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THE NEW MEDIA GIANTS

Changing Industry Structure

◆ David Croteau and William Hoynes

In September of 1999, Viacom announced its merger with CBS.[1] 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. The $38 billion merger was bigger than any previous deal between two media companies. In fact, it was almost double the size of the previous record. The 1995 record-setting deal in which Disney acquired Capital Cities/ABC had been worth $19 billion [$21.2 billion].

While the size of the Viacom/CBS deal was unprecedented, the basic dynamic underlying the merger was not. Since the mid-1980s, major media companies had been engaged in a feeding frenzy, swallowing up other media firms to form ever-larger conglomerates. Including the Viacom/CBS merger, the 1990s alone saw well over $300 billion in major media deals. So rather than being unique, the Viacom/CBS announcement was just

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another example—and certainly not the last—of the mergers that transformed the industry toward the end of the 20th century.

These deals not only changed the media industry playing field but also sometimes made it difficult to figure out who, exactly, were the players. While media mergers and acquisitions had been mostly between media companies, there were also nonmedia companies who ventured into the lucrative media market. In 1985, manufacturing giant General Electric bought RCA—owners of the NBC broadcast network. Westinghouse—producer of everything from household appliances to components for nuclear reactors—bought CBS in 1995. Three years later, the combined company dropped the Westinghouse name in favor of CBS Corporation and then proceeded to sell off the manufacturing parts of the conglomerate—in essence splitting back into two companies. Seagram's, best known for its alcoholic drinks and Tropicana orange juice, became a major media company, buying MCA in 1995 (now Universal Studios), Polygram records in 1998, and others. Microsoft, the software behemoth, also began investing in traditional media companies such as the cable company Comcast, as well as Internet sites, and entering into a vast number of other media deals. Most important, traditional telecommunications firms also became central media players. In fact, at the time of the Viacom/CBS merger, the only media deals that had been larger were the ones in which phone company giant AT&T acquired two cable companies, TCI (for $48 billion in 1998) and MediaOne (for $54 billion in 1999); a sign of the coming integration of telephony, cable television, and Internet access.

◆ *Making Sense of Mergers*

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. A decade and a half of such mergers have rapidly transformed the organizational structure and ownership pattern of the media industry. In the process, the dilemmas associated with the market and public sphere models of media have been dramatically highlighted.

From a market perspective, industry changes such as the Viacom/CBS deal 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 and the Internet—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 will soon boast 500+ 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.

But 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 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. . . .

◆ *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.

GROWTH

The last decades of the 20th century will be remembered as ones of expansive media growth. Not only was the number of media outlets available to the public via cable, satellite, and the Internet greater than ever, but the media companies themselves were growing at an unprecedented pace. In 1983, 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 [$581 million]. Even when the value of that deal is adjusted for inflation, 1999's $38 billion Viacom-CBS deal was more than 65 times as big.

This 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 and size was also associated with efficiencies of scale. But most important, integrated media conglomerates can exploit the "synergy" created by having many outlets in multiple media. *Synergy* refers to the dynamic where 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 (whose CD soundtrack is played on radio stations), which becomes the basis of 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 had to expand to unprecedented size.

Ironically, as the scale of corporate growth increased, concern with regulating potential media monopolies virtually disappeared from mainstream political discourse. As a result, the big media players have—with sometimes stunning frequency—been merging with or buying out other big media players. (See Exhibit 2.1.) To better understand these mergers and acquisitions, it is informative to take a closer look at one example, the Viacom/CBS deal mentioned earlier.

The Viacom/CBS Merger

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

(Text continues on page 28)

Exhibit 2.1 Select Media Mergers and Acquisitions of $1 Billion (current) or More (1984-2000)

		Value (in billions $)	
Year	*The Deal*	*Current Dollars*	*Constant 2000 Dollars*
1985	Rupert Murdoch's News Corp. (newspapers, television in Australia, Britain, U.S.) buys Metromedia (six television stations) as the launching pad for his new Fox network	$1.6	$2.5
	Turner Broadcasting buys MGM/United Artists (keeping MGM's library of 3,000 films but selling off the rest for $.8 billion)	1.5	2.4
	General Electric buys RCA (owners of NBC network)	6.4	10.1
	Capital Cities (backed by investor Warren Buffett) buys the much larger ABC television network	3.5	5.5
1986	National Amusements (movie theaters) buys Viacom	3.4	5.3
1987	Sony buys CBS Records	2	3
1989	Time Inc. merges with Warner Communications	14.1	19.4
	Sony acquires control of Columbia Pictures and TriStar movie studios	4.8	6.6
1990	Matsushita Electric Industrial Co. buys MCA (Universal Studios, Geffen Records, Motown)	6.6	8.6
1993	US West buys a quarter share of Time Warner	2.5	2.9
	Viacom buys Paramount Communications (Universal Studios, Geffen Records, New York Knicks, publishing)	8.3	9.8
	Viacom buys Blockbuster	4.9	5.8

		Value (in billions $)	
Year	*The Deal*	*Current Dollars*	*Constant 2000 Dollars*
	TCI re-purchases Liberty Media, which it has spun-off earlier (in prelude to failed Bell Atlantic takeover)	3.5	4.1
1994	Cox Cable buys Times Mirror Cable	2.3	2.6
	US West buys Wometco and Georgia Cable TV	1.2	1.4
1995	Telecommunications Act of 1996 introduced in Congress		
	Gannett buys Multimedia Inc.	2.3	2.6
	Time Warner buys Houston Industries	2.5	2.8
	Time Warner buys Cablevision Industries	2.7	3
	Seagram's (beverages) buys 80% of MCA from Matsushita, renames it Universal Studios	5.7	6.4
	MCI buys 10% share of News Corp	2	2.2
	Westinghouse Corporation buys CBS (three years later, Westinghouse changes the company name to CBS Corporation)	5.4	6
	Walt Disney Co. buys Capital Cities/ABC	19	21.2
	Time Warner buys Turner Communications	8.5	9.5
	TCI buys Viacom's cable TV system	2.3	2.6
1996	Telecommunications Act of 1996 passed		
	Westinghouse (CBS) buys Infinity Broadcasting (radio stations)	4.9	5.3

(Continued)

Exhibit 2.1 continued

		Value (in billions $)	
Year	*The Deal*	*Current Dollars*	*Constant 2000 Dollars*
	News Corp. buys New World Communications Group, Inc.	3.6	3.9
	US West buys controlling interest in Continental Cablevision	10.8	11.7
	A. H. Belo Corporation buys Providence Journal Company (16 TV stations plus major newspapers)	1.5	1.6
	Tribune Company buys Renaissance Communications (TV stations)	1.1	1.2
1997	Microsoft buys an 11.5% stake in Comcast Corp	1	1.1
	Reed Elsevier and Wolters Kluwer merge (print/electronic publishing/databases; Lexis/Nexis)	7.8	8.3
	News Corp buys international Family Entertainment (Family Channel and MTM Entertainment TV production)	1.9	2
	TCI buys one-third of Cablevision Systems	1.1	1.2
	Westinghouse-CBS buys American Radio Systems	2.6	2.8
	Westinghouse-CBS acquires Gaylord, owners of Country Music TV and The Nashville Network	1.6	1.7
1998	AT&T buys TCI (Tele-Communications, Inc)	53.6	56
	Bertelsmann buys Random House/Alfred a. Knopf/Crown Publishing	1.3	1.4
	AOL (America Online) buys Netscape (Internet browser)	4.2	4.4
	Seagram buys Polygram (music)	15.1	15.8

		Value (in billions $)	
Year	*The Deal*	*Current Dollars*	*Constant 2000 Dollars*
1999	DirectTV (Hughes Electronics) buys PrimeStar	1.8	1.8
	Charter Communications buys Bresnan Communications (cable)	3.1	3.2
	AT&T buys MediaOne	54	55.2
	@Home Corp. buys Excite (Internet company)	6.7	6.8
	Columbia House (owned by Time Warner and Sony) merges with online retailer CDNow	2	2
	CBS buys King World (syndicated television programs)	2.5	2.6
	Yahoo! buys GeoCities Inc. (Internet company)	4.7	4.8
	Yahoo! buys broadcast.com	5.7	5.8
	VNU (Dutch publisher) acquires Nielsen Media Research	2.7	2.8
	CBS (via subsidiary, Infinity Broadcasting) buys Outdoor Systems (billboards)	6.5	6.6
	Viacom announces merger with CBS	38	38.9
	Cox Communications buys cable assets of Gannett Co.	2.7	2.8
	Cox Communications buys TCA Cable TV Inc.	3.3	3.4
	Cox Communications buys Media General Inc.	1.4	1.4
	Clear Channel Communications buys AMFM Inc.	23	23.5

(Continued)

Exhibit 2.1 continued

		Value (in billions $)	
Year	*The Deal*	*Current Dollars*	*Constant 2000 Dollars*
2000+	America Online (AOL) acquires Time Warner in biggest media deal to date	166	166
	Tribune Company buys Times Mirror Company	6.5	6.5
	Telefonica of Spain acquires Lycos, the Internet portal; as part of deal, Telefonica establishes a partnership with Bertelsmann	12.5	12.5
	Gannett acquires Central Newspapers, owners of six dailies, including the *Arizona Republic* and the *Indianapolis Star*	2.6	2.6
	Vivendi, a French pay-TV and telecommunication company, buys Seagram (Universal, Polygram)	34	34
	News Corp (Fox) buys 10 television stations from Chris-Craft Industries	5.4	5.4

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 were developed using the American Institute for Economic Research's online cost-of-living calculator (www.aier.org/cgi-aier/colcalculator.cgi). Constant dollar values should be considered approximate.

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 what was seen as its 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 right 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."[2] 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. In order 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 [$5.3 billion], keeping the name for the new company. Viacom grew quickly, purchasing other media enterprises. Most notably, in 1993, it bought Paramount for $8.3 billion [$9.8 billion] and Blockbuster Video for $4.9 billion [$5.8 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, creating a new Viacom that was estimated to be worth over $70 billion.

So what happened? Why was a much smaller media company being broken up in 1971 under the fear of monopoly, while a much larger company was allowed to keep growing in 1999? The equation was 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.

Changing Technology

New technology is one key element facilitating industry changes. When CBS was forced to spin off Viacom in 1971, television viewer options were usually limited to three 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 size (including Fox, WB, UPN), a virtually countless number of cable channels, and "direct TV" satellite options. Media corporations argued that many ownership regulations were no longer needed in this world of proliferating media outlets.

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.

But while technology has undoubtedly changed the face of mass media, some of the changes amount to less than they first appear. For example, while changes in television technology are ushering in the era of the 500-channel universe, these new options—unlike traditional broadcast television—are expensive alternatives that many Americans cannot afford. At the end of the century, nearly a third of American households had no cable service at all and another third had only basic cable. Expensive premium channels, pay-per-view selections, and other options remain unaffordable to most families.

Also, more channels have not necessarily meant more diversity. Instead, many of the cable options simply air either reruns of broadcast programs or provide 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 stage of consolidation 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, if more traditional, media assets. Second, after small ventures began showing how the Internet might be used for commerce, major media players stepped in either buying up smaller companies or forcing them to merge in order to stay alive. Thus, established companies used their resources to buy their way into the expanding Internet market. In the first half of 1999 alone, there were over 650 Internet mergers and acquisitions valued at over $37 billion.[3] This was more than three times the number of deals made in the first six months of 1998.

The large-scale companies make it difficult for new companies to compete independently. The once relatively low startup costs of running a significant World Wide Web site—once touted as a central reason for the Internet's revolutionary character—now routinely exceeds $1 million.[4] As a result, media companies with major capital to invest now dominate the most popular sites on the World Wide Web.[5]

The Politics of Deregulation

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

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, with the elimination of "fin-syn" rules, networks were now free to air their own programming. Increased vertical integration of production and exhibition resulted. 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.[6] Such integration would have been impossible without the change in fin-syn regulations. . . .

The anti-regulatory sentiment in government that had escalated with the Republican Reagan and Bush administrations continued into Democrat Bill Clinton's administration. Nowhere was this more clear 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 "anti-regulatory zeal goes too far, endangering the very competition the bill is supposed to create."[7]

But antiregulation ruled the day and among the many provisions of the act were those that relaxed the regulations on the number of media outlets a single company may own. (See Exhibit 2.2.) While the Telecommunications Act was promoted using a market approach that emphasized more competition, the changes actually helped to fuel a new wave of media mergers and acquisitions.

Patricia Aufderheide notes that "in the months following the act, mergers and buyouts multiplied. In 1997 alone, $154 billion [$163 billion] in media and telecommunication deals was recorded in the following categories, according to Paul Kagan Associates research, telephone, $90 [b]illion; radio, $8.3 billion; TV station deals, $9.3 billion; and entertainment and media networks, $22 billion."[8]

One of the act's provisions called for a review of certain ownership restrictions and, as a result, the FCC announced another round of deregulation in the summer of 1999. This time the FCC eased restrictions on the number of local radio and television stations a single company can own. The FCC eliminated regulations

Exhibit 2.2 Select Ownership Rules Changes in the 1996 Telecommunications Act

The 1996 Telecommunications Act eased restrictions on media ownership, leading to larger media companies and more concentration of ownership.

<table>
<tr><th><i>Previous Rules</i></th><th><i>New Rule Changes</i></th></tr>
<tr><td colspan="2"><i>National television</i></td></tr>
<tr><td>A single entity:
Can own up to 12 stations nationwide or
Can own stations reaching up to 25% of U.S. TV households</td><td>No limit on number of stations
Station reach increased to 35% of U.S. TV households</td></tr>
<tr><td colspan="2"><i>Local television</i></td></tr>
<tr><td>A single entity:
Can own only one station in a market</td><td>Telecom Act called for review
In 1999, FCC announced it would allow multiple station ownership in a single market under certain circumstances</td></tr>
<tr><td colspan="2"><i>National radio</i></td></tr>
<tr><td>A single entity:
Can own up to 20 FM and 20 AM stations</td><td>No limit on station ownership</td></tr>
<tr><td colspan="2"><i>Local radio</i></td></tr>
<tr><td>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 cannot exceed 25%</td><td>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)
. . . with 30-44 stations; 7 total, 5 same service
. . . with 15-29 stations; 6 total, 3 same service (but no more than 50% of the stations in the market)
. . . with 14 or fewer; 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.</td></tr>
</table>

restricting companies to one local TV station in a market. Now companies are allowed to own two stations, as long as at least eight other competitors are in the same market and one of the company's two stations is not among the market's top four. Other conditions too, such as a failing station, can be used to justify multiple station ownership. In a reflection of the convergence of media forms, another regulatory change now allows for a single company to own two TV stations and six radio stations in a market as long as there are at least 20 competitors among all media—cable, newspapers, and other broadcast stations.[9]

Consumer advocates bemoaned the changes, arguing that they once again would lead to more media outlets in fewer hands. But media executives once again 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."[10]

He was right. Less than a month after these new FCC regulatory changes, Viacom and CBS announced their plans to merge—a deal that would have been impossible before the relaxation of FCC regulations. Even with the new rules, the new Viacom would violate existing regulations. For example, its television stations could reach into 41% of American households, but the FCC cap was 35%. In addition, it owned both the CBS network and had a 50% stake in the UPN network, but FCC regulations prevent a network owner from having an ownership interest in another network. Finally, Viacom's ownership of numerous radio and television stations violated ownership limitation rules in a half dozen markets. Upon approval of the deal, the FCC gave Viacom time to comply with such regulations.[11] Some observers, though, believed that the FCC might change some of these limits by the time the compliance period expired.

So 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 since the Reagan era, and the growth in the media industry's lobbying clout, media corporations have been relatively unencumbered in their desire to grow.

Thus, as the 20th century came to a close, a loose regulatory environment allowed Viacom and CBS to create a new media giant. As announced, the 1999 merger created a Viacom that

- 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 with estimated sales of $11 billion—nearly twice that of second-place News Corp ($5.8 billion), and more than double its next two competitors (Disney's $5.1 billion and Time Warner's $3.8 billion).

In an earlier era, such concentrated market power would likely have been met by regulatory roadblocks. In this new era of deregulation, it is likely that the deal will be followed in the coming years by further industry consolidation and even larger deals. . . .

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. . . .

With the transformation of text, audio, and visual media into digital data, the technological platforms that underlie different media forms have begun to converge, blurring the lines between once-distinct media.

One visible symbol 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 for various media.

But 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, that were digitally downloaded via the Internet, are shown with a sophisticated computerized projector.

The convergence of media products has meant that media businesses have also converged. The common digital foundation to 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 developed online World Wide Web sites and upload newspaper articles to it. 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 (MP3, Napster, etc.) by developing its own systems to deliver music via the Web to consumers—for a fee, of course.

Furthermore, convergence has eroded the walls between what used to be three distinct industries: media, telecommunications, and computers. Recently, major cable TV companies began entering the phone service business and offering cabled-based Internet access. "Baby Bells" and long-distance phone companies are getting 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. Integration, therefore, involves even companies outside of the traditional media industry, making it more difficult than ever to mark clear boundaries.

Vertical Integration

While horizontal integration involves owning and offering different types of media products, vertical integration involves owning assets that are involved in the different steps in the production, distribution, exhibition, and sale of a single type of media product. In the media industry, vertical integration tends to be more limited than horizontal integration, but it can still play a significant role. For some time, there has been a widespread belief that "content is king." That is, the rise of the Internet and cable television in particular has led to an explosion in outlets available to deliver media products. Consequently, owning the media content that is to be distributed via these channels is widely believed to be more valuable than owning the channels themselves. However, with the elimination of most fin-syn rules, interest in vertical integration has resurfaced, enabling broadcast networks to once again produce and exhibit their own programs.

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 multiple venues to exhibit these films. These venues include theater chains to show first-run films (e.g., Famous Players and United Cinemas International theater chains) and a video store chain to distribute the movie once it is available on videotape for rental (Blockbuster Video). Viacom also owns premium cable channels (e.g., Showtime, The Movie Channel), basic cable channels (e.g., Comedy Central), and a broadcast network (CBS), 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.

. . . The numerous mergers that have left an industry dominated by larger companies have also produced an industry where 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, Showtime, a UPN affiliate, VH-1, The Movie Channel, The Nashville Network, and your local team on Home Team Sports. It is virtually impossible for the casual viewer to realize that all of these are actually owned—all or in part—by Viacom. It is even less likely that they will connect the owners of all these stations with the owner of their local theme park, movie theater, and radio stations. But 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 for the sale of 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, that 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.

We can see examples of globalization strategies in the case of Viacom. . . . For example, MTV is a popular Viacom cable channel reaching over 70 million U.S. households.[12] It originated as a venue for record companies to show music videos to advertise their artists' latest releases. Over time, MTV has added a stable of regular series (e.g., *The Real World*, *Road Rules*, *Beavis and Butthead*), specials (e.g., *MTV's House of Style*), and events (e.g., *MTV Video Music Awards*, *MTV's Spring Break*), all aimed at the lucrative teen and young adult market.

MTV describes 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 MTV's. Together, these MTV channels are available in over 300 million households in 82 territories that, Viacom says, makes MTV the most widely distributed network in the world. Over three-quarters of 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, such as Paramount's *Forrest Gump* and *Mission Impossible*, 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 90 theaters in Asia, Europe, and South America.
- Paramount International Television distributes more than 2,600 series and movies internationally.
- Blockbuster Video operates 6,000 stores in 27 different countries.
- 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 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

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. There is considerable debate about the significance of this trend but the trend itself has been clear. . . .

Ben Bagdikian is a researcher whose work on the ownership of media has revealed increased concentration. In the various editions of his *The Media Monopoly*, Bagdikian has tracked the number of firms that control the majority of all media products. This number has been declining dramatically in the last 15 years. He notes that in recent years, "a small number of the country's largest industrial corporations has acquired more public communications power—including ownership of the news—than any private businesses have ever before possessed in world history." [13] In the fifth edition of his book, he reports that in 1996, just 10 media companies dominated the entire mass communication industry. With recent high-profile mergers, this figure continues to decline.

Within each sector of the industry, a few large companies dominate smaller competitors.

- Two companies—Borders/Walden and Barnes & Noble—make a third of all U.S. retail book sales.[14]
- Five movie companies—Disney's Buena Vista, News Corporation's Fox, Time Warner's Warner Bros., Viacom's Paramount, and Sony—dominate that industry, accounting for more than 75% of the domestic box office in the summer of 1998.[15]
- Five companies—Seagram's Universal, Sony, Time Warner, Bertelsmann, and EMI—distribute 95% of all music carried by record stores in the United States.
- Television continues to be dominated by four major networks—Disney's ABC, Viacom's CBS, News Corporation's Fox, and General Electric's NBC. Several new fledgling networks have entered the field but are not yet major competitors—WB (Time Warner), UPN (Viacom), USA, and PAX. . . .

◆ *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 advocates see these structural changes as the normal evolution of a growing and maturing industry. But the public sphere framework reminds us that media cannot be treated simply as 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 the growth of larger media companies as the logical outcome of 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 and draw on the larger 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 by-product of a maturing industry, as young start-ups 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. Companies such as America Online (AOL), who have become major players in the industry, did not exist a few years ago, while old media standards, such as ABC, were long ago incorporated into newly consolidated media companies. Change is built into the market and no company can really dominate the marketplace.

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 there are 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 have many more options for news—especially 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, while VCRs are in 85% of homes and a wide array of videos is readily available for low-cost renting. DVDs, too, have entered the media landscape.

Radio was admittedly more diverse in terms of regional preferences, but it is not clear whether a broader range of music was readily available to listeners. Today, radio has become largely a chain-owned affair with new standards of professionalism and high production values. In addition, online streaming offers the potential of greater musical variety to listeners.

Most striking, 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 still largely used to transmit the "big three" broadcast networks to homes where reception was difficult. Satellite television, of course, was unheard of. Today, three new broadcast networks have joined the older "big three." Nearly three-quarters of U.S. homes have cable, delivering an average of almost 60 channels. Satellite television, with hundreds of channels, is expanding and by 2000, was in more than 10% of homes.

Finally, the vast universe of the Internet is becoming available to more and more people at work and home, opening up unprecedented avenues for news, entertainment, and commerce via the printed word or streaming audio-video.

In light of these rapid changes, as we have seen, market advocates have called for more deregulation of the industry in order 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, while cable companies can enter the telephone and Internet business. 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 contended, 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, and sensationalistic entertainment. This type of entertainment could be seen in everything from adult-oriented cable movies to the funny, but foul-mouthed, animated prepubescent offerings of *South Park*. Cable's vast wasteland was perhaps epitomized by its most highly rated programs in the late 1990s: professional wrestling. 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.

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. While there may be more media outlets, 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 couldn't 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 the society, as segregated programming targeted 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, little of which 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 continue to talk about the new "competition," and policymakers seem unwilling to examine the significance of an emerging media monopoly by a few giant firms. . . .

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. . . .

◆ *Notes*

1. Details of the Viacom/CBS deal used throughout this chapter were obtained from company press releases and media accounts, including the following: Paul Farhi, "Viacom to Buy CBS, Uniting Multimedia Heavyweights, " *Washington Post* (September 8, 1999): A1; Sallie Hofmeister, "Viacom, CBS to Merge in Record $37-Billion Deal," *Los Angeles Times* (September 8, 1999), online at: www.latimes.com, accessed September 9, 1999; Brian Lowry; "What Effect? Only Prime Time Will Tell," *Los Angeles Times* (September 8, 1999), online at: www.latimes.com, accessed September 9, 1999; Lawrie Mifflin, "Viacom Set to Acquire CBS in Biggest Media Merger Ever," *New York Times* (September 8, 1999), online at: www.nytimes.com, accessed September 9, 1999; Lisa de Moraes, "Can Fledgling UPN Fly to New Viacom Nest?," *Washington Post* (September 8, 1999): C1; Judy Sarasohn, "Special Interests: A Silence That May Not Be Golden," *Washington Post* (September 9, 1999): A19; John Schwartz and Paul Farhi, "Mel Karmazin's Signal Achievement," *Washington Post* (September 8, 1999): E1.

2. Federal Communications Commission. "Comments Sought on November 1995 Expiration of Fin-Syn Rules," New Report No. DC95-54, April 5, 1995, online at: www.fcc.gov, accessed October 12, 1999.

3. Noelle Knox, "Internet Mergers Up Sharply," *Richmond Times Dispatch* (July 17, 1999): C1.

4. Maryann Jones Thompson, "Got a Million Bucks? Get a Web Site," *The Industry Standard*, online at: www.thestandard.com/metrics/display/0,1283,899,00.html, accessed June 16, 1999; www.thestandard.com/research/display/0,2799,9845,00.html, accessed August 29, 2000.

5. See, for example, the latest list of popular sites at: www.100hot.com. This particular service tracks a sample of more than 100,000 user to develop its listing. Other services, using different methodologies, will have slightly different results. See, for example, the "Top Rankings" list at: www.mediametrix.com/home.jsp?language=us, or the top sites listed by PC Data Online at: www.pcdataonline.com/reports/tmSitesSingleFree.asp.

6. Kyle Pope, "Disney to Merge Television Studio With ABC Network," *Wall Street Journal* (July 9, 1999): B4.

7. "A Flawed Communications Bill," *New York Times* (June 20, 1995): A14.

8. Patricia Aufderheide, *Communications Policy and the Public Interest* (New York: Guilford Press, 1999), p. 89.

9. Bill Carter, "FCC Will Permit Owning Stations in Big TV Markets," *New York Times* (August 6, 1999): A1.

10. John Schwartz, "FCC Opens Up Big TV Markets," *Washington Post* (August 6, 1999): E3.

11. Federal Communications Commission, "FCC Approves Transfer of CBS to Viacom; Gives Combined Company Time to Comply With Ownership Rules" (May 3, 2000 press release), online at: www.fcc.gov, accessed May 8, 2000.

12. MTV descriptive information is from the Web sites of Viacom (www.viacom.com) and MTV (www.mtv.com), and from Viacom's "1998 Annual Report."

13. Ben Bagdikian, *The Media Monopoly*, 5th ed. (Boston: Beacon, 1997), p. ix.

14. Ben Bagdikian, *The Media Monopoly*, 5th ed. (Boston: Beacon, 1997), p. xxix.

15. "Summer Market Share," *Variety* (September 14, 1998).