent. For example, in the summer of 1999, Disney formalized its vertical integration in television by merging its television production studios with its ABC network operations. The shift was aimed at controlling costs by encouraging the in-house development and production of programs by Disney/ABC for broadcast on the ABC network.[54] Other networks pursued similar changes, and the result was the dramatic consolidation of program ownership in the television industry. In 1990, the four major networks owned just 12.5% of the new series they broadcast. By 2002, that figure surged to nearly 80%.[55] Such integration would have been impossible without changes in the fin-syn regulations.

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The 1996 Telecommunications Act

The antiregulatory sentiment in government that reigned under the Republican Reagan and Bush administrations continued into Democrat Bill Clinton's administration. Nowhere was this clearer than in the passage of the wide-ranging 1996 Telecommunications Act. The act had been heavily promoted by the media and telecommunications industries, leading even the *New York Times* to editorialize, "Forty million dollars' worth of lobbying bought telecommunications companies a piece of Senate legislation they could relish. But consumers have less to celebrate." The *Times* went on to argue that the bill's "antiregulatory zeal goes too far, endangering the very competition the bill is supposed to create."[56]

However, antiregulation ruled the day, and among the many provisions of the act were those that relaxed the rules governing the number of media outlets a single company may own (see Exhibit 3.3). Although the Telecommunications Act was promoted using a market approach, which emphasized more competition, the changes actually helped to fuel a new wave of media mergers and acquisitions. This trend was most dramatic in radio, where, by 2000, 75 different companies that had been operating independently in 1995 were consolidated into just three, led by Clear Channel Communication which owned over 1200 stations.[57]

As a sort of permanent codification of antiregulatory sentiment, the 1996 Telecommunications Act required that the FCC examine and justify its ownership regulations every 2 years. As a result, the push to deregulate the media continued incessantly. In the summer of 1999, the FCC eased restrictions on the number of local radio and television stations a single company could own. The FCC eliminated regulations restricting companies to one local TV station in a market. Instead, companies were allowed to own two stations as long as at least eight other competitors were in the same market and one of the company's two stations was not among the market's top four. Other conditions, too, such as a failing station, could now be used to justify multiple station ownership. In a reflection of the convergence of media forms, another regulatory change allowed for a single company to own two TV stations and six radio stations in a market as long as there were at least 20 competitors among all media—cable, newspapers, and other broadcast stations.[58]

Consumer advocates bemoaned the changes, arguing that they once again would lead to more media outlets in fewer hands. Media

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Exhibit 3.3 Select Ownership Rules Changes in the 1996 Telecommunications Act

Previous Rules	*New Rule Changes*
National television A single entity ❖ can own up to 12 stations nationwide *or* ❖ can own stations reaching up to 25% of U.S. TV households	❖ No limit on number of stations ❖ Station reach increased to 35% of U.S. TV households
Local television A single entity can own only one station in a market.	❖ Act called for review. ❖ In 1999, FCC announced it would allow multiple station ownership in a single market under certain circumstances.
National radio A single entity can own up to 20 FM and 20 AM stations.	No limit on station ownership.
Local radio A single entity ❖ Cannot own, operate, or control more than 2 AM and 2 FM stations in a market ❖ Audience share of co-owned stations may not exceed 25%	Ownership adjusted by market size: ❖ In markets with 45+ stations, a single entity cannot own more than 8 stations total and no more than 5 in the same service (AM or FM) ❖ In markets with 30-44 stations, 7 total, 5 same service ❖ 15-29 stations, 6 total, 4 in the same service ❖ 14 or fewer stations, 5 total, 3 same service (but no more than 50% of the stations in the market) ❖ Limits may be waived if the FCC rules it will increase the total number of stations in operation

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executives, on the other hand, had something to cheer about. Lowell "Bud" Paxon, owner of PAX TV, greeted the changes by saying, "I can't wait to have a glass of champagne and toast the FCC!" Barry Diller, chairman and CEO of USA Networks, observed, "This is a real significant step. . . . This is going to change things."[59]

He was right. Less than a month after these FCC regulatory changes, Viacom and CBS announced their plans to merge—a deal that would have been impossible before the relaxation of FCC regulations. Thus, as the 20th century came to a close, a loose regulatory environment allowed Viacom and CBS to create a new media giant that, at the time

- ❖ Was the nation's largest owner of TV stations,
- ❖ Was the nation's largest owner of radio stations
- ❖ Controlled the nation's largest cable network group
- ❖ Controlled the nation's largest billboard company
- ❖ Was the world's largest seller of advertising

In an earlier era, such concentrated market power would probably have been met by regulatory roadblocks. In a new age of deregulation, the deal was approved.

More FCC Deregulation and a Citizens' Revolt

The deregulatory fervor of the 1980s and 1990s continued into the new century. When Michael Powell became chair of the FCC during the administration of George W. Bush, he virtually ridiculed the idea of protecting the public interest. "The night after I was sworn in, I waited for a visit from the angel of the public interest," Powell said in a speech. "I waited all night but she did not come. And, in fact, five months into this job, I still have had no divine awakening."[60]

With such a patently probusiness and antiregulatory chairman at the helm, the FCC continued to roll back regulations on media ownership. For example, even with the 1999 weakening of ownership rules, the newly expanded Viacom violated existing regulations after its takeover of CBS. For one thing, it both owned the CBS network and had a 50% stake in the UPN network, and FCC regulations forbade a network owner from having an ownership interest in another network. For another, Viacom's television stations could reach nearly 40% of American households, but the FCC cap was 35%.[61] The FCC was accommodating, however. In 2003, they changed the rules so that a

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single company could not own any two of the *top four* networks, effectively exempting Viacom's ownership of the smaller UPN network. They also raised the national audience cap to 45%.

These deregulation efforts were part of a broader set of changes the FCC proposed in 2003, which included

- ❖ Lifting a ban on "cross-ownership," thus allowing a single company to own both a TV station and a daily newspaper in the same market, as long as the market had at least three stations
- ❖ Easing restrictions on TV station ownership to allow one company to own two stations in midsized markets and three stations in the largest markets
- ❖ Adjusting radio ownership rules so that a single company could own up to eight stations in the largest markets with at least 45 stations, seven stations in markets with 30 to 44 stations, six stations in markets with 15 to 29 stations, and three stations in markets with 14 or fewer stations.[62]

However, after nearly two decades of deregulation, resulting in increasingly large media conglomerates, this time proposed deregulation met with widespread opposition from citizens. During their public comment period, the FCC was flooded with hundreds of thousands of e-mails and letters, nearly all opposing the proposed changes. The outpouring constituted the greatest number of comments received on any issue in the FCC's history and was so great that it overwhelmed both the agency's voice comment phone line system and its Internet server.[63] The FCC eventually held just a single public hearing on the issue in conservative Richmond, VA, but even this drew vocal opponents to the changes.[64] Some dissenting FCC commissioners took it upon themselves to hold more hearings in different parts of the country, even if their chairman refused to attend. Prominent politicians, including Republican John McCain, expressed outrage at the proposed changes. But as with the 1996 Telecommunications Act, the mainstream news media gave scant coverage to the proposed changes or the opposition to it.[65]

The FCC efforts at further deregulation created a firestorm of organized public opposition from diverse organizations ranging from the conservative Parents Television Council, the National Rifle Association, and the Catholic Conference of Bishops to the liberal Media Access Project, Writers and Screen Actors Guilds, and Code

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Pink—the latter of whom, evoking Chairman Powell's earlier speech, demonstrated wearing angel costumes to remind him of the FCC's responsibility to protect the public interest. Although he may not have had a divine awakening, in the face of widespread opposition to his deregulation efforts, Chairman Powell certainly learned that many people still believed in protecting the public interest.

Despite the uproar, the Bush Administration held firm, and the FCC passed the rule changes in a split vote along party lines. The opposition did not stop, however. In September 2003, using a rarely invoked procedure, the U.S. Senate passed a "resolution of disapproval" repealing all the FCC rule changes—but could not overcome a threatened presidential veto. Instead, in a compromise move, Congress rolled back the national audience cap from 45% to 39%—just enough to accommodate Viacom and NewsCorp, whose FOX network also reached 39% of households.

In the summer of 2004, a federal appeals court ruled in favor of the Prometheus Radio Project (a Philadelphia-based, low-power radio collective), in a suit led by the Media Access Project (a nonprofit, public interest telecommunications law firm), against the FCC rule changes. The court invalidated many of the reasons cited by the FCC for its actions and ordered the FCC to reconsider all of its 2003 rule changes, effectively stopping their immediate implementation.

Thus the growth in media conglomerates has been fueled, in part, by the changing regulatory environment. In the years when public interest concerns about monopolies were preeminent, media companies were constrained in their ability to grow unchecked. However, with the rise of more media outlets via new technology, the conservative shift toward business deregulation starting in the Reagan administration, and the media industry's lobbying clout, media corporations have been relatively unencumbered in their ability to grow. Ironically, however, this very growth has triggered a public backlash that has dampened the enthusiasm for unbridled deregulation and set the stage for future regulatory battles.

Integration

Media empires are nothing new. As we saw in chapter 2, William Randolph Hearst built a powerful newspaper empire that wielded considerable political clout. However, the scale of the contemporary conglomerates is unprecedented. The pinnacle of the Hearst empire

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during Hearst's lifetime would be just a small part of today's megamedia corporations. In fact, the Hearst empire lives on in the form of a multimedia conglomerate many times the size of anything that existed when Hearst was alive. The Hearst Corporation Web site touts the company as "one of the largest diversified communications companies. Its major interests include magazine, newspaper and business publishing, cable networks, television and radio broadcasting, internet businesses, TV production and distribution, newspaper features distribution, and real estate."[66] Having long outgrown the newspaper empire of its founder, the company's holdings by 2004—in addition to more than 20 daily or weekly newspapers—included 28 television stations; 2 radio stations; partial ownership of major cable channels such as ESPN, A&E, and Lifetime; 18 magazines with 100 international editions; 20 business-to-business services; and minority ownership of numerous other well-known media properties, such as Netscape Communications, Broadcast.com, iVillage, and XM Satellite Radio.

Beyond sheer scale, one of the key differences in today's media companies is the wide variety of media they comprise. Hearst owned newspapers. Today's media giants are likely to be involved in almost all aspects of the media: publishing, television, film, music, the Internet, and more.

The next piece of the puzzle for ambitious media companies is likely to be video games, which provide various opportunities for product development and cross promotion, as well as a new venue for advertising. Video games based on major motion pictures are now released the same day films open, and media conglomerates are new developing top-selling video games into movies. Hit television shows, such as *CSI* and *ER*, are developing video game versions of their programs.[67] In addition, video game soundtracks have become a prime site for promoting new music and there is growing competition among record labels to get their acts into the top-selling video games.[68] With video game audiences growing rapidly, advertisements embedded in games and appearing on game-related Web sites are fast-becoming attractive supplements (and sometimes alternatives) to traditional broadcast advertising. Time Warner's 2004 acquisition of video game publisher Monolith may have been the first step in the move by the media conglomerates to integrate video games into their multimedia portfolios.

A conglomerate by definition consists of many diverse companies. Using our earlier example of Viacom in Exhibit 3.2, we can better

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understand the relationships among individual companies by considering the idea of horizontal and vertical integration.

Horizontal Integration

A media corporation that is horizontally integrated owns many different types of media products. Viacom is clearly a horizontally integrated conglomerate because it owns, among other things, properties in broadcast and cable television, film, radio, and the Internet—all different types of media.

Companies integrate horizontally for two general reasons. First, as we will see in more detail in the next chapter, some companies believe that they can use their diverse holdings to better market and promote their media products. Owning properties across media allows one type of media (e.g., CBS Sports) to promote and work with another type of media (e.g., CBSSportsLine.com). Viacom's ownership of the *Star Trek* franchise, to use another example, has allowed it to develop and promote a variety of products that cut across media, including several television series, films, books, video games, and even a theme park. The result of such efforts, corporate executives hope, is a company that exploits its synergy potential by becoming greater than the sum of its parts.

This sort of integration can be seen every time Hollywood releases a major summer blockbuster. The movie is usually accompanied by a soundtrack CD and music video, related publishing ventures (books, calendars, etc.), an Internet site (often with audio or video clips of the film), and television specials exploring the "making of" the movie, not to mention the countless movie T-shirts, paraphernalia, and fast-food chain promotional tie-ins. In the hands of an integrated media conglomerate, what was once a film release now becomes an integrated media campaign of enormous proportions.

The second development encouraging integration involves technological change. It used to be that each medium was a distinct entity. Text-based products were distributed on paper (magazines, books, newspapers). Music and other audio products were available on vinyl records or magnetic tapes (reel-to-reel, cassette, 8-tracks). Video products were either shown as films in a theater or were available on videocassettes for home use. The radio and television broadcast media used analog signals to make audio and video widely available without actually physically distributing their media products. Each medium,

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therefore, had its own distinct format, and media companies tended to focus on their one specific media specialty.

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 visual media into digital data, the technological platforms that underlie different media forms have converged, blurring the lines between once-distinct media.

One visible example of convergence is the compact disk. This single digital data storage device can be used for text, audio, video, or all three simultaneously. Its introduction—along with other types of digital data storage devices—has changed the nature of media. The personal computer is another symbol of change. It can be used to create and read text documents; show static and animated graphics; listen to audio CDs or digital music files; play CD computer games that combine audio, video, and text; watch digital videos; access and print photos taken with a digital camera; and surf the Internet, among other things. All this is possible because of the common digital foundation now available for various media.

The significance of digital data extends way beyond CDs and computers. Now the digital platform encompasses all forms of media. Television and radio broadcast signals are being digitized and analog signals phased out. Newspapers exist in digital form on the Internet, and their paper versions are often printed in plants that download the paper's content in digital form from satellites. This allows for simultaneous publication in many cities of national papers such as *USA Today.* Filmless digital movie theaters are beginning to appear, where movies, digitally downloaded via the Internet, are shown on a sophisticated computerized projector.

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 create products in different media. For example, it was a relatively small step for newspapers—with content already produced on computers in digital form—to develop online World Wide Web sites and upload newspaper articles to them. 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 proliferation of bootlegged digital music files (early Napster, Kazaa, etc.) by developing its own

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systems to deliver music via the Web to consumers (iTunes, Rhapsody, etc.)—for a fee, of course. The industry's response to bootlegged movies is not as fully developed but will likely follow suit.

Furthermore, convergence has eroded the walls between what used to be three distinct industries: media, telecommunications, and computers. Major cable TV companies have entered the phone service business and offer cable-based broadband Internet access. "Baby Bells" and long-distance phone companies have gotten involved in video delivery and Internet access. Computer software firms are teaming up with cable companies to create various "smart boxes" that facilitate delivery of cable-based media and communications services. Internet service providers have entered the telephone business, offering net-based phone service. Integration, therefore, involves even companies outside of the traditional media industry, making it more difficult than ever to mark clear boundaries.

Vertical Integration

Although 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. For some time, there was a widespread belief that "content is king." That is, the rise of the Internet and cable television, in particular, had led to an explosion in outlets available to deliver media products. Consequently, owning the media content that was to be distributed via these channels was widely believed to be more valuable than owning the distribution channels themselves.

However, some developments have brought this belief into question. As we saw in the previous chapter, the supplanting of the advertiser-based "broadcast model" by fee-based efforts has contributed to increased interest in more vertical integration. In addition, with the elimination of most fin-syn rules, interest in vertical integration resurfaced, enabling broadcast networks to once again produce and exhibit their own programs. 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."[69] Or, as media pioneer Ted Turner colorfully explained, "Today, the only way for media

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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."[70]

Viacom's vertical integration can be seen, for example, in the fact that it owns film production and distribution companies (e.g., Paramount Pictures) and theater chains to show first-run films (e.g., Famous Players and United Cinemas International theater chains). Viacom also owns premium cable channels (e.g., Showtime, The Movie Channel), basic cable channels (e.g., Comedy Central, Spike TV), and broadcast networks (CBS and UPN), all to air a film after its rental life is over. Thus, when Viacom produces a movie, it is assured of multiple venues for exhibition.

When we understand the basic idea of integration, we can see why many industry observers saw the Viacom-CBS deal as logical. First, CBS was the owner of one of the premier exhibition spaces: the CBS network, one of the "Big Four" television networks. However, it did not have major program production facilities, nor was it positioned to take advantage of the elimination of most "fin-syn" regulations. Viacom, however, was very strong in production but owned only a 50% stake in a small broadcast network, UPN. It did not, therefore, have a premier venue for broadcasting. Bringing Viacom and CBS together created a new company with much better vertical integration.

The merger also dramatically enhanced the company's horizontal integration. In many ways, the strengths of one company complemented the weakness of the other. CBS's primary strengths in television broadcasting, radio, outdoor advertising, and the Internet were all areas of weakness for Viacom. In turn, Viacom's strengths in film, cable television, and publishing filled gaps in the CBS holdings.

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

At first glance, the average person may be unaware of these trends that have reshaped the media industry. It is usually difficult to discern that apparently diverse media products are, in fact, all owned by a single company. Take television, for example. If you surf the television universe, you might come across a local CBS affiliate, MTV, Comedy Central, Nickelodeon, BET, Showtime, a UPN affiliate, VH-1, The

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Movie Channel, Spike TV, and Country Music Television. It is virtually impossible for the casual viewer to realize that all of these are actually owned—wholly or in part—by Viacom. It is even less likely that average viewers connect the owner of all these stations with the owner of their local theme park, movie theater, and radio stations. Again, one company could own them all: Viacom. However, Viacom is not unique in this regard. The same phenomenon is true of other collections of disparate media outlets that are owned by the other media giants.

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. As a result, current decision making as to whether a script becomes a major film routinely includes considerations of its potential 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. Comedies, however, are often risky, because humor does not always translate well across cultural boundaries.

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We can see examples of globalization strategies in the case of Viacom. In our listing of Viacom's holdings (Exhibit 3.2), we greatly simplified the chart for clarity. However, hidden behind some of those assets is what amount to mini–global empires. For example, MTV is a popular Viacom cable channel, reaching about 80 million U.S. households.[71] It originated as a venue for record companies to show music videos to advertise their artists' latest releases. Over time, MTV added an evolving stable of programs (e.g., *The Real World, Road Rules, Beavis and Butthead, TRL, The Osbournes*) and events (e.g., *MTV Video Music Awards, MTV's Spring Break*) that were aimed at the lucrative teen and young adult market.

MTV has described itself in publicity material as having an environment that is "unpredictable and irreverent, reflecting the cutting edge spirit of rock n' roll that is the heart of its programming." In reality, MTV is a well-developed commercial formula that Viacom has exported globally by making small adjustments to account for local tastes. In fact, MTV is really a global collection of MTVs (see Exhibit 3.4). Together, these MTV channels are available in nearly 400 million households in 166 countries and territories. That, Viacom says, makes MTV the most widely distributed network in the world. More than three quarters of the households that receive MTV are *outside* of the United States.

Viacom's global ventures do not end with MTV. Virtually every aspect of its media business has a global component. Examples include the following specifics:

- ❖ Major motion pictures are routinely distributed internationally, and many earn more money for Viacom internationally than they do in the United States.
- ❖ Famous Players Theatres Canada operates more than 660 screens in more than 100 locations. United Cinemas International—a joint venture with Universal—operates more than 100 theaters in Asia, Europe, and South America.
- ❖ Paramount International Television distributes more than 2600 series and movies internationally.
- ❖ Publisher Simon & Schuster has international operations in both the United Kingdom and Australia and sells books in dozens of countries.
- ❖ Nickelodeon distributes its children's programming in more than 100 countries and, much like MTV, operates its own cable

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Exhibit 3.4 The Global Reach of MTV (2004)

Program Service	*Territory*	*Language*
Asia		
❖ MTV China (regional feed)	Certain provinces in China	Chinese
❖ MTV India (regional feed)	India, Sri Lanka, Bangladesh, Nepal, Pakistan	English, Hindi
❖ MTV Mandarin (regional feed)	Brunei, certain provinces in China, South Korea, Philippines, Singapore, and Taiwan	Mandarin
❖ MTV Southeast Asia (regional feed)	Brunei, Thailand, Singapore, Philippines, Indonesia, Malaysia, Vietnam, Hong Kong, South Korea, Papua New Guinea	English
❖ MTV Indonesia*	Indonesia	Bahasa Indonesian
❖ MTV Japan*	Japan	Japanese
❖ MTV Korea*	South Korea	Korean
❖ MTV Philippines*	Philippines	English and Tagalog
❖ MTV Thailand*	Thailand	Thai and English
Australia		
❖ MTV Australia*	Australia	English
Europe		
❖ MTV U.K. and Ireland (regional)	United Kingdom, Ireland	English

(Continued)

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Exhibit 3.4 (Continued)

Program Service	*Territory*	*Language*
❖ MTV Netherlands (regional)	Netherlands	Dutch
❖ MTV Spain (regional feed)	Spain	Spanish
❖ MTV France (regional feed)	France	French
❖ MTV Central (regional feed)	Austria, Germany, Switzerland	German
❖ MTV Portugal (regional feed)	Portugal	Portuguese
❖ MTV Nordic (regional feed)	Sweden, Denmark, Norway, Finland	English
❖ MTV European (regional feed)	Belgium; France; Greece; Israel; Romania; and 30 other territories, including some in the former Soviet Union, the Middle East, Egypt, Faroe Islands, Israel, Liechtenstein, Malta, and Moldova	English
❖ MTV Italia*	Italy	Italian
❖ MTV Poland*	Poland	Polish
❖ MTV Romania*	Romania	Romanian
❖ MTV Russia*	Russia	Russia

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Program Service	*Territory*	*Language*
Latin America		
❖MTV Latin America (3 regional feeds)	Argentina, Bolivia, Brazil, Chile, Ecuador, Peru, Columbia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Puerto Rico, Uruguay, Venezuela	Spanish
❖MTV Brasil*	Brazil	Portuguese
North America		
❖MTV Canada	Canada	English

Source: Viacom's annual Securities and Exchange Commission report, Form 10-K, March 15, 2004.

* Joint venture or licensing agreement.

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channels across the globe. These include Nickelodeon Latin America, Nickelodeon in the Nordic region, Nickelodeon Turkey, Nickelodeon U.K., Nickelodeon Australia, and the Nickelodeon Global Network. Nickelodeon even has theme parks in Australia and other locations.

❖ Viacom's production companies license and coproduce programs based on U.S. hits to be sold in international markets. These include *Entertainment Tonight/China,* a 50-minute Mandarin-language series produced in cooperation with the Chinese government, and other national versions of the *Entertainment Tonight* series that appear in the United Kingdom, Germany, and other countries.

International revenues are making up an increasingly large percentage of the income of such companies as Viacom, Disney, Time Warner, and News Corp. As a result, all major media conglomerates are now global players, representing a major shift in industry structure.

Concentration of Ownership

As 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. There is considerable debate about the significance of this trend, but the trend itself is clear.

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 channeled to just a handful of companies.

When researchers analyze ownership patterns in any industry, they often measure concentration 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

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Exhibit 3.5 Ownership Concentration by Select Media Industry Segments: CR4 and CR8 Ratios (1999)

	CR4	*CR8*
Recorded music	.98	1.00
Television networks	.84	.98
Filmed entertainment	.78	1.00
Radio stations	.77	.88
Consumer books	.77	.94
Consumer magazines	.77	.91
Cable systems	.61	.87
Newspapers	.48	.69
Television stations	.31	.51

Source: Albarran (2003).

Note: CR indicates concentration ratio. The common threshold for high concentration is .50 for CR4 and .75 for CR8.

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.

One such analysis of nine media industry segments by Albarran found that, using the CR4 ratio, every segment in 1994 was highly concentrated except for newspapers (which fell just short of the 50% threshold) and local television stations (see exhibit 3.5). The same held true for the CR8 ratio.[72] If the lobbying efforts to remove regulations prohibiting cross-ownership between newspapers and television stations are successful, it is likely that ownership in these two industry segments will also become highly concentrated.

In the various editions of his book *The Media Monopoly,* Ben 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

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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 (now called *The New Media Monopoly*), he wrote that just five global conglomerates—Time Warner, Disney, NewsCorp, 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" (p. 3). According to Bagdikian, the steady increase in media power enjoyed by these firms has translated into "a steady accumulation of power in politics" as well (p. 28). He notes that such concentrated ownership "gives each of the five corporations and their leaders more communications power than was exercised by any despot or dictator in history."[73]

The highly concentrated nature of the media industry exists in large part because of the relaxation of ownership regulations discussed earlier in this chapter. The 1996 Telecommunications Act not only allowed companies to get bigger, it also allowed companies to dominate a larger share of the industry, thus increasing ownership concentration. For example, Patricia Aufderheide writes that with the introduction and passage of the law, national concentration limits on radio were eliminated entirely.

> Virtually overnight, an industry marked by relative diversity of ownership and formats, and low advertising rates, became highly concentrated. Within a year and a half, more than a quarter of U.S. radio stations had been sold at least once. Radio stock prices rose 80 percent in 1997, reflecting the new market power of group owners. The FCC calculated that two years after the Act the number of owners of radio stations had declined nearly 12 percent, while the number of commercial radio stations had increased 2.5 percent.[74]

Radio ownership went the way of other media outlets and became concentrated in the hands of major corporate chains.

It is clear that some forms of media are more concentrated than others and that the level of ownership concentration can change. For example, in the 1970s, the three major television networks collectively had more than a 90% share of all television viewers—and, thus, the associated advertising revenue. Television was enormously concentrated. (A program's *rating* is basically the percentage of *all* television households that are watching a program. Its *share* is the percentage of

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television sets *in use* that are tuned to the program.) Since the early 2000s, the share of prime-time television viewers who tuned in to the four major networks has routinely fallen below 50%. Networks still dominate, but the playing field has changed considerably. Cable television has become—collectively—a major competitor for the networks, even though no single cable channel comes anywhere near generating the ratings that even the lowest rated of the four major broadcast networks receives. A modestly rated program on network television often gets twice the audience that the very highest rated cable programs receive.

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.

However, as Aufderheide's observations about radio ownership suggest, low entry cost is not always a deterrent to concentrated ownership. One reason is that some forms of media still face conditions of scarcity. There is no limit to the number of newspapers that might compete in a city, but there is a practical limit on the number of broadcast television and radio stations that a location can accommodate because of the narrowness of the electromagnetic spectrum used to send broadcast signals. The FCC regulates broadcast licenses and assigns a spot on the radio or television dial to licensed broadcasters to prevent interference from overlapping signals. Although digital broadcasting compresses the amount of space needed to send a signal and thus allows for more signals in the same electromagnetic spectrum, populated areas still do not have enough space to meet interest and demand. The bottom line is that there are not enough broadcast slots to go around. Industry segments without this limitation are less likely to be concentrated.

❖ INTERPRETING STRUCTURAL CHANGES

The media industry, then, has been undergoing significant changes in recent decades as companies have grown, integrated, and become global players. There is little debate about these basic trends. However, the significance of these trends is a subject of intense debate. Market

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advocates see these structural changes as the normal evolution of a growing and maturing industry. However, the public sphere framework reminds us that media cannot be treated simply like any other industry. Furthermore, it raises serious questions about what these structural changes mean for diversity and independence in content and for the power of newly emerging media corporations.

The Market Perspective

From the perspective of the market model, the media industry is one that has enjoyed enormous growth in recent years. With that growth has come a repositioning of major players, the introduction of some significant new players, and an evolution in the basic terrain of the industry. This perspective tends to see this growth as a logical outcome in an industry that has become more integrated across media and more global in scope. To operate effectively in such a new environment, media corporations must develop new business strategies (to be discussed in the next chapter) and draw on the large capital resources available only to major global corporations. The structural changes of growth, integration, and globalization are merely the signs of companies positioning themselves to operate in this new media world. The concentration of media ownership, on the other hand, is the natural byproduct of a maturing industry, as young startups and older, underperforming 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 make any apparent domination of the industry by a few companies an illusion. No one can control such a vast and constantly evolving industry.

Market advocates note that we should not be nostalgic about the media era gone by. In reality, as recently as the mid-1970s, the media landscape was much more sparsely populated than it is today and consumers had far fewer choices, on the whole. Compared with this earlier period, market advocates point out, we have a cornucopia of media outlets and products available to us.

It is true that more communities had competing daily newspapers than today, but often the quality of those smaller local papers was mediocre at best. In contrast, today's papers may be local monopolies and part of larger chains, but by drawing on the resources of their owners, they are able to produce a higher quality product. Also, consumers

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have many more options for news—especially with cable television and the Internet—than they ever did in the days of more competing daily papers, making local newspaper monopolies less significant.

In the 1970s, many communities had only small local bookstores with very limited inventory and choice. Today, more and more communities have "superstore" booksellers with thousands of diverse selections of books and magazines. Rather than killing the old print medium, the Internet has been a shot in the arm for book sales, as online retailers such as Amazon.com offer hundreds of thousands of titles for sale at the click of a mouse. This has made books and other media products more widely available than ever.

In the 1970s, local movie theaters were beginning to feature more multiscreen offerings, but these were limited compared to what is available today. Video rentals were not readily available, because VCRs were still primitive in those days. Today, more multiplex theaters bring more options to moviegoers. By 2005, over 90% of U.S. homes had a VCR—though this technology was rapidly being displaced by DVD players, which were in two thirds of homes, and, increasingly, by digital video recorders such as TiVo. Titles for these devices were widely available for low-cost renting or purchase from brick-and-mortar rental stores or online rental services.

Radio was admittedly more diverse in terms of regional preferences years ago, but it is not clear whether a broader range of music was readily available to listeners then. Today, radio has become largely a chain-owned affair, with new standards of professionalism and high production values. In addition, online streaming in various formats is offering greater musical variety to listeners, and satellite radio has begun to establish itself as a major competitor to traditional broadcast fare.

Most striking is that 90% of the prime-time television audience in the mid-1970s was watching just three television networks. Cable television was not really an alternative because it was largely used to transmit the "big three" broadcast networks to homes in which reception was difficult. Satellite television, of course, was unheard of. Today, three new broadcast networks have joined the older big three. Almost two thirds of U.S. homes have cable, and over 20% have satellite television, each offering scores of channels.

Finally, the vast universe of the Internet is becoming available to more and more people. In 2004, the majority of U.S. households were online, with industry analysts estimating Internet access at two thirds

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of U.S. households.[75] The Internet, especially with broadband access, opened up unprecedented avenues for news, entertainment, and commerce.

In light of these rapid changes, as we have seen, market advocates have called for more deregulation of the industry to spur increased competition. Because of digitization, companies in fields that were previously separate can now compete with each other if regulations are lifted. On the delivery side, telephone companies, for example, can now offer Internet access as well, and cable companies can enter the telephone and Internet businesses. On the content side, companies that had traditionally been focused in one medium can now branch out to work in films, television, print, Internet, and other media. All of this, market advocates contend, means more choices and better media for the consumer; a regulatory system created in a far different era is obsolete in this new dynamic media environment.

Questioning the Market: Revisiting the Public Sphere Approach

Although the market approach may celebrate the new media environment, there are questions that this focus on markets and profits effectively obscures. The public sphere perspective suggests that the technological change and growth in the number of media outlets should not be accepted as an unequivocal benefit, especially if these outlets are linked to a growing concentration in media ownership.

The introduction of new media has never ensured quality content. History has shown that the great potential of new media forms has often been subverted for purely commercial purposes. Both radio and television, at various points, were touted as having profound educational and civic potential. That potential was never reached. Cable television has, in many ways, simply reproduced the formats and formulas of broadcast television. Because it is not covered by the same content rules that regulate broadcast television, cable has had more leeway to air raunchy, violent, sexually suggestive, and sensational entertainment. This type of entertainment can be seen in everything from adult-oriented cable movies to the funny, but foul-mouthed, animated prepubescent offerings of *South Park.* The popularity of such cable programming pressured broadcast television to seek increasingly wild and aggressive programs, leading many parents to despair about the lack of appropriate entertainment and educational television for their children. In recent years, complaints from conservative and religious

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groups has helped spur the FCC to issue a series of fines against both radio and television broadcasters who aired indecent programming.

More wasted potential seems to have plagued the growth of the Internet. Early discussion of the "information superhighway" was quickly supplanted by a focus on e-commerce. Here, too, adult-oriented sites proved to be very popular. There may be more media outlets, but we need to examine what these channels are delivering.

A concern for the health of the public sphere leads us to argue that media outlets are only truly beneficial if they serve the public interest by delivering content that is genuinely diverse and substantive. Early indications were that, to the contrary, much of cable television was delivering more of the same commercial fare that characterized broadcast television. Why could not some of these many channels be used to deliver innovative, diverse, and inclusive public affairs programming? Or alternative visions from independent filmmakers and other artists? Or programming that specifically spoke to the common challenges we face as a society? Instead, the fragmentary nature of the cable television world might even be exacerbating cultural divisions in society, as segregated programming targets separate demographic groups based on age, gender, class, and race. The Internet, too, has been used by major media companies primarily to sell products to consumers and to promote other media ventures, few of which have added significantly to a vibrant public sphere.

Finally, the blurring of boundaries between media, coupled with calls for deregulation, raise the specter of fully integrated, multinational media giants that can simultaneously dominate multiple media. Old monopoly criteria seem incapable of dealing with this new market reality. Despite the fact that it was promoted as a means of increasing competition, the 1996 Telecommunications Act has resulted in renewed consolidation in the media industry. Despite this continuing consolidation, market advocates still talk about the new "competition," and policy makers seem unwilling to examine the significance of an emerging media monopoly owned by a few giant firms.

Part of the problem is that the recent waves of media mergers have often brought together companies that have not been direct competitors in the past. So, for example, a phone company buys a cable company or an Internet provider buys a multimedia conglomerate. Using traditional market theory, antitrust law has had to show that a proposed merger would substantially reduce competition and that this reduced competition would enable combined companies to increase

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prices. However, as one *Wall Street Journal* reporter put it, "It is tough to show that rivalry could suffer where none exists, as with a merger between companies that have never competed against each other."[76] Recent mergers have often been across forms of media, but they nonetheless raise troubling questions. Although it was difficult for such deals to be challenged based on the traditional criteria of monopolies, who was to say that the blurring lines between, for example, cable, telephone, and Internet could not be exploited by just a few companies who would dominate all three?

On the content side, market theory promised diversity from an unregulated market, but the reality seems to be quite different, as the same old media content is being sold in new packaging, and underserved communities continue to be marginalized. Little that is fresh or independent seems to come from the new media giants. This, coupled with the growth in the sheer size of these corporations, raises the disturbing specter of concentrated corporate power capable of stifling diverse expression and exerting significant political power.

Thus, although the structural changes in the media industry are apparent, what these changes mean is not at all settled. Advocates of a market approach to media, the most visible perspectives in the public debate, see growth as positive evidence of a vibrant industry. From a public sphere perspective, however, it is clear that we need to look beyond economic criteria to assess the new media giants. Instead, we need to ask, What have the media corporations done with their newly acquired resources? What strategies have they pursued in this new media environment? These are the sorts of questions we examine in the next chapter.

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