

The great impact *MTV* can make was shown when it started up in India in 1991. The broadcaster created contact with a Rock 'n Roll environment unknown until then. Videos were shown for 24 hours. Indian youth in the towns, not exactly pampered with entertainment, more or less overnight took on board the *MTV* fashion. Culture pessimists saw the end of Indian culture coming. But it turned out differently. Because of contractual agreements with *Star TV*, which beams to 52 countries, Viacom withdrew from *Star TV*. *Star TV* created a replacement given the name *Channel V* and meeting Indian tastes. The most popular programme is *The Great Indian Manovigyanik Show*, a celebrity showcase. About a third of the time no Rock music is aired. Instead, clips from Hindi movies are shown because 80% of the music sales in India comprise Hindi film music. Peppy presentation has created slogans that at least for a short time were used in everyday speech, such as the catchphrase, "You are a nonsense person". *MTV* itself has been back on the Indian market since October 1995 via a tie-up with Doordashan.

MTV is also making a discernible impact on Latin America. Although a single language, Spanish, is spoken in the transmission target area, there are very diverse musical traditions in it so that only a few musicians made supra-regional breakthroughs. *MTV Latino* supported a new style of music, Latin Rock, which according to Newsweek (April 24, 1995) had the following consequence: "Today, heavy play on *MTV Latino* has made *Los Fabulosos Cadillacs*, from Argentina, one of Mexico's hottest acts, while Mexican groups like *Caifanes* are gaining popularity in South America." In other words, MTV contributes to an homogenisation of the cultures.

"That's how this world lives. The big people who have access to 2, 3, 4, 8 million homes are playing leverage against each other." (Rupert Murdoch)

### 3. Merger mania

#### 3.1 Definition of multimedia

The term multimedia has become a kind of magic formula. Politicians, social scientists, entrepreneurs, trade unionists, etc. use the term when they try to characterise the future, the 21st century. Mostly the term is used as if everyone knew what it meant. But there is no unequivocal and generally recognised definition of multimedia. Thomas Middlehoff, a member of the executive of the German media conglomerate Bertelsmann AG, notes on the debate about markets and societal consequences of multimedia products (1995, 2): "There is a lack of secure knowledge and realistic estimations." Despite this the world's third-largest media enterprise assumes that in 2005 half the entrepreneurial growth will come from the media business and that strategies have to be developed to address that.

The consulting agency, Booz-Allen & Hamilton, in a report to the office for the assessment of technological consequences of the Bundestag, the German House of Representatives, has characterised multimedia as a generic term for a wide variety of new types of products in the computer, telecommunication and media fields. The fundamental multimedia characteristics according to this report are interactive usage, the integration of various media types and digital technology. Interactive usage means that the user is not only a recipient but by using the relevant channels can feedback and thereby change contents, respectively trigger actions. Integration of various media types means that e.g. video and audio sequences can be combined with texts and data. Digital technology is used both for storage and later processing of the data on which the media are based.

Examples of such multimedia usage are teleshopping, the calling up of films from video banks (video-on-demand), homebanking, picture telephone, multimedia newspapers; research in multimedia data banks (e.g. libraries). Multimedia are differentiated on the personal computer by the kind of usage into offline and online. Offline means that the PC is not connected to a tele-

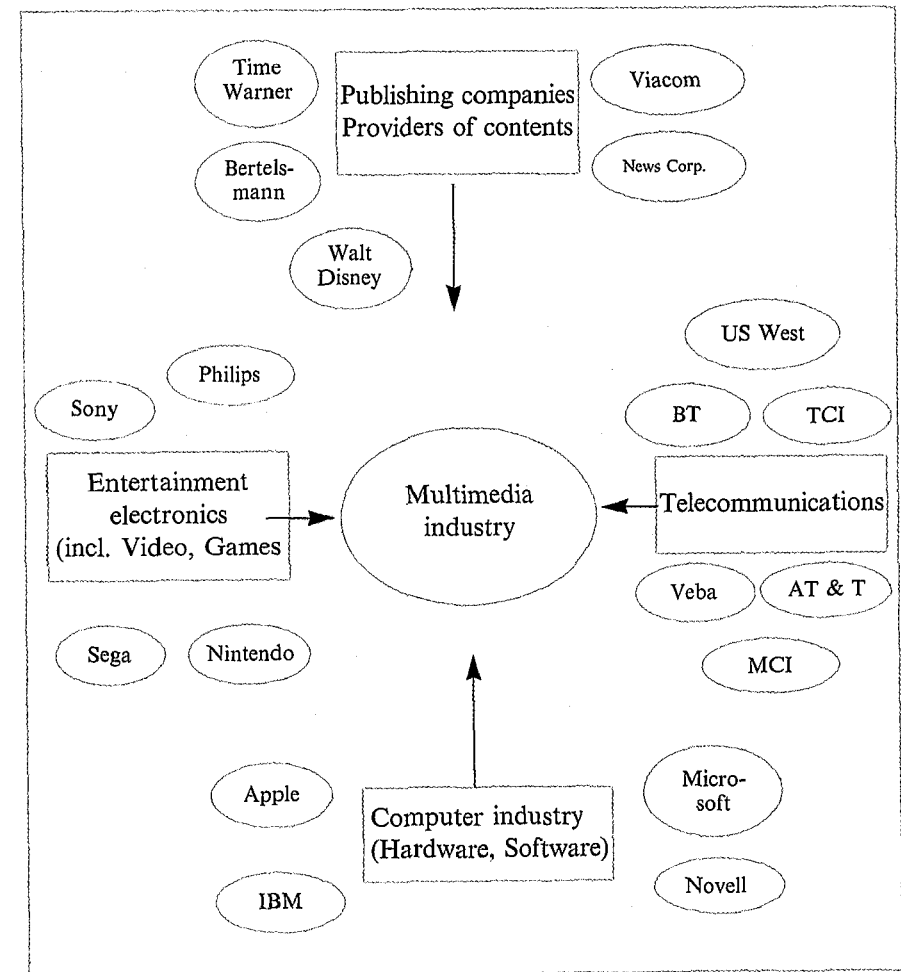
communication net and the data are transported e.g. on CD-ROM. Online means the user is connected through a net infrastructure to the telecommunication net.

The variant of offline multimedia usage for home entertainment that has currently (April 1996) moved into the focus of public debate is the *digital video-disc player* (DVD) which is a combination of CD player and video recorder. The technology is driven forward by Time Warner and Toshiba. Fumio Sato, the president of Toshiba, suggests, "DVD technology will be a key to the expanding multimedia world". Market prognoses say by the end of 1999 seven million DVD movie players will have been sold in North America. A video disc will be produced for less than \$1 while a videotape costs about \$2 to produce. Companies like Walt Disney and Time Warner, respectively Warner Home Video, which has the world's largest collection of feature films, will with great probability make substantial profits from this. Computer makers intend to instal DVD-ROM drives because they can store substantially larger amounts of data than CD-ROMs. With that the PC industry and the broadcasting industry are becoming compatible, so to speak. Hiroyuki Furukawa, a vice president of Toshiba America argues that "DVD encyclopedias could feature full-screen, full-motion videos instead of small, grainy snapshots".

The development of DVD has another implication. The video compression chips that make DVD possible are the key component in the direct broadcast satellite business. By this means hundreds of channels can be made available to non-cabled TV users. Hughes Electronics Corp., which belongs to General Motors, and Microsoft are working on making PCs capable of receiving video programmes directly from satellites. If that succeeds, the fusion of PC and home entertainment will get even closer.

The basic technological prerequisite for the new communication revolution – the last large technological innovation was the introduction of satellite television and cabling in the 80s – is digitalisation, i.e. electronic signals are no longer transported analog, but are converted into a series of binary characters (0 and 1). Communication technologies separate up to now are merged by this, i.e. TV monitor, telephone and PC become a multimedia unit.<sup>16</sup> The multi-

**Illustration 3:** Multimedia leads to the fusion of industries hitherto separate; taken from Bertelsmann-Dokumentation Herbst/Winter 1995.



media market coming into being is causing industries that operated separately from one another (cf. Illustration 3) to grow together – entertainment electronics, computer making, telecommunications and providers of contents are becoming a multimedia industry. There are plenty of examples of such fusion processes. The American telecommunication enterprise, MCI, whose major shareholder is British Telecom, has a stake in Murdoch's News Corporation. Sony is engaged in Hollywood. Through PolyGram NV Philips is not only one of the biggest firms in the music industry worldwide (its clientele includes

<sup>16</sup> In Germany it has not been decided who will dominate the decoder market. In Britain Murdoch has a firm grip on the Pay-TV market with his Videocrypt encoding system and dictates prices to new providers. One of the possibilities of digital TV is that identical feature films can be transmitted at various times (e.g. to begin at 7, 7.30, 8 or 8.30 p.m.). A football game or car race can be transmitted from various camera perspectives. Pay-TV also has risks for the recipients. Thus it cost \$20 to view the box fight between Mike Tyson and Peter McNeely without commercial breaks. The fight lasted all of 89 seconds.

inter alia Sheryl Crow and U2), since April 1995 it has owned 50% of MTV Asia (MTV belongs to Viacom) and it is also very successful in the film business; *Filmed Entertainment* was founded in 1991 and has produced more than 30 films. Its biggest success was *Four Weddings and a Funeral*. That film cost \$5 million to produce and took in \$250 million at the box office. Germany's Bertelsmann is not only a publishing house (books and press) but is also active in the music industry (RCA) and is a central player on the European television market. Since March 1995 Bertelsmann has cooperated with American Online on the Internet in a \$100 million joint venture. Middelhoff has described the aim as building "a global competitive online network, to become a market leader worldwide". Almost the ideal type of the new multimedia enterprise is Microsoft which has become the world's biggest encyclopedia publisher, larger than Encyclopedia Britannica or the German Brockhaus (cf. Chapter 3.9).

Mostly prognoses for the multimedia market are extremely optimistic. Billions are already being invested. When the cooperation between Bertelsmann and American Online (AOL) was announced the AOL stock rose by 16% on Wall Street to \$82.25. When in August 1995 the software firm Netscape went to the stock exchange its shares exploded from \$28 to \$75. Enormous profits are expected.

The growing importance of the multimedia industry is also demonstrated by the TIME (June 17, 1996) special report about America's most influential and powerful people. Among the seven rated most powerful – although the selection criteria are arbitrary – all except President Clinton and Federal Reserve chairman Alan Greenspan are linked with the new industry: Bill Gates (Microsoft), Rupert Murdoch (News Corp.), Michael Eisner (Walt Disney Co.), Jack Welsh (General Electric (NBC Network)), Andrew Grove (Intel, which makes 75% of all microprocessors). Jack Smith of General Motors is placed eighth on the list of most powerful people. This enterprise is also active in the media sector: DirecTV, a subsidiary of Hughes Communications, was the biggest pay-tv company in the USA in 1996. Advertising Age (Vol. 65, Dec. 19, 1994, p. 16) also refers to Sumner Redstone of Viacom, already mentioned in Chapter 2.3.3, as "the most powerful individual in the communications world" after his takeover of Paramount Communications and the merger with Blockbuster Entertainment Corp.

The gigantic investments of the U.S. media and communication industry may, however, be inappropriate to the market. According to a study carried out in 1995 by the entrepreneurial consulting firm, *Mercer Management Consulting*,

the consumers, although impressed by developments in the multimedia sector, are by no means prepared to spend enough money to make the investments already made pay off.<sup>17</sup> Communication, Information Entertainment was perceived as follows:

#### **Communications Services**

Local voice telephone

Videophone

#### **Entertainment Services**

Traditional basic and premium channels

Movie services (pay per view; near video on demand; video on demand)

Time-shifted TV

Interactive TV

#### **Electronic Services**

Shopping & Errands (The Mall; Classifieds; Home Banking; Tickets & Reservations; Food Shopping; Take out; Investments)

People Connection (Screen Chat; Post Office; Paramedic; Network Games; Yellow Pages; Home Monitoring)

Library & Information (News & Mags; Book Library; Local Events; Teach Me; Personal Jukebox; Weather & Traffic)

Mercer questioned a nationwide sample of 850 people in the USA. The company came to the conclusion that the industry is heading up a blind alley because the supply is growing faster than the demand. The opening of regional telephone and cable markets to competition and the simultaneous technological breakthrough in relaying technologies had brought into being in the USA data highways with enormous overcapacities. At the same time demand was concentrating on ever fewer offers. The overcapacity would force price cuts. The communication nets could hardly be operated profitably. Especially in the entertainment sector, the study found, the expected interest was not there. This held inter alia for video-on-demand. The 1995 market for private communication, entertainment and information of \$60 billion would grow to more than \$100 billion, but not before 2005 or even 2010. To connect a household to the necessary broadband cable net the providers will have to spend between \$1,000 and \$2,000 (other estimates assume \$2,500). But the average household was not prepared to pay more than about \$60 a month, which was

17 Cf. Mercer Management Consulting: Colliding Worlds. Separating the Virtual from the Reality. A Round Table for Senior Executives, New York, September 19, 1995, Selected Excerpts.

what was already being paid for telephone and cable TV. Growing demand is expected especially for electronic services such as telebanking, teleshopping and information services. This market would grow in the USA to \$11 billion. According to the Mercer findings firms investing billions appear to have made one mistake: they tested whether the multimedia offering functions technically. The question whether the demand is there for it was apparently not asked in the general euphoria. According to the Mercer findings the breakeven on network investment will not be reached by 2005. The expectations reflected in current stock prices would probably not be fulfilled by a long chalk. The result would be a "bloody stalemate". Mercer Management Consulting estimates that negative developments on the stock exchange are almost inevitable.

## 3.2 Economic aspects of media concentration

In the following terms like *media-multi* or *media giant* are used as synonyms for media concern. These are enterprises operating mainly in the media sector and/or holding a dominant position in a relative media market and, because of various interlinkages, possessing great economic power. The enterprises referred to in the following generally operate at national and international levels. Especially problematical in this is the demarcation of the relevant markets into types (e.g. one or more media) and locations (local, regional, national and international).<sup>18</sup> The problems of market demarcation become especially clear when supervisory authorities are concerned with it. In Germany, for example, the State Broadcasting Treaty sets an upper limit of 30% market share for television. So if more than 30% of the viewers watch the channels of a certain enterprise (e.g. Bertelsmann), the enterprise has to withdraw from a channel. The setting of such media-politically relevant criteria and their implementation result from political negotiation. This also applies to the time dimension which e.g. covers the extent of the concentration processes in a certain period (e.g. a year).

Enterprise or media concentration exists if competition for a certain commodity on the market is restricted. Competition is the vying by market participants for business deals (i.e. market shares), wherein the exchange partners have the choice of several options (Bartling 1980, 10). Entrepreneurial concentration thus means an aggregation of market shares by one or a few providers. Concentration in the media sector always poses the danger of curtail-

<sup>18</sup> The time demarcation of the relevant market can also be difficult, i.e. the question as to the period applied to defining a predominant position and media-policy counter measures being taken.

ing variety of opinion, although it is also argued that without large media enterprises there can be no multiplicity of opinion if they are so organised as to have that multiplicity within the individual media.

There are various processes and forms of entrepreneurial and hence media concentration. On the one hand, a concentration process can be started by overproportional internal enterprise growth, on the other hand by external growth, i.e. through fusions of enterprises. The primary cause of market power is external growth (Schmidt 1993, 126ff). There are three main forms of external growth:

- horizontal concentration in which the media enterprises involved operate in the same relevant market (e.g. the merger of two newspaper publishers);
- vertical concentration, involving media operating at pre-and/or post-production levels, i.e. those in a buyer-seller relationship (e.g. merger of film producers and television channels);
- diagonal (conglomerate) concentration in which the enterprises involved operate in various relevant markets (e.g. merger of a film studio with a whisky producer such as Seagram).

Diagonal concentration is the merger of enterprises operating neither in the same relevant market nor being in a buyer-seller relationship. The main motive is risk-spreading; in this case the enterprises operate in different markets. Diagonal fusions can lead to economies of scale. These come into being through cost-saving in the production of several products requiring some of the same inputs. This includes e.g. the multi-use of the same personnel in research, joint advertising, etc.. Linkage advantages lead to the creation of multimedia concerns. A typical example would be the expansion of an enterprise from the print media sector into the electronic media sector (Heinrich 1994, 123).

In many cases the form of concentration is not clearly definable; thus the merger of a TV network with a record company can be seen as both a horizontal and a diagonal form of concentration, depending on how the relevant market is defined. The causes of concentration processes cannot be separated from the expected consequences. Hoped-for advantages from mergers are primarily power, i.e. individual economic advantages through hindering and/or exploiting other market participants, and efficiency advantages (cost advantages from size). The principle of economies of scale says that with increasing output unit costs can be lowered. In horizontal concentration there is the danger that if the optimal enterprise size is exceeded the size advantages in the

long term turn into diseconomies of scale, i.e. lacking competitive pressure can cause lack of motivation in management and employees and/or produce encrusted and hence inflexible organisational structures. Vertical concentration can happen for market strategy reasons (securing acquisition and/or distribution channels; hindering competitors) and/or aim at realising transaction-cost economies. The market transaction mechanisms contain costs of using the price mechanism, such as the costs of finding exchange partners, gathering information about prices and goods, negotiating contracts, ensuring contract fulfilment and so forth. But as a rule the savings from such transaction costs are countered by additional internal enterprise organisation costs from the concentration (Heinrich 1994, 48). In the media sector, according to Jürgen Heinrich (1994, 122), seven different production or trading stages can be identified:

- "Production of production facilities (hardware), i.e. printing works, studios, outside broadcast vans etc. (phase 1),
- production of media contents (software), including e.g. films, pictures, reportages, articles (phase 2),
- agglomeration of the range of media contents in mass media, i.e. production of the newspaper, periodical or radio or TV programme (phase 3),
- dissemination of the mass media (phase 4),
- dissemination of software by non-mass medial distribution channels, e.g. cinemas, video markets and archives (phase 5),
- sale of advertising by media agencies (phase 6) and
- operation of pure distribution channels such as cable net and satellite (phase 7)."

Vertical concentration is especially advantageous for securing adequate input of media software in the mass media, i.e. from phase 2 to phases 3, 4 and 5. The advantages of vertical integration as well as the multiple marketing of films in cinema, as video cassette, in pay-TV and in "normal" television are made clear by Alexander Artopé and Axel Zerdick (1995, 34) with the example of the feature film, *Forrest Gump* (cf. Illustration 4) produced by Viacom. Profit windows here means the sale of a programme ware produced once through several technically different distribution channels.

One of the main problems in measuring concentration is that information is not readily available on many interlinkages, for example when so-called "sleeping partners" hold shares in enterprises. Also disputed is whether in the television market, for example, the market shares of individual broadcasters or the enterprises holding shares in the broadcasters should be assessed. The

**Illustration 4:** Possible use of profit windows and vertical integration in the USA in the example of the feature film "Forrest Gump"

Production and distribution stages			
Profit window	Stage I	Stage II	Stage III
Cinema	The film "Forrest Gump" is produced in the PARAMOUNT STUDIOS in Hollywood	PARAMOUNT Theatrical Distribution distributes the film	The film is played in one of Viacom's 349 cinemas
Pay-TV	PARAMOUNT Television Distribution distributes the film in Pay-TV	"Forrest Gump" is shown on the Viacom-owned Pay-TV channel Showtime	
Video	PARAMOUNT Home Video distributes "Forrest Gump"	"Forrest Gump" is hired out and sold in the 4,069 "Blockbuster" videotheques	
Television	PARAMOUNT Television Distribution distributes "Forrest Gump" in Free TV	A commercial channel belonging to the entrepreneurial group (United Paramount Network*) airs "Forrest Gump"	

Remark: Own, greatly simplified depiction of the profit windows and vertical integration for the USA. In reality there are, as already shown, more "profit windows", divided into home and export markets.

\*Joint venture with Chris-Craft Industries.

role played by family relationships can also be problematical. For example, in Germany in 1996 the media entrepreneur, Leo Kirch, would have held almost 28% of the television market if one counted the shares held by his son. But it is not calculated that way in Germany, there is no relationship clause, i.e. relatives do not have to prove that they have no business relations with each other.

In addition to the concentration advantages already mentioned – economies of scale, transaction costs, risk spreading – it has to be noted that many enterprise mergers, especially those that took place recently in the USA, can be explained with the aid of the so-called *manager theories of concentration*. Such theories can explain the coming about of mergers that have no positive effects on profits, enterprise efficiency or the like but may possibly be useful to the management. At least the management of the firm doing the takeover gains advantages, for example increased job security, greater promotion prospects, reduction of the power of big shareholders by wider spreading of shares. The income of the management, respectively individual managers, also rises if, for example, it is coupled to certain data, and, not to be forgotten, so does the prestige. Thus Walt Disney's chairman and chief executive officer, Michael D. Eisner, was paid a compensation of \$14.8 million for organising the second largest merger in U.S. history with Capital Cities/ABC and for the subsequent 28% rise in the stock price.

A major reason for concentration tendencies in the media sector lies in a peculiarity of the ware "media content" (information, films, shows, etc.). For this ware there is *non-rivalry in consumption*, i.e. in principle any number of people can consume this ware simultaneously or consecutively without it being used up. That fact leads to it being profitable for the enterprise to reproduce the ware "media content" as often as possible. It is produced only once as the prototype and then replicated and distributed (blue print industry). The production costs are independent of the number of recipients, i.e. there is a continuous *fixed costs degression*. With that the unit costs fall with the rising number of recipients.

Another important peculiarity of media production lies in the linkage of recipient and advertising markets. As the famous German sociologist, Max Weber, stated already at the first German congress of sociologists in 1910, media produce for two markets, namely the recipients and the advertisers. The market value of the advertising is again dependent on recipient demand (*reach of the medium*). In other words, profit depends directly on the reach of the medium – growing reach, growing profit. That means that in the long term an enterprise can only increase its profit if it expands, i.e. increases its reach. This must lead to horizontal market concentration since in the long run no individual small enterprises can hold out against big concerns (cf. Heinrich 1994, p. 119f.).

Whereas fixed cost degression and increased reach lead to horizontal concentration, vertical concentration, as already mentioned, lowers the transaction

costs. Transaction costs are all the costs arising with the agreements about a trade exchange. They include (cf. Staehle 1990, p. 390):

1. *Approach costs* (information gathering about possible suppliers and/or customers and their respective conditions);
2. *Agreement costs* (negotiating costs, which depend inter alia on the intensity and duration of the negotiations, the costs of formulating the contract and the costs of agreement over unclarities, litigation costs);
3. *Control costs* (e.g. costs of schedule monitoring, quality control, etc.; possibly the control of whether secrecy agreements are being kept) and
4. *Adjustment costs* (e.g. costs which can be involved in asserting changes to agreed conditions, schedules, qualities, quantities, prices and durations of contracts).

Accordingly it is of interest to enterprises of various production phases to cooperate to cut transaction costs and to create competitive advantages over other enterprises for themselves.

As empty as the formulation may appear at first sight, the effects of an enterprise concentration on a certain market depends on various factors. Thus it is difficult to establish when an enterprise actually dominates a market because this requires the relevant market's being demarcated. It has to be asked whether the other competitors are really only those enterprises that produce the same ware, or whether other products are also of competitive relevance as long as they can be regarded as substitutes. It is also difficult to obtain precise information about the intensity of the competition relationships. In the media sector one might look whether only the competition between various telecasters is considered or whether enterprises in the print media sector belonging to the same concern are taken into account. Furthermore, certain market share thresholds have to be set, beyond which there is market domination. Also to be considered is the likelihood of other competitors coming into the market – what forms of market entry hindrances are there? In the case of media concentration the high fixed cost degression and the linkage between advertising and recipient markets form high access barriers since as a rule a newcomer cannot compete with the established size of an established supplier.

From an economic point of view there also has to be in media concentration a weighing of efficiency advantages for the individual enterprises and such negative consequences for the recipients as the assertability of higher prices in

the market. Heinrich (1994, 126) writes: "The linkage of advertising and recipient markets, i.e. above all the spiral of increasing reach/rising advertising prices/increasing profit founds a relative *aggressive marketing*, a marketing that must always be aimed at winning new recipients without losing the old." In addition to the economic consequences of media concentration, a threat to multiplicity of opinion can grow. In the case of horizontal media concentration it is to be expected that as the number of enterprises declines, so will the number of media offerings. Vertical mergers, on the other hand, do away with the market mechanism. The interplay of supply and demand no longer works because an enterprise operating in several production phases can influence all these phases. The only form of concentration to which no particular publicistic consequences (reduction of opinion variety) are ascribed is diagonal media concentration. But it does strengthen the effects of the horizontal and vertical concentration which Heinrich (1994, 134) summarises as follows: The possibility of the media owner's influencing media contents is widened. The possibility of misusing the editorial part for advertising grows. Multiple uses increase. Control through the market decreases. International competition is worsened and market access opportunities fall.

### 3.3 Rule changes: Prime Time Access Rule, Fin-Syn Rules and Telecommunications Reform Act of 1996

The year with the biggest movements in the American media market so far was without doubt 1995, the year of the mega mergers. The big mergers of media enterprises began in 1989 as the TIME publishing company, which inter alia owns cable TV networks, merged with Warner (film and music producer) and the Japanese hardware firm, Sony, bought Columbia Pictures Entertainment. The acquisition of Blockbuster and Paramount by Viacom in 1994 has already been mentioned. In June 1995 Seagram bought 80% of the Hollywood studio, MCA/Universal. At the end of July Disney announced the purchase of Capital Cities/ABC. A day later, on 30 July, Westinghouse announced the purchase of CBS. Also still in 1995 Time Warner followed with the takeover of Turner Broadcasting. Media enterprises of until then unprecedented sizes have been created which have completely changed the structure of international communication and will continue to change it. The newly created enterprises mean a further firming of the predominance of American media enterprises in the global framework.

According to the *Washington Post* of 4 February 1996 the 10 biggest players in the American telecommunication market are Disney, Time Warner, Viacom,

Murdoch's News Corp., Sony, TCI, Seagram (which owns MCA), Westinghouse/CBS, Gannett and General Electrics (NBC's corporate parent). These 10 enterprises control more than \$80 billion in revenues in that industry. Moreover, the scene is permanently in motion and new players can appear.

This development must be seen against the background that William A. Gamson et alii (1992, 374) described already in 1992: "The emergence of media conglomerates with a global market has led to an unprecedented integration of multiple media which can simultaneously market the same message in multiple forms through a dazzling array of new technologies." Ben H. Bagdikian, writing in the third edition of *The Media Monopoly* in 1990, argued that media concentration had led to the formation in the USA of a *Private Ministry of Information* (1990, X): "Governments can be voted out of office. But when corporations gain this level of centralized control over what the general public learns, the dominant corporations can, through their control of news and other public information, postpone public awareness for dangerously long periods." A danger to democracy is feared because multiplicity of information was being pushed back (1990, 243): "Contrary to the diversity that comes with a large number of small, diverse media competitors under true free enterprise, dominant giant firms that command the nature of the business produce an increasingly similar output. The greater the dominance of a few firms, the more uniformity in what each of them produces." This statement, though, is too great a simplification, since often media enterprises that are too small cannot produce good quality because they lack the financial resources. But leaving that point aside for a moment, Bagdikian (1990, 243) unfolds the following typical scenario for a media giant: "(A) magazine owned by the company selects or commissions an article that is suitable for later transformation into a television series on a network owned by the company; then it becomes a screenplay for a movie studio owned by the company, with the movie sound track sung by a vocalist made popular by feature articles in the company-owned magazines and by constant playing of the sound track by company-owned radio stations, after which the songs become popular in a record label owned by the company and so on, with reruns on company cable-systems and rentals of its videocassettes all over the world."

The main reasons of the merger wave in the USA are to be found in the Federal Communications Commission (FCC) having changed two regulations in force until recently in respect of the US-American television system. On 28 July 1995 the FCC put out of force with effect from 30 August 1996 the so-called *prime-time access rule* that had been valid for 25 years. The rule had "prevented the broadcast networks from supplying programs for one hour in the evening and

thus helped create a boom in syndicated game shows and tabloid magazine shows” (New York Times, July 29, 1995). One aim of the prime-time access rule had been to limit the market power of the networks. It was also intended to stimulate more news coverage of local events. But that failed to happen. With the rule now gone, all TV stations can air programmes syndicated by CBS, NBC, ABC or independent companies in the hour before prime-time starts (in the east that is from 7 to 8 p.m.). The New York Times quotes a media analyst, Dennis McAlpine: “The whole game of first-run syndication will dramatically change.” The networks would eventually begin to develop their own first-run shows for syndication during that hour. Most affected by the new regulation are King World Productions (syndicates Wheel of Fortune, Jeopardy, Inside Edition), Paramount (a unit of Viacom) and Fox’s syndication arm.

Much more significant is a second change of rules. Against resistance from Hollywood, the FCC lifted financial interest and syndication rules (“Fin-Syn Rules”) on 10 November 1995, opening the syndication market to the networks. Kleinstaub (1995, 35) describes these regulations as “a complicated web of FCC directives and consent decrees (court settlements)”. The Fin-Syn regulation had forbidden the networks to participate financially in production firms whose programmes they aired. Nor was it allowed to buy the rights to repeat broadcasting and to produce their own films for prime-time airing. The background to the regulation, which prevented the vertical expansion of the three big networks, was that the networks had been accused of misusing their demand power in the programme markets.

As a result of this regulation the television series were produced by firms – independents and Hollywood majors – that were independent of the networks. Naturally, the networks had always opposed and the film industry always welcomed limits on vertical concentration. The old rules prevented the networks from making hundreds of millions of dollars from syndication of such series as the Cosby Show or the like. John Kimelman (1995, 19) wrote in the Financial World on the significance of the change of rule, “...for decades the networks were not permitted to air a show more than two times. So they couldn’t reap the big profit from syndicating”. Bill Carter points in the New York Times to the consequences of this rule change (September 7, 1995, p. 6): “Certainly the recent moves by the Walt Disney Company to acquire Capital Cities/ABC and by Westinghouse Electric to buy CBS were fueled by the expectation that the networks would not be locked out of the syndication market.” Precisely what the Fin-Syn regulations were to prevent, happened in the fusion of Disney and Capital Cities/ABC – a network became junior partner of a Hollywood studio. In response to the changed situation, Time

Warner and Viacom entered the market for networks in 1995 with Warner Brothers Network and United Paramount Network. Fox TV (Murdoch) belongs to Twentieth Century Fox Studios. I re-emphasise: because the Fin-Syn restriction has been removed, the networks can now produce programmes themselves and also own the multi-use rights.

One of the arguments made for lifting the Fin-Syn restriction was that concentration processes had happened in Europe which America needed to counter with comparably strong enterprises. Another was the fusion of telecommunication and mass media, which has created huge new multimedia markets in which there was no danger of monopolies developing. There are, moreover, suggestions to allow the networks ownership of more than 12 stations. Herbert H. Howard (1995, 390) writes: “The FCC’s December 1994 rule-making proposal, when implemented, would allow a broadcast firm to own an unlimited number of TV stations, with the percentage ceiling to be raised gradually to 50 percent of the nation’s TV households.”

The new Telecommunications Reform Act of 1996, signed into law by President Clinton on 8 February 1996, also addresses the concentration processes. According to a statement from the White House the Act will prevent undue concentration of television and radio ownership: “The Act limits the number of stations one entity can own to stations that reach up to 35 percent of all national TV viewers, and keeps existing rules that forbid one company from owning two TV stations in a local market, or a newspaper and TV station in the same market, or a newspaper and cable in the same market. The Act also maintains the ownership ban of a cable company and a broadcast company in the same market.”

### 3.4 Decision-making in organisations

#### 3.4.1 Theory and practice – top decision makers

Decision-making processes have been the focus of organisation and management teaching and research since about the 60s. Especially Richard M. Cyert and James G. March have emphasised in their 1963 standard work, *A Behavioral Theory of the Firm*, that an enterprise can be characterised as “adaptively rational”, i.e. as a social system that responds in its decision-making to internal and external tensions and compulsions. By no means is decision-making rational in the sense of classical economics, under which pro-



fit maximisation is sought by an enterprise completely informed about itself and the environment.

Enterprises are not at all monolithic, but “shifting multiple-goal coalitions”. Entrepreneurial aims are often very vague (e.g. profit-making) and even if these vague supreme aims are generally accepted, that does not ensure that there is also consensus about the ways and means of achieving them. Different departments, respectively persons, as a rule pursue different aims because one sees oneself as the central point of the enterprise (local rationality). In other words, between the sales department that wants to sell a product at any price, the accounting department that is responsible for the financial security of an enterprise and e.g. production there can be substantial differences of interests.

In enterprises managers, other staff, shareholders, customers, suppliers, regulating institutions (e.g. the FCC), lawyers, courts, trade unions, taxation authorities, local government, etc. can all be involved in such processes of coalition building and negotiating. Since comprehensive treatment of the theories of internal organisational decision-making processes would need a separate publication, I only emphasise here not to proceed from the illusion that human behaviour in the economic field is rational. Apart from that economic teaching has not yet managed analytically to post entrepreneurial performance. Whereas there have been no big problems theoretically to analyse the production factor work, this does not succeed for the performance of an entrepreneur. Rupert Murdoch, Ted Turner or Bill Gates and their respective social networks cannot be reduced to a formula.

In addition, organisation research, with few exceptions, has been unable to examine the decision-making at the top of big enterprises. The top decision makers let no-one see their hand. An exception is a study done in Great Britain by C. S. Wilson and T. Lupton on *The Social Backgrounds and Connections of Top Decision Makers*.<sup>19</sup> Since the big media deals were also decisively influenced by interpersonal contacts, I shall briefly introduce the study here although it has nothing to do with international communication. It was found that a major part of the power potential of top managers and owners of enterprise does not emanate from property over which control is exercised, but is a result of the social relationships one is imbedded in. From there one obtains important information and it is there that contacts are made that can be of decisive importance.

19 In: Rothschild, K. W. (ed.), *Power in economics*, Harmondsworth 1971; first 1959.

Wilson and Lupton can document this with references from the so-called *Bank Rate Tribunal*<sup>20</sup>. Family relationships, membership in exclusive clubs, attendance at the right school (Eton leads far ahead of Winchester, Harrow and Rugby) and the right university (Oxford and Cambridge) are important to building up information networks which are often impossible to see through from the outside. A witness, Lord Kindersley, director of the big banking house of Lazard Brothers, apparently sincerely tried to explain to the Parker Tribunal the criteria and information on whose basis deals worth millions are decided in the London City. Trying to explain how a decision to sell gilt-edged securities came about, he said, “I have had a feeling – I have been here listening to the evidence in the last day or two – that there is some lack of understanding as to the way my firm works”.

Not time-consuming analysis of the money market is always the basis for decision-making, but, according to Wilson and Lupton, important, especially under time pressure, is informality in relationship between decision makers. Wilson and Lupton (1971, 221) write: “A good example of this came out during the examination of Lord Kindersley by the Attorney General. The Attorney General was asking Lord Kindersley why he, and not Mr. Crobbold, had gone to see Lord Bicester about the possible effect of the Bank Rate rise on the Vickers issue and on relations between the City and the Bank of England. Lord Kindersley replied: I consider it perfectly natural that I should be allowed to go and talk to a colleague on the Bank of England. ... I do not think that Lord Bicester would find it in the least surprising that I should come to him and say to him: Look here, Rufie, is it too late to stop this business or not?”

A comparable informality characterises the way Murdoch operates, who has always sought contact with the mighty, be they called Margaret Thatcher, Ed Koch (ex-mayor of New York) or Newt Gingrich (cf. chapter 4). Many of the big media mergers came about out of a markedly informal atmosphere, are based on closest personal relationships and in some cases are due to personal fancies (e.g. of the Seagram heir, Edgar Bronfman; cf. chapter 3.12). One knows one another, exchanges ideas and knows what to expect of one another. Insiders explain that Sony's failure in Hollywood is partly due to the fact that Sony and/or its representatives in Hollywood were not “in”, leading to enormous losses (cf. chapter 3.11). The kinds of strategies implied by economic theories are only partially suitable to explaining many mergers. Often

20 Cf. Parker Tribunal, *Proceedings of the Tribunal Appointed to Inquire into Allegations that Information about the Raising of the Bank Rate was Improperly Disclosed*, HMSO 1957.

the decisive factors are spontaneity and striving for power. Preston Padden, News Corp. president of telecom and television, explains the mode of operation of News Corp., respectively of Rupert Murdoch, as follows: "We have no five-year plan. We have no strategic planning. It's really a sort of small person business being executed on a scale you don't normally see." Such a situation demands that decisions be taken unusually fast, without recourse to any decision-making institutions. Padden reports: "Rupert doesn't need to call a committee. He has 10 great ideas before his competitors are out of bed and he acts on them."

### 3.4.2 The personal background

As a rule, the personal backgrounds and informal contacts leading to decisions, for example about media mergers, are hard to identify. The sources are often dubious, for example newspaper reports which may be based on hearsay. Hardly any reliable information is obtainable from some people. Basically, one faces the decision either not to address this subject or to argue that it is so important that it has to be addressed despite the unsatisfactory sourcing situation. I have taken the second option. In the *Washington Post* of 4 February 1996 Jonathan Tasini holds in an article about *The Tele-Barons* that after an absence of almost a hundred years, the *Robber Barons* were back. The Rockefellers and Carnegies had been succeeded: "The new pantheon of Robber Barons includes the Sony and Bertelsmann chieftains, Rupert Murdoch, Disney's Michael Eisner, Microsoft's Bill Gates, TCI's John Malone, Ted Turner, the DreamWorks' titans (run by the trio Jeffrey Katzenberg, David Geffen and Steven Spielberg) and Time Warner's Gerald Levin." The list must be supplemented at least by Sumner Redstone. Tasini maintains that the modern Robber Barons were supported by the governments that had so far failed to protect the interests of the public. They knew how to present themselves to make it appear that they were serving the public, "branding critics worried about the concentration of power as neo-Luddites<sup>21</sup> trying to stand in the way of progress". On the manipulation of public attention, Tasini writes: "Shaped by a broad, bipartisan intellectual elite including Alvin and Heidi Toffler, Al Gore and Newt Gingrich, their mantra hums with words like 'synergy' and 'competitiveness'. Indeed, most people are subtly seduced by the combination of the technology and its language. Think about it: the 'information superhighway'."

21 Luddites: organised bands of English artisans who in the period 1811-16 destroyed newly introduced machinery in the Midlands and north of England on the ground that it took away their livelihood.

One of the grey eminences of the U.S. media market is Herbert A. Allen. Once a year he invites the greats in the business with their families to Sun Valley, Idaho, for five days. Many of the big deals in the media industry were threaded there. Among those in Sun Valley in 1995 were Rupert Murdoch and the Coca-Cola chief, Roberto C. Goizueta. In 1987 Allen supported Redstone in his purchase of Viacom, for example. Allen was also involved in the sale of Columbia Pictures to Sony and the double sale of MCA/Universal to Matsushita and later by Matsushita to Seagram.

Allen's assets have been estimated at c. \$1.2 billion. In the first interview he ever gave, he answered questions put by the weekly German news magazine, *Der Spiegel* (No. 39, 25 September 1995) about developments on the American media scene. Firstly, he characterised his own activities as bringing people together whose business interests fit well together, i.e. people who need money and people wanting to invest money. According to Allen, people came to the first Sun Valley meeting in 1981 who now hold top jobs, such as Gerald Levin, in 1981 in the management of the *TIME* publishing house, at the time of the interview head of Time Warner, and John Malone, whose cable firm TeleCommunications Inc. (TCI), now the biggest cable company in the USA, then still quite insignificant.

The familiar atmosphere meant, Allen explained, that one talked business in the morning and spent the afternoon with the family. In 1994 there had been 120 children along in Sun Valley. The purchase of ABC/Capital Cities by Disney (cf. chapter 3.5) was also initiated in Sun Valley, where Michael Eisner (Disney) and Thomas Murphy, Cap City's chairman, met. Bill Gates of Microsoft was also in Sun Valley. According to Allen, the financing of the new company, DreamWorks SKG (cf. chapter 3.10) of Steven Spielberg, David Geffen and Jeffrey Katzenberg, was also set up in Sun Valley. And finally, in July 1996 Michael Dornemann of Bertelsmann and Pierre Lescure, head of the French Canal plus were in Sun Valley to reach agreement after all with U.S. film bosses on the supply of content and possibly to give them a share of the planned European pay-TV.

Allen claims that his firm is unique because he was no investment banker working with other people's money, but owner and manager of entertainment firms. In 1973 he invested in the then economically wobbly Columbia Pictures, bought later by Coca-Cola (and still later from Coca-Cola by Sony) (cf. chapter 3.11). Allen emphasises that he grew up with people like Eisner, Katzenberg and the TV entrepreneur, Barry Diller. When he owned Columbia they were rivals or allies, as interests shifted. Allen told *Der Spiegel* he knew what

it was like to make a fool of oneself and lose money with luckless firms. He knew the feeling of sweat on one's brow the first time a movie ran in a cinema. In other words, he knows how to handle his partners.

Another major player in the multimedia market is John Charles Custer Malone, whose TCI Communications Inc., according to TCI/TCIC Annual Report, is currently the biggest cable net operator in the USA, with 15-16 million subscribers and a market share of about 23%. This media empire, built by systematic buying up of shares enabling control of the enterprises taken over, includes inter alia Court Room Television Network (33%); Discovery Communications Inc.<sup>22</sup> (49%, cable network); Home Shopping Network (42%); Prime Sports Channels Partnership Limited. (45%); QVC Inc. (43%; home shopping channel); Turner Broadcasting System Inc. (23.6%). In the international sector inter alia Flextech PLC (60%, European cable TV); Jupiter Telecommunications (Japan), TeleWest Communications PLC (UK, cable and telephone nets); Videopole (France, cable). The aggressive expansion policy of Malone triggered a kind of campaign against him. The former Senator, Al Gore, stigmatised Malone as *Darth Vader*, the epitome of evil in the film *Star Wars*. Malone has been able to acquire such great market power that even such pay-TV providers as MTV had to knuckle under to the price dictate of TCI (Al Gore: *The Empire*).

Another major player in Hollywood is Michael Ovitz, whom Newsweek described as "the most powerful man in Hollywood" and TIME as movie Mephisto. Together with others (Ton Meyer and Bill Haber) Ovitz has built up one of the biggest talent agencies in show business, the *Creative Artist Agency*. (In June 1995 Ovitz owned 56% of its stock.) Founded in 1975 the agency represents 1,200 of the world's biggest actors, musicians, directors and screenwriters. The only bigger one is *International Creative Management* of Jeff Berger. Among the Creative Artist Agency clients were Kevin Costner, Demi Moore, Robert Redford, David Letterman, Barbara Streisand, Steve Wonder and Steven Spielberg. Newsweek (June 12, 1995) reported that in 1994 eight of the 10 draws at the U.S. box office included at least one major CAA client. For example, actor Tom Hanks and director Robert Zemeckis of CAA held shares in the successful Paramount film *Forrest Gump* and each is said to have earned \$31 million from it. Jonathan Dolgen, president of Viacom's entertainment group, to which Paramount belongs, spoke very posi-

tively about Michael Ovitz in Newsweek: "Mike's very reliable." Newsweek (June 12, 1995) describes Redstone as a friend of Ovitz.

Ovitz is estimated to have an annual income of \$35 million. He played a decisive part in the purchase of Columbia Pictures by Sony (\$3.4 billion) from Coca-Cola (cf. chapter 3.11), with Herb Allen then being part-owner of Columbia and later, because of the deal, joining the Coca-Cola board. Ovitz also had a part in the 1990 purchase of MCA/Universal by Matsushita for \$6.59 billion and is said to have been paid a commission of \$40 million. The role of Ovitz in the subsequent sale of MCA/Universal to Seagram was worth a comprehensive report to Newsweek (June 12, 1995) about the "King of the Deal". Michael Eisner has succeeded to bring Ovitz to Walt Disney as president after the fusion with Cap Cities/ABC (cf. chapter 3.5).

A powerful player in Hollywood who is relatively unknown outside the USA is Barry Diller, aged 54 in 1996. He has made humankind happy with the film *Saturday Night Fever* and TV cartoon series *The Simpsons*. TIME wrote about Diller: "His notoriously aggressive management style has left subordinates humiliated and emotionally bruised." Diller's career, decisively supported by Malone, began in 1971 at ABC, where he invented mini-series, popularised TV movies and hired Michael Eisner. In 1974 Diller was appointed chief executive officer of Paramount Pictures at the age of 32. Together with Eisner, who had been made president of Paramount, he made it the most profitable studio. He lost a power struggle and in 1984 went to 20th Century Fox. For Murdoch he built up the youth-oriented Fox Television Network.

In 1992 he left Fox. TIME quotes him: "It's not mine. I'm both young enough and old enough to want to own my own store. ... It's one thing I haven't done." Forbes (January 1, 1996) also suggests the wish to own a network when it speaks of the "wanna-be movie magnate". After working for Murdoch Diller bought 13% of QVC and turned the QVC home shopping network into a gold mine (Fortune, December 25, 1995). When Diller announced in July 1994 the never realised plan to merge QVC and CBS, Wall Street reacted euphorically, CBS stock rising \$50 (19%) in one day. The reason was that Diller had built Fox network and was expected to invigorate CBS programming with a younger spin. In October 1994 Diller announced that he intended to leave QVC. QVC had previously also lost the bidding war with Viacom to acquire Paramount Communications.

On 25 August 1995 Diller had announced that he planned to buy Silver King Communications Inc., America's sixth largest network. He was aiming for a

<sup>22</sup> The investment in the Discovery Channel has been outstandingly successful. This broadcaster is globally one of the biggest suppliers of documentary films that can be readily marketed worldwide.

20% holding. *Silver King* has 12 wholly owned Ultra High Frequency (UHF) home shopping stations plus several partly owned local TV stations that reach 35% of America's homes. Those stations mostly run home shopping network shows. 39% of *Silver King* belongs, by the way, to Malone's Tele-Communications Inc.. On 27 November 1995 Diller announced that *Silver King* was buying Savoy Pictures Entertainment, an ailing film producer that owns four local television stations and 40%<sup>66</sup> of *Home Shopping Network*. The announcement caused *Silver King* stock to explode from \$2 to \$37, which meant a one-day paper profit of \$60 million for Malone's TCI (*Business Week*, December 11, 1995). Of the four Savoy stations two are with NBC, one is Fox and one ABC. But *Fortune* (December 25, 1995) characterises the new group as an "anthill amid media mountains".

In December 1995 Diller's media empire looked like this (*Business Week*, December 11, 1995, p. 38):

TV STATIONS: Revenues \$61 million, earnings \$3 millions. Diller now has 16 stations, some in Los Angeles, New York and Chicago. The problem: Many are hard to receive UHF stations.

HOME SHOPPING: Revenues \$1 billion, loss \$50 millions. Diller has bought control of Home Shopping Network. The problem: The shopping service has been plagued by heavy return of shoddy merchandise.

PROGRAMMING: Revenues \$10 millions, earnings unknown. Diller will own Savoy's TV production unit plus the remnants of its failed movie studio. The problem: Savoy is a weak player in a crowded field.

Diller is without doubt one of the main players in the American and thereby the international media scenes, as stock reactions to his activities show, for example. The *Economist* (December 2nd, 1995) quotes him as saying that the building of a network is still a long way off: "We're years from being a network." He is quoted similarly by *Business Week* (December 11, 1995): "All this nonsense about networking ... I won't go near a network for two, probably three years."

### 3.4.3 Takeover fever

As already mentioned, the international media scene changed completely in 1995. The media industry was attacked by a veritable takeover fever which

without doubt was passed on in Sun Valley, if it did not in fact start there. It became the dominant view that a media enterprise had to be as large as possible and vertically integrated to make money, i.e. one had to produce one's own television programmes and be able to air them on one's own stations. In his interview with *Der Spiegel*, Allen cited the example of Rupert Murdoch who acquired the Fox TV stations and then systematically built up the programming. He had combined distribution (satellites, stations, cable, cinemas, publishing) with "content" (movies, TV programmes and news). Allen does not see the moral-political dimension of the media concentration now happening. He replied "no" to the question of the *Spiegel* journalists whether the concentration was creating international political danger in the form of opinion power. Allen argued that with the exception of the markedly conservative Murdoch the leaders of the big media concerns had no political convictions they wanted to spread. That is an almost naive suppression – as if it were apolitical to rain Hollywood-produced entertainment on people worldwide!

Allen explains the buying fever of the media behemoths as necessary to overcome international frontiers. As the standard of education rises in all countries, he argues, the English language is spreading and with it, through satellite channels, also the American TV software. Only programming from the USA was accepted on a large scale globally. American culture was seeping more and more into Germany, Britain and France. Who would have thought that CNN from Atlanta would become the centre of the worldwide news business? Allen assumes that more takeover battles are ahead. Telephone companies trying to spread out in the media market are seen as important players. Moreover, TV stations were now attractive purchase objects.

Self-evidently I do not argue here that personal motives drive the media mergers. The American media market is highly competitive and in recent years production costs have increased enormously. According to Artopé and Zerdick (1995, 10) for the 1995/96 fall season alone 42 new prime time series were announced for the TV market. Experience showed that at most a quarter of them would make it to the next season. Only these series had the chance to recoup the production costs. To be able to stand up to the competition high investments were made into programme quality. The production costs for a prime time episode are about \$1.2 million. But because of the competitive pressure the series (e.g. *L.A. Law*) had to be sold for \$900,000 to a network. However, formerly there used to be the possibility of recouping the \$300,000 loss by syndication (e.g. sale to local, independent stations). But the launch of the new networks (Fox, Paramount and Warner) had greatly reduced the number of independent stations and with that the possibilities of fur-

ther sales. Moreover, the profit margins in the television market were cut by the high marketing costs. The costs of cinema films have also risen. The Motion Picture Association of America says they have doubled to more than \$50.4 million. Aporté and Zerdick (1995, 23) argue that the profit pressure is responsible for the American media enterprises having to expand abroad.

I emphasise once more that the advantages of vertical integration in the film and television market cannot be overlooked. The chances of longterm profit maximisation are improved (inter alia by rationalisation, saving middlemen, securing raw material and sales markets, raising the capital and with it the credit base). Vertical integration also means that poor and mediocre products can be marketed better. Independent producers, however, find it much more difficult to find production studios and to secure the subsequent distribution.

In September 1995 – Disney had just bought ABC, Westinghouse had just bought CBS and Time Warner had just announced it was taking over Turner Broadcasting – Michael Dornemann, executive member of Bertelsmann AG and responsible for the entertainment sector (turnover 1994/95: DM 7.35 billion; c. \$4.87 billion), which encompasses music firms and the at that time by international standards still quite small film and television business of the German conglomerate, commented on developments in the TV market in a Spiegel interview: “In most of the so-called mega deals, usually only one thing is mega: the high purchase prices. We look on because these collector’s prices, that go up to triple the turnover, are simply eccentric. It never pays off.” Dornemann sees a kind of race of the big media enterprises that he calls crazy. He points out that Time Warner has not shown a profit for years and has built up a debt mountain of 15 billion dollars. Bertelsmann had no intention of putting its existence at risk with a wrong mega deal. Even media giants like Ted Turner and Rupert Murdoch had got into trouble because of the high prices. Dornemann summed up: “Apart from everything else, I have the feeling that in enterprises that are rational in other respects the wish to be big and powerful can be a dangerous accompanying motive.” Dornemann responded to the reference that Wall Street had reacted with stock price rises to the Disney deal, “Let’s not fool ourselves. Wall Street itself has a big interest in deals like that happening. The boys in the investment banks earn good money on such takeovers and that’s reason enough to whip up the necessary euphoria.” All this notwithstanding, Bertelsmann has also been involved meanwhile in a merger which from the point of view of financial scale is quite equal to the Time Warner/Turner one, as the following brief list of the big enterprise purchases in the media and entertainment industry shows:

Purchaser	Enterprise bought	Year	Price in \$bln
Capital Cities	ABC	1986	3.5
National Amusements	Viacom	1987	3.5
Sony	CBS Records	1987	2
News Corp.	Triangle Publications	1988	3
Sony	Columbia Pictures	1989	3.48
TIME	Warner Communications	1990	14.1
Matsushita El.	MCA/Universal	1991	6.59
Viacom	Blockbuster	1994	7.7
Viacom	Paramount Communications	1994	9.7
Walt Disney	Capital Cities/ABC	1995	19
Westinghouse	CBS	1995	5.4
Seagram	MCA/Universal	1995	5.7
Time Warner	Turner	1995	7.3
Bertelsmann	Cie. Luxembourgeoise de Television (CLT)	1996	6.58

### 3.5 Walt Disney and Capital Cities/ABC

The story of the Disney Company is quite disneyesque. A group comprising three people (Frank Wells, Jeff Katzenberg and Michael Eisner) who came to Disney in 1984 has changed the company, which was turning over \$2 billion, into a \$22 billion enterprise (Newsweek, September 5, 1994) with such successes as *Three Men and a Baby*, *The Beauty and the Beast* and *Aladdin*. In Newsweek’s formulation the trio restored “Disney as an icon of American culture”. The triumvirate ended when Disney’s president and chief operating officer Wells died in a helicopter crash on 3 April 1994. A power struggle between Katzenberg and Eisner ensued. Katzenberg headed Disney’s filmed entertainment group, generating 43% of the company’s revenues. Eisner came out the winner but had to have bypass heart surgery in July 1994. At the end of August Katzenberg left Disney. But the disputes are not over. On 17.4.1996 Katzenberg sued the Walt Disney Company for \$300 million. The complaint concerns a share from *The Lion King* (totalling \$800 million). Disney want to pay less than \$100 million. Michael Ovitz, meanwhile Eisner’s new No. 2 man, had tried unsuccessfully to get an out-of-court settlement.

In July 1995 Disney offered to buy the television company, ABC/Capital Cities, for \$19 billion. With that, the new enterprise, The Walt Disney Company, became the biggest media concern in the world. The merger was allowed by the FCC in February 1996 after the justice minister had earlier approved it. The only condition attached was that within a year Disney had to shed either the local newspaper or the local TV station in both Forth Worth, Texas and Pontiac, Michigan, since under the law an enterprise cannot simultaneously own a newspaper and a broadcaster in a limited market. Rajendra Sisodia, management teacher at George Mason University in Fairfax, Virginia, sees the motives less in financial advantages than in the addiction to building a global empire.

The Disney concern, whose possessions include the distribution company Buena Vista and various leisure parks, also produces cinema and TV films and operates a cable television channel with 14 million subscribers. Part of Capital Cities/ABC is the most successful national TV network ABC with a market share of 17%, 21 radio stations, 10 regional TV stations and 80% of the successful cable channel ESPN. Eisner expects the merger to bring synergy effects because Disney's intellectual potency will appear in the ABC network and Disney's distribution networks will disseminate ABC programmes. The merger has a marked international dimension. TIME (August 14, 1995, 31) quotes John Turo, an analyst with Rodman & Renshaw, a Chicago based brokerage firm: "Countries like India, which has 250 million people in the 18 to 35 age bracket, offer a tremendous potential for Disney." TIME comments: "Political regimes that might not welcome the independent political views of American news broadcasts have no problems with cartoons or sports, two of Disney's strengths."

In August 1995 Eisner announced that Michael Ovitz had agreed to leave Creative Artists Agency and join the Walt Disney Company. Ovitz had earlier, in July, turned down an offer of \$250 million to run MCA. TIME (August 28, 1995) quoted Porter Bibb, managing director of the brokerage house Landenburg, Thalman & Co. on the consequences to be expected from this change: "Disney now is not only the world's biggest entertainment company, it is also the best-managed one." It is further suspected that Disney will show an interest in Thorn EMI to put its record unit on the block. According to Newsweek (September 5, 1994) Disney's Hollywood Records returned annual losses of \$20 million to \$25 million. Also worth mentioning is that another enterprise was affected by the purchase of ABC/Cap Cities. DreamWorks SKG (cf. chapter 3.10) had earlier signed a \$200 million joint venture with ABC to make shows. With that, Katzenberg, whom Eisner pushed out of Disney, is now partners again with Eisner in an enterprise.

ABC is also active internationally and in Germany in mid-1996, for example, had a market share of 7.5% (RTL2, Super-RTL, Eurosport). According to the 1995 Annual Report of the Walt Disney Company, "Disney shows were seen in more than 100 countries. By the end of 1996, several international Disney Channels could be on the air as the channel franchise may be expanded to South America and Asia." The takeovers bring together Disney's theme parks and movie and television studios with ABC's network and cable channels. Also part of the new concern is Disney's alliance with regional phone companies. The quality of this vertical integration is made clear by a glance at the activities of the new enterprise. According to TIME (August 14, 1995, p. 32) the old *Walt Disney Company* included among others:

#### FILMED ENTERTAINMENT:

Film and TV production: Hollywood, Caravan, Touchstone and Walt Disney Pictures (The Santa Clause); TV Studios (Siskel & Ebert); The Disney Channel.

Animation: Features (The Lion King<sup>23</sup>); TV cartoon series

Film distribution: Buena Vista and Miramax films (Pulp Fiction and The Piano); television syndication including Live with Regis & Kathi Lee; home video.

#### THEME PARKS AND RESORTS:

Walt Disney World

Disneyland

Disneyland Paris (39%)

Tokyo Disneyland (royalties).

#### OTHER INTERESTS

*The Mighty Ducks of Anaheim* hockey team

Disney on Ice shows

*The Beauty and the Beast* stage production

Hyperion Publishing

Disney Licensing

An important branch of Disney business are the more than 300 Disney stores (including one on the Champs-Élysées). Newsweek (September 5, 1994, 47) writes: "The merchandise – Mermaid dolls, Aladdin undies and collectibles like a sculpture of 'Bambi's' Field Mouse – account for a stunning 20% of Disney's operating income. The soundtrack of 'The Lion King' has shipped

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23 According to TIME (March 27, 1995, p. 56) Lion King rolled \$315 million profit into cinemas and a record \$450 million on the home video market within two weeks of March 1995.

nearly 5 million copies ... Hyperion Books will release 95 titles this year... And Disney continues to colonize. There's the Disney cruise line, now in the works, which will take the vacationers from Florida to the Caribbean, and the Disney Vacation Club, a time-share resort in Orlando." Disney is also active in the wedding business. On an island in the Seven Seas Lagoon the Disney Company has built a chapel. Basically, a Disneyisation of everything is happening. Disney opened a kind of adult education school in Orlando in 1996, a vacation academy for adults (e.g. animation drawing, flower arranging, climbing on an artificial cliff wall, power babysitting, cooking schools, etc.). At Orlando Disney owns 111 square kilometres, two thirds of which are still unused. Also in Florida lies Celebration, Disney's test tube town.

Newly added by the purchase of Capital Cities/ABC were the following entrepreneurial areas (TIME, August 14, 1995, p. 32):

#### ABC TELEVISION NETWORK GROUP

ABC Entertainment with shows like Roseanne and Home Improvement and the top national newscast; World News Tonight with Peter Jennings; ABC sports, including NFL Monday Night Football and ABC Daytime, featuring top-rated All My Children

#### CAPITAL CITIES/ABC BROADCASTING GROUP

10 television stations and 21 radio stations

#### CABLE AND INTERNATIONAL BROADCAST GROUP

ESPN and ESPN2 (80%)

A&E Television (52%)

Lifetime Television (50%)

#### INTERNATIONAL INVESTMENTS

Part owner of television production companies in France, Germany, England, Japan and Scandinavia.

#### PUBLISHING

Newspapers (The Kansas City Star), magazines (Los Angeles Magazine) and trade journals including Fairchild Publications.

#### MULTIMEDIA

Online services, developing technologies, including interactive television.

The merger, which came about at Herbert Allen's in Sun Valley, involved Eisner (Disney), Thomas Murphy (Capital Cities chairman) and the investor

Warren Buffet. According to Eisner the deal was struck on a golf course. He says he asked Buffet, the major shareholder of Capital Cities/ABC, who was also in Sun Valley, whether the enterprise was not up for sale. Buffet had answered, "Why not?" Buffet, whose personal fortune is estimated at \$12 billion, was probably the main winner of the Disney deal. His *Berkshire Hathaway Holding* was the largest stockholder of Capital Cities/ABC and brokered the buyout. The 20 million shares Berkshire had acquired a decade previously for \$345 million were worth \$2.3 billion after the merger. TIME reported (August 21, 1995, p. 22): "The merger raised the value of the investment by \$400 million overnight." Newsweek (April 8, 1996) puts the value of Buffett's Berkshire stock at \$16 billion. With that, Newsweek claimed, Buffett was the richest person in the United States at that point in time. The value of the shares increased at breathtaking speed. In 1965, when Buffett took control of an ailing textile company, a share cost \$18. In 1975 the price stood at \$38 and the enterprise had become a conglomerate. In the early 80s its share was trading at \$550. In 1994 the price rocketed to \$20,000 and in April 1996 it was \$34,000.

Disney financed the takeovers mainly with bank loans. Of the purchase price of \$19 billion, \$9 billion was paid in shares on which dividends are due. Just the remaining \$10 billion require interest payments of \$800 million plus write-offs on the company value. Whereas Bertelsmann manager Dornemann regards the merger very critically, to Herb Allen such deals as Disney and Capital Cities/ABC make sense because the television companies can now market their programmes themselves, which used to be forbidden by law.

In 1994 Disney was extraordinarily successful with the top movie, *The Lion King*, the top-rated TV show in the US, *Home Improvement* and the Broadway musical, *The Beauty and the Beast*. The company can now showcase on the ABC programmes developed for the Disney Channel and then export them to other countries as a package with the network's popular sports programming delivered on ESPN. The 1995 Annual Report gives the following figures for the various sectors (in millions of dollars): Filmed Entertainment Revenues \$6,002; Theme Park and Resorts Revenues \$3,960; Consumer Products Revenues \$2,151.

Whereas, as already mentioned, Disney has not as yet been successful in the music market with its *Hollywood Records*, things are looking different with another loss maker, the Euro-Disney theme park. Disney opened its first park in 1955 in Anaheim, California, on only 40 hectares. It became a sensational success. When Disney World in Florida was built, demand was initially underestimated. The park in Tokyo, built, financed and owned by a Japanese consortium,



also became a full success, although Disney “collects only 10% of gross earnings on rides and 5% on food and merchandise” (Economist, April 13th 1996, 78). With Disneyland Paris the company wanted the profits itself and invested in an area corresponding to a fifth of the area of Paris and including hotels, shops, offices and residential housing. When the park opened in 1992 French intellectuals spoke of a cultural Chernobyl. The park lost up to \$1 million daily and in 1994 was \$1.1 billion in the red. Intellectuals suggested that the low attendance indicated that luckily American *kitsch* was not successful in Europe. Meanwhile Disneyland Paris is also making a profit and has a chance to reach the break-even point. The Economist (April 13th 1996, 79) argues that Euro-Disney had mistakenly feared at the beginning “that its American product would offend ‘sophisticated’ European taste”. Disney had expected “that Europeans would sneer at anything ersatz”. The result was that too much money was spent on building the park. (For example, in America the restaurant “The Walt” has wallpaper, in the Paris restaurant the walls are lined with Moroccan leather.) The way to success pointed in the opposite direction: “The new approach is that people visit the park but for an authentic Disney day out.” Correspondingly the name had also been changed from Euro-Disney to Disneyland Paris. Disney had around a billion visitors in all its parks up to September 1995.

In assessing Walt Disney’s future prospects one has to take into account that the film archive is a veritable treasure chamber. A randomly chosen example is the animated film *Cinderella* on which the 1995 Annual Report states: “The reissue of *Cinderella* on home video this fall turned out to be a true *Cinderella* story for Disney shareholders. The classic sold seven units when we first released it in home video in 1988. It later sold some six million units overseas. We are now on track to sell 14 to 15 million units in its current domestic re-release.”

### 3.6 Time Warner Inc. and Turner Broadcasting System Inc.

Two months after Disney had become the world’s biggest media enterprise, Time Warner chief, Gerald Levin, announced he wanted to buy Turner Broadcasting System (TBS) and by that become the No. 1 again. General Electric and Murdoch had also earlier shown an interest in Turner’s enterprise. While Turner and Levin were negotiating, Murdoch sent a purchase bid to Turner under which Turner would keep control of all TBS enterprises and gain control over Fox TV and the Fox Studios as well. Insiders report that Turner turned the offer down because he feared Murdoch’s striving for power.

Time Warner had come about in 1989 through the merger of the TIME Inc. print media company (\$4.5 billion 1988 revenues) with the film and music company, Warner Communications Inc. (\$4.2 billion 1988 revenues). TIME paid \$14.1 billion for Warner. The merger put the enterprise heavily into debt. In 1995 TIME Warner Inc. (\$15.9 billion 1994 revenues) merged with Turner Broadcasting System Inc. (\$2.8 billion 1994 revenues) to become the media behemoth TIME Warner and Turner with together \$18.7 billion revenues. The purchase price for Turner Broadcasting was \$7.3 billion; some sources even say \$7.5 billion or \$8 billion.

John Malone controls Tele-Communications Inc. (TCI), the No. 1 operator of cable TV systems in the U.S.; Time Warner’s cable unit ranks as No. 2. Malone also owns 21% of Turner Broadcasting. The ownership relations are extraordinarily complicated. Seagram also holds about 8% of the merged company. The merger was resisted by U.S. West, the Colorado based Baby Bell, which owns 25.5% of Time Warner’s film and cable holdings and filed a lawsuit in a Delaware chancery court in September 1995 in order to stop the merger. On 6 June the court ruled that Time Warner did not need permission from U.S. West to purchase TBS.

Inter alia 24 magazines (e.g. TIME, Life, Fortune and Sports Illustrated) belong to TIME Warner, as do book publishers, the Warner Music Group (WEA) with Prince and Madonna, TV and film studios, entertainment and theme parks, Home Box Office (HBO), the biggest cable TV film channel, the Warner Bros. Studio Stores which distribute merchandise products and the cable television network, Warner Bros. Television. The 1989 merger set new accentuations. The periodical sector accounts for only 15% of the turnover. Clearly dominant is the film, television and music business that came from Warner. There are also turbulences in the new company, due partly to personal animosities, e.g. between Warner Music chief executive, Michael Fuchs, and Gerald Levin.

Turner Broadcasting Systems Inc. is the leading cable television enterprise of the USA. Three news channels (CNN, CNN International and Headline News), the sports and entertainment channels TNT, Turner Classic Movies and the Cartoon Network belong to the enterprise, which also holds shares in two stations in Russia (Moscow and St. Petersburg). In Germany TBS holds 28% of the n-tv news broadcaster (the merger made CNN and Time Warner the majority stockholders of n-tv). Several Spanish language channels in Latin America, three film production firms and two professional sports teams also belong to the enterprise, which also owns the MGM film library.



In 1985 Turner's acquisition of the MGM film library caused a financial crisis which TIME Inc. and John Malone's TCI helped to address. Turner repaid the help with shares: 18% for TIME and 21% for TCI. The transaction made Turner dependent, i.e. he became unable to make major moves without their consent. The dependence on Time Warner enabled its chairman, Gerald Levin, to scuttle Turner's plan to acquire NBC in 1994 with his veto. Turner complained about it publicly. Previously Levin had also prevented Turner from buying CBS. Because Levin financed the takeover of TBS by issuing new stock, Turner and Malone (TCI) became the major stockholders of the new enterprise. Malone turned his 21% share of TBS into almost 9% of the stock of Time Warner and Turner.

Ted Turner, whose private fortune was estimated in 1995 at \$1.7 billion, commented on the sale of his company as follows: "You know, it's just a chance to see the world from a different place. Instead of from the basement, from the penthouse." Turner is now the biggest individual shareholder in the world's largest media company. He also became Time Warner's vice chairman. TIME (September 11, 1995) commented on Turner's future role: "If Michael Ovitz, the ultrapowerful chief of CAA, could go to work for Disney's Michael Eisner, then surely Ted Turner could take a seat on Gerald Levin's TW board as a buccaneer emeritus, and do his vision thing."

From an economic point of view the merger of Time Warner and Turner Broadcasting seems to make a lot of sense because the two enterprises complement each other. Each gains additional marketing channels for their own software and access to more software. The new enterprise owns the world's biggest film library. Turner's library, for example, contains *The Flintstones* and other hits, Time Warner has *Bugs Bunny and Friends*, which are ideal for Turner's Cartoon Network. The joint library holds about 6,000 films. The competence of such publications as TIME, Fortune and People is to be used for CNN and a planned business channel.

However, it is certain that it was not just rational economic motives that drove the takeover. In TIME, Richard Corliss commented on the strategy of the media moguls being very short-term (TIME, September 11, 1995). "For most of this year, Turner angled desperately to buy a TV network, first NBC in January and CBS until only a few weeks ago. Levin, for his part, had been talking of unloading the company's long-held 19% stake in TBS or to pay down debt. The game changed when Disney and Capital Cities eloped, raising the ardor and insecurity of moguls everywhere."

According to Gerald M. Levin, all five divisions of the media concern achieved record results in 1995. Total turnover rose from \$15.9 billion to \$17.7 billion. For the fourth quarter an increase in profits from \$12 to \$33 million was posted. But over the year losses increased from \$91 million to \$161 million. The major reason for them is the interest payments on the obligations. Hence Levin emphasised the "result before interest, taxes and writeoffs". This finance indicator, the so-called cash flow, had risen in the fourth quarter from 0.8 billion to 1 billion and over the year from 3 to 3.3 billion dollars. Cable television brought in 1.275 billion dollars (989 million the previous year). Time Warner cable television accesses about 20% of all U.S. households and 11.7 million subscribers. Turner Broadcasting increased turnover in 1995 from \$2.8 to \$3.4 billion. Annual profit rose from 21.2 to 102.7 million dollars.

### 3.7 Westinghouse/Group W and CBS

The Westinghouse company, whose business includes cooling technology, energy systems, electronics and electricity station construction, also has a long tradition in the media sector. Already in 1920 Westinghouse KDKA established the first radio broadcasting station of the USA in Pittsburgh. More radio stations followed and formed the basis for *Group W*, the media sector of the mixed enterprise, which was already one of the biggest media enterprises in the USA before it took over CBS. (The *Group W* television net with five stations and a reach of about 10 million households per week on 1.1.1995 held ninth place of the American TV groups; in addition there were 18 radio stations.) In 1994 the concern turned over \$9 billion. In 1995, before taking over CBS, Group W turned over \$870 million.

There were rumours since 1994 of a possible takeover of CBS (Columbia Broadcasting Systems) by Westinghouse. It happened in 1995. On 22 November 1995 the FCC approved it. The selling price was \$5.4 billion. A large proportion of the money was raised by selling other parts of the company (arms technology and Knoll Group, which produces office furniture and equipment) and the Chemical Bank and JP Morgan each lent \$1 billion. Michael Jordan, chairman and chief executive of Westinghouse commented to the San Francisco Examiner (August 1, 1995): "With the addition of CBS, Westinghouse is creating a premier broadcasting powerhouse and taking a leadership position in programming."

David Lettermann, anchor of the CBS Late Show, commented on the takeover with the biting question whether the successful series, *Dr. Quinn, Medicine*

*Woman* might soon be renamed *Dr. Quinn, Refrigerator Repair Woman*. Or perhaps the Late Show might be replaced by an hour-long live coverage of a washing machine. Under the then valid laws Westinghouse owned more television stations than allowed, but the FCC approved. With 15 television stations and 39 radio stations the biggest American broadcasting enterprise came into being, reaching 32% of households in the television sector. At the time of purchase 25% was allowed but the Telecommunications Reform Act passed in 1996 allows 35%.

The Group W Satellite produces and sells programming for cable stations. These include inter alia TNN (The Nashville Network) and CMT (Country Music TV). CMT has spread to Europe (reach in the USA 25 million households; worldwide 34 million). *Group W* is also in sports television: HTS (Home Team Sports) is one of the largest regional TV sports providers in the USA. Also part of the company is Sports Marketing (sale of advertising time, advertising for professional teams).

CBS, ABC and NBC dominated the U.S. market and NBC had the image of leading in the culture and education area. In the 90's CBS turnover dropped drastically. In 1995 switch-on ratings fell by almost 20% on the previous year, especially in prime time, which caused a turnover drop of 55% on the previous year. The series "*60 Minutes*", a pioneer of investigative television journalism, lost its reputation after a broadcast reporting that the cigarette industry had long known of a strong connection between smoking and lung cancer was "modified", respectively censored. CBS was making losses and was ready to be picked off, as it were.

In the procedure to approve the purchase Westinghouse pledged to air at least three hours a week of "educational television", however that may be defined. CBS has kept its name and the well known logo. The successful CBS broadcasts continue, inter alia Lettermann, the News Show with Dan Rather, proven series and so forth. Group W now encompasses 15 television and 39 radio stations (more than 200 TV and c. 600 radio transmitters). The radio and television stations reach around a third of the market in each case. That makes it the biggest radio and television enterprise of the USA. No great notice was taken in public of the takeover of CBS because Disney and Capital Cities/ABC were merging at the same time.

### 3.8 Viacom (Video and Audio Communications)

The development of Viacom, the owner of MTV, has been shaped by one person, Sumner Redstone, who bought the cable operator Viacom Inc. for \$2.8 billion in 1987. Redstone, 72 years old in 1995, graduated high school in Boston, studied law at Harvard and during World War II was on the secret intelligence team that broke Japan's military code. In the 50s the lawyer began turning a chain of drive-in cinemas he had inherited from his father into an international chain of cinema houses, the *National Amusement Corp.*, which had about 800 screens. He was the first to introduce *multiplexes* (multiple screen theatres) in the 70s. Aged 56 he survived a hotel blaze in Boston which destroyed 40% of his skin. The doctors had given him up. Forbes Magazine (1993) estimated Redstone's fortune at \$4.2 billion.

Redstone's comment on the sale of Viacom was: "The conventional wisdom was that Viacom's MTV Network was just a fad and Nickelodeon Theater would never make it." Through National Amusements he owns roughly 25% of Viacom. His holding in July 1995 was about \$3.8 billion. Instead of Viacom being broken up it was expanded into one of the world's biggest media enterprises. Redstone commented to Der Spiegel (15 April 1996) that Viacom was the only company that had succeeded in marrying a film studio with a large library like Paramount to a group of very successful networks. Viacom turned over \$11.7 billion and employed 82,000 people in 1995. Its activities encompass the following areas:

#### Film:

Paramount Pictures  
Nickelodeon Films  
MTV Productions and others

#### Television:

MTV Networks  
Paramount Television  
Nickelodeon/Nick at Nite  
VH-1 and others

#### Publishers:

Simon & Schuster  
MTV Books and others

#### New media:

Viacom New Media  
Virgin Interactive and others

#### **Amusement parks and merchandise:**

Amusement parks in the USA and Canada

Blockbuster Video

#### **Cable nets:**

Viacom Cable

Paramount announced in 1993 that it was planning to merge with Viacom. The price was 8.2 billion. A week after the announcement QVC, i.e. Barry Diller, backed by John Malone, also bid for Paramount. The bidding spiralled. In January 1994 Viacom merged with the Blockbuster chain of 3,600 videotheques worldwide in a relatively complicated stock swapping deal. That brought Viacom fresh cash so that on 15 February 1994 it clinched the purchase of Paramount for around \$10 billion. That made Viacom the third-largest media enterprise worldwide in 1995 after Time Warner and Bertelsmann. In 1993 Viacom International was the fifth-largest media conglomerate in the entertainment sector. It appears, though, that Redstone wants to get to the very top of the heap. Punching the air for emphasis, he told Newsweek (September 27, 1993, 44), "We will be No. 1. Not No. 5. Not No. 2. No. 1!"

In connection with Viacom's efforts to acquire Paramount Communications, Newsweek (September 27, 1993, 47) provided the following information about Paramount and Viacom:

**Paramount** movies and television produced \$2 billion in the latest fiscal year with TV programming and films.

**Cable networks** including MTV and Nickelodeon had revenues of \$1.14 billion, "thanks to shows like *Beavis & Butt-head*<sup>24</sup>," according to Newsweek.

**Books and live entertainment:** The book unit (Simon & Schuster; Prentice Hall) had sales of \$1.67 billion. Sports teams like the Knicks and theme parks: \$634 million.

**Syndicated Sitcoms:** Reruns of popular comedy series like *Roseanne* and *The Cosby Show* brought in sales of \$233 million over last fiscal year.

After the merger Viacom was initially heavily in debt with \$10 billion. In September 1994 the sports sector originally belonging to Paramount – Madison Square Garden, the New York Knicks and the New York Rangers – was

sold for \$1 billion. In 1995 Viacom's Cable TV Systems (1.1 million subscribers; value \$2.25 billion) was sold to TCI (Malone).

In a 1995 interview with *Der Spiegel* (24, 1995) Redstone commented that the Viacom strategy of producing programming for the new information highways would prove more successful than the Time Warner strategy of spending billions of dollars for its own cable and telephone networks. *Star Trek* also belongs to Viacom. Redstone says Viacom follows a philosophy of "content is king". In the first half of 1995 Viacom sold *Forrest Gump* almost 15 million times. In January 1996, completely surprising outsiders, Redstone fired his No. 2, Frank Biondi, arguing that "he's not confrontational, not hands on". Redstone took over himself as CEO. Biondi went to MCA and became CEO there.

In April 1996 the German media entrepreneur Kirch and Viacom entered a five-year license deal with an option for a further five years. For that period Kirch has exclusive rights to new feature films, television films and series productions of Paramount Studios for the German-speaking region, in parts even for all of continental Europe. Broadcasts are on public channels, commercial channels and Pay-TV channels. The deal also increases access to the programme library of Paramount containing films like *Star Trek*, *Forrest Gump*, *Top Gun* and *Indiana Jones*. Nothing was divulged about the price. Insiders give it as DM 2.5 billion (c. \$ 1.66 billion) payable over 10 years. In exchange MTV and Viacom's TV station VH-1 get access to the digital television programmes the Kirch group is setting up under the name of DF 1, which started to operate in 1996. Viacom can also join Tele Cinco (Spain). In February 1996 Kirch made a similar deal with Columbia Tristar International whose value was estimated at DM 1.4 billion (c. \$ 927,000).

In 1996 Viacom (Paramount Pictures) launched a new mega hit (*TIME*, June 10, 1996) in *Mission Impossible*. The film hauled the largest six-day take ever of \$74.9 million. That is a bigger success than *Jurassic Park*, up to then the most successful film over that period. *Mission: Impossible* is a popular U.S. TV series about the Vietnam era, whose rights are with Paramount Pictures. It is syndicated in 120 countries. Bruce Gordon, president of Paramount Television's international division says, "There's no way *Mission Impossible* won't be a huge hit worldwide. When the word is out that the film is successful in the U.S., it will catch on overseas like a house on fire." Marketing of the film already began in November 1995 with a 90 second teaser trailer. Larry Mullen and Adam Clayton of U2 composed a new version of the theme, a worldwide campaign on MTV began. A novelisation of the film script

24 Redstone commented on these two quite violent characters (*Spiegel* 24, 1995, 78) that the series is a parody, an attack on intolerance, bigotry and racism in American society. He noted that *TIME* had named it the most courageous programme on U.S. television. Only children should not watch it, Redstone went on, because they might not recognise the satire.

was published by Viacom's Simon & Schuster. After the USA, *Mission Impossible* was to go on to the world market scheduled as follows: Singapore, June 6; Hong Kong, June 13; Australia, June 27; Mexico, July 5; Britain, July 5; Brazil, July 12; Japan, July 13; Israel, July 19; Germany, August 8; Czech Republic, September 12; France, October 23.

### 3.9 Microsoft and NBC

Microsoft was launched in 1975 by Bill Gates and Paul Allen. Its breakthrough came when it developed MS-DOS for IBM in 1981 and because of IBM's miscalculation that the market for PCs was insignificant was allowed to keep the licence. The situation now is, according to TIME (June 5, 1995, p. 72), that eight out of 10 of the world's estimated 200 million personal computers could not boot up (that is to say, start) without Microsoft's operating system software programmes like MS-DOS, Windows and Windows NT. In mid 1996 Microsoft employed about 19,000 people and in 1995/96 made a profit of c. \$1.6 billion on a turnover of \$6 billion. In other words, Microsoft makes 25% profit on every dollar of sales<sup>25</sup> (Apple makes 3.3%; TIME June 5, 1995).

Bill Gates is firmly established in the circle of the media tycoons.<sup>26</sup> *The Washington Post* of 4 February 1996 put his personal fortune at \$15 billion, with \$450 million being added every month. Microsoft, the world's largest computer software company, shows almost quintessentially how an enterprise develops into a multimedia industry. Microsoft dominates the markets for word processing (Microsoft Word), electronic spreadsheets (Excel), filing (Access), scheduling (Project) and the all-in-one programme "suites" (Office). Spending millions, Microsoft in 1995 whipped up a worldwide Windows hysteria. \$400 million was spent on advertising to assert Windows 95. Microsoft's Flight Simulator is one of the best-selling PC games of all times. Microsoft has also become the world's biggest lexica publisher. The electronic reference work Encarta on CD Rom is ahead of the Encyclopedia Britannica and the German Brockhaus-Verlag.

<sup>25</sup> Economist Brian Arthur (Stanford) puts such profits down to inter alia the law of increasing returns, i.e. the value of a computer system increases with each programme that runs on it.

<sup>26</sup> He was in Sun Valley in 1995 and Warren Buffett was one of the guests at his 1994 wedding in Hawaii.

And yet the leading position in the software area is not due to the outstanding quality of the products offered by the company. Many computer specialists regard Microsoft's operating software programme DOS, for example, as mediocre compared to other programmes (e.g. that of Apple). But because of clever business methods, sometimes verging on illegality, Microsoft dominates the market. (Robert Frankenberg of *Novell*, a competitor of Microsoft, calls Microsoft's methods "blatantly illegal". He added, "You can argue that people should be in jail." TIME, June 5, 1995.)

Federal judge Stanley Sporkin, ruling in February 1995 on an antitrust settlement Microsoft reached with Assistant Attorney General Anne Bingamann, called it "too little, too late" to foster fair competition in the computer industry. At issue were Microsoft's licensing policies for computer operating systems and preannouncement of new products long before they are ready, a market cornering technique known as "vapourware". Judge Sporkin wrote (TIME, June 5, 1995): "It is clear to this court that if it signs the decree presented to it, the message will be that Microsoft is so powerful that neither the market nor the government is capable of dealing with all of its monopolistic practices." The judge even described Microsoft as "a potential threat to this nation's well being". Microsoft's attempt to buy *Intuit* for \$2 billion, which would have been the biggest acquisition in software history, was stopped by the U.S. Justice Department. Responding in a reader's letter to the TIME (June 5, 1995) cover story about him, which referred to possible illegal business practices, Gates wrote: "Your article on Microsoft was an exhaustive list of conspiracy theories levied against our success over the past decade." Although in an interview with *Der Spiegel* (11.9.1995) Gates maintained that no media concern had yet made any money with the globe spanning computer net, Internet, nor with online services, according to TIME (June 5, 1995), Internet is now Microsoft's primary focus.

In June 1995 TIME had an overview of activities planned or launched by Microsoft, i.e. a listing of areas in which Microsoft cooperates with other firms to conquer future markets:

1. **Interactive TV:** Following cable operators have agreed to test the interactive TV system: Tele Communications Inc.; SBC Communication; U.S. West; Tele TV (all USA); Telstra (Australia); Nippon Telegraph & Telephone (Japan); Rogers Cablesystems (Canada); Deutsche Telekom (Germany); France Telecom (France).

2. **Set-Top Boxes:** TV owners will need microcomputers in their cable boxes to run Microsoft's TV software. The following firms will produce them: Hewlett-Packard, NEC, Sony, General Instruments.

3. **Video server:** Microsoft's movies will be stored in digital form on file servers. The following companies will build them: Compaq Computer, NEC, Sony.

4. **Electronic payments:** Cooperation with the following to find a secure way of selling and paying for goods via the Internet: Visa International; First Financial Management. Microsoft has cooperated with the Visa credit card company since September 1995. The aim is jointly to develop a standard for money transfer in data nets. The computer is to be made available later to others for payment.

5. **Banking services:** There are agreements with the following banks to offer their clients electronic banking services: First National Bank of Chicago; Chase Manhattan Bank; U.S. Bank; Michigan National.

6. **Online services:** Gates has gone on to the Internet with Microsoft Network (MSN), with the following telecommunications companies cooperating: AT&T; Tele-Communications Inc.; UUNet Technologies; Sprint; British Telecom; Unitel. According to Feola and Brown (1995) MSN is venturing into news delivery. MSN is expected to become the largest single online service.

7. **Wireless data:** Microsoft has invested in firms that can deliver e-mail and brief messages over radio links: Mobile Telecommunications Technologies; Metricom.

#### 8. Entertainment

8.1 **DreamWorks SKG** (cf. chapter 3.10), a venture to develop multimedia games.

8.2 **NBC:** NBC will produce CD Roms, interactive television series and products for the Microsoft Networks linked to its TV shows.

8.3 **Hollywood Online** will host an area on the Microsoft Network that offers digital video clips, sound bites, photos and electronic magazines.

8.4 **Starwave**<sup>27</sup> will provide the Microsoft Network with multimedia sports information (ESPNET SportsZone), entertainment news (Mr. Showbiz) and information about outdoor activities (Outside Online).

<sup>27</sup> The Starwave Corp. belongs to Paul Allen, the co-founder of Microsoft, whose fortune is estimated at \$5.5 billion. ESPNET SportsZone is a continuously updated sports information service that draws an average 2.5 million hits a day. TIME (November 13, 1995, p. 9) wrote: "Unlike television, SportsZone has the latest stats when you need them - 24 hours a day. Its fee-based National Football League Drive Charts provide detailed play-by-play accounts in words and graphics. The Chat area is a virtual sports bar inside your computer, where you can rehash the game with other fans." Starwave also hosts Mr. Showbiz, an online magazine of entertainment news, gossip and reviews, and Outside Online, "a multimedia version of popular American recreation magazine, (which) provides outdoor types with product reviews, tales of derring-do, and tips on where to go and what to wear when you get there." According to TIME Starwave has not yet made a profit.

The German news magazine, Der Spiegel (47, 1995, 133), commenting on this wide range of activities, said "whether someone spends money, watches TV, phones, sends out electronic mail or uses a reference work, Gates is likely in future to make money from it". Microsoft has also invested in the companies Mobile Telecommunications Technologies and Metricom which transmit data by radio waves. Microsoft owns 30% of the Teledisc Corporation of cellular telephone pioneer, Craig McCaw, which plans to spend \$9 billion on building a network of about 840 low-flying telecommunication satellites for a world-wide communication system.

The demarcation lines to the "classical" mass media are becoming ever hazier. In an interview with Der Spiegel in September 1995 (issue 37), i.e. before the Time Warner acquisition of CNN, Bill Gates said he planned to spend \$1 billion for a share of CNN. Saying he was only interested in the interactive media world he went on that CNN would be built into the Microsoft Network online service. CNN texts and pictures could also be sent into the Internet. First he'd wait to see whether Time Warner would buy CNN. Microsoft also operates a news service. Asked where the demarcations lay, Gates answered in September 1995 that Microsoft was already the world's biggest lexica publisher, bigger than Encyclopedia Britannica or the German Brockhaus. And if Microsoft sold a computer game, were they not a publisher as well? He did not think there was any difference left between software providers and publishers.

There were press reports in December 1995 that Microsoft intended to buy into NBC. The NBC holding company, General Electric, has agreed to Microsoft's acquiring up to 49% of the stock for \$4 billion. NBC is not only a large American network, but since 1983 has operated globally, with its non-U.S. focal areas being Asia, Europe and Latin America. At the end of 1995 NBC claimed to reach 145 million households worldwide. Internationally NBC operates the SuperChannel in Europe, CNBC Asia and Canal de Noticias NBC in Latin America. NBC News is the biggest news producing enterprise worldwide, CNBC the world's biggest provider of financial and economic news. At the end of 1995 NBC started the following multimedia projects:

NBC Desktop Video sends live news videos into the PCs of staff of finance and business enterprises.

NBC Data Network transmits data by radio waves.

NBC Digital Publishing produces CD Roms and other digital products.

NBC Online is the name for NBC online projects which so far have included installation of an NBC page in the Internet (<http://www.nbc.com>) and the NBC Super Net in the Microsoft Network.

Since August 1995 NBC has been represented with NBC Super Net in the Microsoft Network (MSN). It offers NBC television news, entertainment and sport. News from Associated Press, background information on certain topics and weather forecasts are also provided. Since December 1995 Microsoft and NBC have also been cooperating on a joint venture, the MSNBC Cable News Channel, a television and multimedia project. The 24-hour news disseminator<sup>28</sup> by cable is to come on to the market by mid-1996. NBC president Bob Wright told the Financial Times (March 11, 1996) that Microsoft had agreed to invest \$220 million for a 50% stake in NBC's existing cable channel, America's talking. Wright said: "We agreed to take that service, reconfigure it and make it as interactive friendly as any television channel can be." According to the Financial Times there will be regular alerts throughout the service to draw the viewers' attention to stories that will be dealt with in depth on Microsoft Network. The news channel began operating with the start of the Olympic Games in Atlanta on 15 July 1996.

Another joint launch was MSNBC Online. NBC supplies the news programming to the Microsoft Network started in August 1995. The aim is to show news in breadth and depth, i.e. to provide additional background reports, chronologies and graphics. Moreover, NBC News, MSNBC Cable and MSNBC Online are to promote each other. John E. Welch, the chairman of General Electric, which bought NBC in 1986, was quoted in the Wall Street Journal of 8 December 1995 on the advantages of the joint venture as follows: "20,000 brains at Microsoft will help G.E. better sell its products." With the linkage between television and online services a strategic novelty has come into the market. Generally speaking, marketing strategists regard the typical online users as the ideal target group. They are aged around 30, male, well educated and have good incomes. A field trial by TCI, whose methodological quality cannot be judged because of lacking data, showed the effects the symbiosis of television and online services can have. It was found that people who can browse with a so-called cable modem in both television and Internet easily spend twice as much time at their monitor screen as others – 7.6 instead of 3.8 hours a week.

NBC launched CNBC Europe on 11 March 1996. Its programming will include six hours of business news provided by FTTV (Financial Times TV), at least six hours of U.S. business coverage from the American CNBC channel and 14 hours of live coverage from the CNBC channel in Asia launched in

1995. Tough competition comes from *European Business News*, the 24 hour news channel of Dow Jones and Fextech launched in February 1995.

NBC banks on sports and has paid record amounts for Olympic relaying rights, namely \$725 million for Sydney in 2000, \$545 million for Salt Lake City in 2002 and \$2.3 billion for the entire package of Olympic rights for summer 2004, winter 2006 and summer 2008. The International Olympic Committee will also receive half the net profits of the NBC advertising related to the Olympics.

Microsoft is also advancing into the media business at other levels. It was revealed at the 1995 Comdex computer trade fair in Las Vegas that together with journalist Michael Kinsley, Gates wants to start an electronic opinion publication. Germany's public ZDF television channel has allied itself with Microsoft for its online plans. From July 1996 the ZDF will operate a data service, various types of information and entertainment through Microsoft Network. After the cooperation with NBC this is the second big contract with a national broadcaster.

From June 1996 Microsoft offered a new news magazine in the Internet, *Slate*, edited by the former CNN talk show star, Michael Kinsley (<http://www.slate.com>). Kinsley, who insisted that Gates leave him editorial freedom, in the discussion forum of the first edition posed the question, "Is Microsoft Evil?" Kinsley has been able to attract reputed authors such as Jodie Allen of the Washington Post and the Stanford economics professor, Paul Krugman. The news magazine items are to be exchanged three times a week. But the output is a typical political publication fixated on Washington and not, as one would have expected, targeted at a global audience. At least in the first edition the ability to communicate with a global public through the Web was not reflected in the content. From 1 November 1996 the magazine is to cost \$19.95 a year. This is seen as a big obstacle to success because there is already a free competition. The Pointcast Network (PNC; <http://www.pointcast.com>) already offers a mixture of personally selectable political, sports, weather and show business news free of charge (except for the telephone costs) to 250,000 registered users.

Through the Corbis company, launched in 1989 and formally independent of Microsoft, Bill Gates is the biggest global supplier of digital pictures. Der Spiegel (16/1995) estimates the Corbis share of the world market for electronic picture rights at 75%. Corbis has the picture rights in the following museums and private collections (the pictures are scanned in): National Gallery, London;

28 Capital Cities/ABC (taken over by Walt Disney) also plans to broadcast news round the clock from 1997. So does Murdoch's News Corp.. ABC and NBC, which both have news production units, are also considering going on to the Internet.

Hermitage, St. Petersburg; Detroit Institute of Arts; Royal Ontario Museum; Library of Congress; Philadelphia Museum, Barnes Foundation; Kimbell Art Museum, Fort Worth. The world's biggest photo library, the Bettmann Archive, which also incorporates the upi press archive, comprising 16 million pictures, was bought in October 1995. Nothing has become known about the purchase price. The licence fee for use of the pictures ranges from \$50 to \$3,000. Among the famous pictures are Albert Einstein poking his tongue out, the exploding rigid airship "Die Hindenburg", the construction workers having breakfast on a steel beam of the Rockefeller Center high above New York and the student democracy activist standing alone in front of a tank on Tiananmen Square (the Square of Heavenly Peace) in Beijing (these pictures, along with 30,000 others can be found under <http://www.corbis.com>).

Since April 1996 Corbis has had the exclusive rights for 20 years to the 2,500 pictures of the world famous nature photographer, Ansel Adams. Corbis assumes a growing demand for pictures in the multimedia world that one can bring into one's home or office by computer or call up from a CD Rom. The major target groups are advertising studios, newspapers and television stations. Corbis also plans to acquire the rights to audio material, films and texts. A Corbis press release says the archive contains pictures from all areas of life, "biography and portraits, technology and engineering, natural and life sciences, physical and earth sciences, history, the arts, landscapes and geography, sports, political and social issues, people and cultures and many more". On 8 February 1996 the Corbis archive held some 500,000 digitalised pictures and around 17 million prints and slides.

Corbis produces CD Roms. And so one can watch at the PC *A Passion for Art: Renoir, Cézanne, Matisse and Dr. Barnes* and the Barnes Collection long closed to the public, one of the biggest private collections of Impressionist and post-Impressionist art. Corbis does not appear to want to leave it at pictures. Its chief, Doug Rowan, remarked in late 1995, "We want to capture the entire human experience throughout history ... film, video, audio. We are interested in those fields, too".

### 3.10 DreamWorks SKG: the new dimension

In an essay titled *United Artists II – Can inmates run an asylum?* (Barron's, October 17, 1994) Thomas G. Donlan used an old Hollywood adage to comment on the plans to set up DreamWorks SKG: "You don't have to be crazy to be in the movie business, but it helps." It was launched with \$2 billion in

March 1995 by the three American media moguls Jeffrey Katzenberg, David Geffen and Steven Spielberg. Katzenberg had earlier headed up Walt Disney Filmstudios where he was responsible for the revival of animated features. Geffen, a famous pop music czar, had managed inter alia Nirvana on records, Tom Cruise in movies; his music company, Geffen records with Elton John, John Lennon, Guns N' Roses and many others, founded in 1981, was sold in 1990 to MCA for \$600 million. Steven Spielberg is known in connection with the films *E.T.*, *Jaws*, *Jurassic Park*, *Schindler's List*, etc.. In an interview with *Der Spiegel* (15 April 1996) he said he would never have joined the DreamWorks venture if he had not known that his partners Katzenberg and Geffen were unbeatable in everything concerning business, management, organisation and efficiency. They kept him free to be creative. Spielberg's former production company, Amblin Entertainment, is already a part of DreamWorks SKG. DreamWorks SKG started producing films, television shows, sound media (CD etc.), toys and computer software.

Should this firm succeed it will be the first launch of a new studio by artists in 50 years (United Artists) and it will change the global media market. *TIME* (March 27, 1995, 48) reported investors lining up, "Because of the team's past. Because of the future it might hold: that DreamWorks will be the prototype plugged-in multi-media company of the new millennium". Each of the founders has put \$33.3 million into the project. Paul Allen, co-founder of Microsoft, invested \$500 million, the Chemical Bank provided a \$1 billion line of credit. Ten films a year are to be produced by the film division. Spielberg commented on that programme, "And if we can't find 10 good movies a year we won't make five good ones and five bad ones. We want quality over volume". Katzenberg heads the animation unit. A story based on the Ten Commandments, *The Prince of Egypt*, is to be released for Christmas 1998.

Bill Gates has also teamed up with *DreamWorks*. In a joint venture with *DreamWorks Interactive* adventure games and other multimedia computer programmes modelled on films are to be produced. Microsoft has also bought \$100 million DreamWorks SKG stock. The entertainment giant MCA belonging to Seagram inked a 10-year deal with DreamWorks SKG. MCA will distribute the studio's films and its music and home video releases worldwide.

In the music field, DreamWorks has bought pop star George Michael out of his contract with Sony. Different sums have been named. *TIME* names a purchase price of \$40 million plus \$12 million for the singer for two music albums. Other sources say Sony received \$40 million directly, another \$30 million from the coming Greatest Hits album and another 30 million from future



records of the singer. So far DreamWorks SKG has produced the single Jesus for a Child with Michael. The television division has so far produced the sitcom *Spin* and the *Champs* show.

In May 1995 DreamWorks SKG and Silicon Graphics (SGI) announced a far-reaching cooperation named DreamWorks Digital Studio. SGI had done the computer technology for Jurassic Park and is one of the leading producers of visual computing systems for computer animation. Microsoft and SGI invested \$50 million together in hard and software systems for computer aided animation of feature films. In March 1996 DreamWorks acquired 40% of Pacific Data Images, the world's leading computer animation enterprise. It is planned jointly to produce a completely computer animated film, as Walt Disney has succeeded in doing with *Toy Story*, whose animation was done by Pixar Animation. Nothing precise has become known about the purchase price but the Wall Street Journal (March 5, 1996) reported "tens of millions of dollars".

The German Telekom is also planning an alliance with DreamWorks SKG. Telekom chief Ron Sommer is in talks with them and wants to promote use of such multimedia as call-up films, pay per view and computer animation. It is rumoured that Deutsche Telekom is planning to buy DreamWorks stock. Telekom is also said to be planning something with Microsoft. The Telekom spokesman said merely, "Everyone is talking to everyone else". In June 1996, together with MCA Universal, DreamWorks tried to gauge the German market for pay-TV. Under the code name Prima an attorney submitted an application for 15 feature film pay-TV channels to the German licensing authorities.

### 3.11 Sony in Hollywood

Sony was started in 1946 by Akio Morita and Masuru Ibuka. It put the first transistor radio on to the market in 1958. The Walkman that made the company world famous was invented in 1979. The Japanese Sony Corp., maker of such hardware as TV sets, VCRs and gadgets of the future, has tried to build a media empire in the USA that would supply the corresponding software, such as films, records and so on. Michael Schulhof, chairman of Sony's U.S. operations and the only American on Sony's board, took on this task. In 1987 CBS records, along with its cache of classic American song rights, was bought for \$2 billion. In 1989 Sony bought the Hollywood studio Columbia Pictures and its sister enterprise TriStar studio from Coca-Cola for \$3.4 bil-

lion. Michael Ovitz was paid \$10 million commission for brokering the transaction, up to then the biggest in Hollywood. Another \$175 million was then paid for Columbia's movie lot in Culver City, California. The German daily newspaper, *Die Welt*, reported on 6 May 1996 that up to then Sony Pictures International, as the Columbia Studios were renamed in 1991, had lost \$4 billion.

It has to be noted that Columbia Pictures was bought during a phase of marked anti-Japanese feeling in the US. The 9 October 1989 Newsweek issue had the cover story Japan Invades Hollywood. The cover picture showed the Statue of Liberty dressed like a geisha. Business Week (September 7, 1989) saw "Xenophobic tremors throughout Hollywood". The reason for the mood was that in the 80s Japan had enormous trade surpluses over the US. Perhaps also worth noting on the fringe is that together with the conservative member of parliament, Shintaro Ishihara, Morita had published the book *A Japan that can say No* in 1989.

On the earlier history of the purchase it must be mentioned that in 1983 Coca-Cola, led by Roberto C. Goizueta, had bought Columbia Pictures for \$750 million, nearly double its stock value at the time. The background to the Coca-Cola engagement in Hollywood is seen by Mark Pendergrast (1993, 348) in the 1982 success of the Spielberg film *E.T.* which Pendergrast says galvanised the marketers' attention when Reese's Pieces experienced a 70 percent sales jump the month after the cute alien munched them on screen. Columbia's library of classic films comprised about 1,800 titles. Herb Allen was part of the Columbia management at the time. The studio produced three smash hits in 1983, *Tootsie*, *Gandhi* and *The Toy*. The company also had a very favourable contract with Home Box Office, the pay-cable movie channel of TIME Inc.. Columbia, HBO and CBS jointly set up a new studio named TriStar. But then came many flops, prompting the Newsweek headline, "Coke: Flat in Hollywood" (cf. Pendergrast 1993, 374).

After Sony's takeover production began on Batman (cost \$ 800 million), with two producers in charge who were inexperienced running a big film studio. Both were fired – Jon Peters in 1991, Peter Gruber in 1994 – with no mean golden handshakes. Gruber received \$ 40 million, for example, as well as the pledge that a newly to be founded company would be supported with \$200 million. TIME reported that because of the commercial failures Sony had to write off \$2.7 billion in 1994 (Sony 1994-95 sales: \$44.8 billion). Michael Jackson's *HIStory* was another flop, costing \$30 million to hype for a dismal sale of 8.5 million copies. *The Last Action Hero* with Arnold Schwarzenegger was also a financial debacle.



The person mainly responsible for the disaster in the USA, Schulhof, was only dismissed in December 1995. *TIME* (December 18, 1995, 39) argues that Schulhof was never popular in Hollywood and that there was more or less open joy at his fall. "Schulhof, the buzz said, may have been in Hollywood, but he was never really of it." Sony Entertainment is now managed from Japan. Sony denied in December 1995 that it planned to leave Hollywood. The new Sony president, Nobuyuki Idei, who has succeeded company founder Akio Morita, on the contrary emphasises the importance of electronics and entertainment for Sony's future: "There is a definite linkage of hardware and software. Our companies will work together to maximize our business opportunities. That's Sony's big advantage." Sony is, however, in danger of losing its leadership in the electronic sector through the losses it made in Hollywood. Time Warner and Toshiba are leading in the race to replace the video cassette player, the so-called digital video disc player. But for the time being Sony appears to be clinging to its strategy because in December 1995 Sony, respectively *TriStar*, paid the actor Tom Cruise \$20 million to star in the comedy *Jerry Maguire*.

### 3.12 MCA/Universal, Matsushita and Seagram

Matsushita Electric Industrial Co. is substantially older than Sony and was founded in 1918 by Konosuke Matsushita. Its brand names include Panasonic, Technics, Ramsa, Quasar and National. In 1990 Matsushita Electrical Industrial Co. bought Music Corporation of America (MCA), owner of the famous Universal Studios, for \$6.6 billion; the studio had made such blockbusters as *E.T.* It was the largest buyout of an American company by a Japanese concern. Michael Ovitz again played a big part, advising Matsushita. *Newsweek* (June 12, 1995, 47) listed the main MCA activities:

**Movies (Universal):** *Jurassic Park*, *E.T.*, *Schindler's List*, *Out of Africa*, *The Deer Hunters*, etc..

**Television:** *Law & Order*, *Miami Vice*, *Dragnet*, *Colombo*, *Rockford Files*, *Magnum P.I.*, *Murder, She Wrote*, etc..

**Home entertainment:** Video cassettes of films and TV programmes and straight-to-video productions.

**Merchandising:** Sale of products connected with film and TV products, such as *The Flintstones*, *Apollo 13*, *Jurassic Park*, *Waterworld*, *Woody Woodpecker*.

**Music:** Meat Loaf, Live, Vince Gill, Reba McEntire and others.

**Theme Parks:** Universal Studios theme parks in Hollywood and Florida visited by 12 million people annually.

**Retailing:** Spencer Gifts and Dapay, a 500-store chain of mall gift shops.

**Publishing:** Authors Tom Clancy, Dick Francis, Robin Cook, etc..

**Cable:** MCA owns a 50% stake in the USA Networks.

**Cinemas:** Cineplex Odeon Corp., 361 cinemas in the U.S. and Canada, partly owned by MCA.

MCA also owns land described by *TIME* as "a pleasant parcel of southern California". Matsushita hindered MCA's attempts to diversify, e.g. the intended purchase of Virgin Records. *TIME* (April 17, 1995, 41) commented on Matsushita's style of control: "Like Godzilla in hibernation, Matsushita sat in its Osaka cave, occasionally emerging to roar 'No'."

In April 1995 Matsushita sold 80% of MCA and Universal Studios to Seagram for \$5.7 billion. Seagram inter alia owns the brands Chivas Regal (whisky), Mumm champagne, Tropicana orange juice. To raise the money for the purchase Seagram sold \$8.8 billion worth of stock in the very profitable DuPont chemical company. Seagram CEO, Edgar Bronfman jr. explained: "What we bought here was a series of opportunities." Bronfman sees the film and television business as the economic sector with the greatest potential for explosive growth. MCA's film and television division in 1995 returned a profit of \$227 million, a rise of 29% on the previous year.

Matsushita lost 35% of what it had paid when it sold, which was due mainly to the weakness of the dollar against the yen. Apart from that MCA was quite successful, e.g. the music division acquired from David Geffen's record holdings and the Spielberg films *Back to the Future*, *Jurassic Park* and *E.T.* Spielberg regards Sidney J. Sheinberg of MCA as his mentor which in turn accounts for the good relationship between DreamWorks and MCA.

But in addition to the successful films, MCA also produced *Waterworld*, which at the time was rumoured to have lost \$165 million, the biggest flop in film history up to then (but cf. also Chapter 7.4). However, Universal Pictures also came with a film archive. *Forbes* (July 3, 1995) commented: "A big key to upping profits is tapping the potential of the 3,600-title film library, which trails only Turner Broadcasting in numbers, and in value, only Disney. Ted Turner used the MGM library to build the values of his TNT and Turner Classic Movies Cable Channels." Seagram, also a large stockholder of Time Warner, respectively Time Warner Turner (in 1993 14.9% of Time Warner were acquired for \$2 billion), is with MCA now so to speak its own competitor.

Ovitz's influence was also shown in Ron Meyer of Creative Artist Agency becoming president of MCA. The work of CEO was at first done by Edgar Bronfman, until Redstone in January 1996 fired Biondi. Edgar Bronfman jr., 39 years old in 1995, according to TIME and Newsweek is friends with Ovitz and Diller. Bronfman was strongly influenced by Hollywood in his youth. His father, Edgar Seagram, had bought into MGM in 1967, acquiring 15% for \$40 million. However, two years later he had to sell again at a loss of \$10 million. At that time Edgar jr. read screenplays and aged 17 produced a film, *The Blockhouse*, which was a flop, however. He invested in Broadway productions and produced a few films, including *The Border* (1982; MCA Universal) with Jack Nicholson. In 1985 Bronfman penned Dionne Warwick's ballad *Whisper in the Dark* (Come closer now/So I can see you in the dark...).

Seagram's marketing experience could be quite useful to MCA. The music division of MCA plans moving into the international music business. Al Teller, CEO of the MCA Music Entertainment Group, commented: "There is a great deal to be learned from Seagram, especially about marketing strategies." The Senior Vice-President of the Asian-Pacific Region of MCA Music Entertainment International, Greg Rogers, also emphasised the advantages of the takeover: "They can help us understand a market like mainland China, where they have 16 offices." Apart from that MCA is also planning to build a second theme park in Orlando, Florida and a park in Osaka, Japan.

How successful MCA is was shown by Greg Meindel, head of the MCA Television Group, being described as one of the most successful players at the film fair in Cannes in April 1996. MCA Universal (Apollo 13, Casino) offered films for c. \$1 billion.

### 3.13 A German media transnational: Bertelsmann

Bertelsmann was founded in the small German town of Gütersloh in 1835 by Carl Bertelsmann as a publishing house for Christian literature and general education books, with its own printing plant. Its activities outside Germany began in 1947. A book club was founded in 1950, a record club in 1956. The Ariola record company was added in 1958. In 1969 Bertelsmann bought into the Gruner und Jahr publishing house. In 1984 Bertelsmann went into the television business with RTL plus. The Bertelsmann Music Group was launched in 1987. The launch of the Ufa film studios followed in 1992.

The Bertelsmann conglomerate is one of the world's largest media enterprises. The group turned over DM 20.6 billion (c. \$13.6 billion) in the 1994/95 financial year (1.7.1994 – 30.6.1995) (TIME \$14 billion revenues), producing an annual surplus of DM 817 million (c. \$541 million). DM 7.2 billion (c. \$4.8 billion) of the turnover was made in Germany, DM 13.4 billion (c. \$8.9 billion) abroad. In 1996 Bertelsmann employed 58,498 people worldwide. For 1996 the enterprise expected a turnover of DM 21.5 billion (c. \$14.2 billion). Annual surplus after taxes was projected at DM 817 million (c. \$541 million). According to its 1996 half-year report Bertelsmann acquired the periodicals group of the New York Times Company in the USA. Jointly with American Online (AOL) online services have been built up since November 1995 in Germany, France and Great Britain.

The enterprise operates in a great many other areas, including printing, newspapers and periodicals, books, music, multimedia and entertainment. Only two aspects will be addressed here, the most strongly internationalised ones of BMG Entertainment and the activities in the television sector.

With subsidiaries in 40 countries BMG Entertainment is the most strongly internationalised Bertelsmann sector. BMG Entertainment came into being in 1986/87 when Bertelsmann took over the stock of RCA and merged it with its other music activities. The Bertelsmann Music Group is based in New York. On the 1994/95 financial year BMG Entertainment achieved a turnover of DM 6.8 billion (c. \$4.5 billion), making it the biggest branch of the enterprise. Worldwide the BMG turnover was distributed as follows: German-speaking areas 36%, North America 31%, Europe 18%, Asia 9% and Latin America 6%. BMG Entertainment has cornered 14% of the world music market, making it one of the really big players. Some 200 music labels and many music publishers in 40 countries belong to this sector (e.g. Arista Records, BMG Ariola, RCA Records label). Also under the BMG Entertainment roof are the European film, radio and television enterprises such as the production firms (especially Ufa) and the rights trade (especially sports rights). In Sonopress BMG Entertainment moreover has a company for storage media operating in Europe, Asia, South America and North America and capable of producing more than 1.6 million Cds daily.

In 1990 BMG increased its holding in the Japanese music company BMG Victor to 90%. Also that year a licence and distribution agreement for the MCA, Geffen and GRP Records labels was entered with MCA. In March 1993 BMG entered the multi media business (jointly with Crystal Dynamics). In 1994 BMG bought the Milan music enterprise G. Ricordi & C. Spa, the

most important enterprise in this industry in Italy, giving it a 30% market share in that country. Also in the 1994/95 financial year Bertelsmann launched music sector activities in India and Saudi Arabia and took a share of Channel V, Asia's leading music channel (jointly with Sony Pictures Entertainment, Warner Music Group and EMI Music). Increased attention was also given to the home video and interactive entertainment areas, i.e. the worldwide development, marketing and distribution of interactive games as well as infotainment and edutainment software.

In the music market Bertelsmann has become a world company. In 1995 it held a 13% share of the American music market and is striving for 18%. The Bertelsmann strategy towards this end is to make medium size acquisitions and then to bring them forward by quickly expanding them. Bertelsmann bought into the music business with only \$330 million for RCA/Arista and has since turned it into a global player.

Bertelsmann has also been involved in a television merger with global impact. In April 1996 Bertelsmann (Ufa Film und Fernseh GmbH) agreed to a merger of television interests of \$6.58 billion (TIME, April 15, 1995) with CLT (Compagnie Luxembourgeoise de Telediffusion), respectively Audiofina. The CLT 1995 turnover was DM 4.4 billion (c. \$2.9 billion). Ufa turnover for 1995 is put at DM 1.9 billion (c. \$1.26 billion). The new enterprise, CLT/Ufa, will be Europe's largest broadcasting enterprise and, according to Bertelsmann, will have a turnover of more than DM 5 billion (c. \$3.3 billion). The aim of the merger is to be a stronger competitor vis a vis the Americans. The talks were headed by Michael Dornemann and Albert Frère, the president of the Belgian Groupe Bruxelles Lambert. The mother companies CLT and Bertelsmann have the following areas of business (TIME, April 15, 1996, p. 50):

**CLT (1995 revenues \$2.9 billion)**

Television and radio production and commercial broadcasting  
Movie production and distribution  
Telecommunications

**Bertelsmann (1995 revenues \$14 billion)**

Publishing  
Book and record clubs  
Film, radio and television  
Music and video production  
Electronic media, paper and printing

The structure of CLT ownership is difficult to understand. The major stockholder is the Audiofina holding (97%), of which the Compagnie Luxembourgeoise Multi Media (CLMM) holds 51%. Another major stockholder is the Banque Paribas. Part owners in turn of CLMM are the Groupe Bruxelles Lambert with 60% and Havas with 40%. CLT is headed by Gaston Thorn, a longtime premier of Luxembourg. CLT is controlled by the Belgian banker, Albert Frère.

CLT is a television enterprise operating in France, Germany, Belgium, the Netherlands and Luxembourg. The merger made Bertelsmann the No. 1 in the European television market, enabling it to compete quite strongly in Europe against Disney and Time Warner. Markus Wössner, the president of Bertelsmann, called the merger with CLT a "possibly historic milestone". The Wall Street Journal Europe (April 4, 1996) had the headline, "Germany's Bertelsmann Fulfills Media Dream Through CLT Alliance". In 1994/95 Bertelsmann made only 10% of its \$14 billion revenues in the TV sector, even losing \$500 million in Pay TV.

The merger made Bertelsmann a large stockholder in the TV field, with RTL, RTL 2, Super-RTL, Vox and Premiere. Together that makes a market share of about 30% in Germany. Any further growth will pose problems with the cartel authorities and lawmakers. In respect of the merger of CLT and the Bertelsmann subsidiary Ufa the EU competition commissioner, Karel van Miert, sees two mega alliances taking shape in Europe, namely Bertelsmann, CLT and possibly Murdoch in the one and the group around Leo Kirch and Silvio Berlusconi in the other. To van Miert the trend is clear: "The big players are already trying to carve up among themselves the new markets coming into being." Van Miert urgently demands a pan-European media rights frame law.

There is no arguing with the assessment by Dornemann, that "We've dramatically improved our position. The merger with CLT has turned us from a weak participant into a major European player." The merger was all the more surprising because Bertelsmann and CLT were locked in a bitter legal dispute over power in RTL TV, Germany's biggest television broadcaster with a market share of about 17%.

In the digital television field (30 specialised channels are planned for Germany) Bertelsmann cooperated with Murdoch's News Corp (BSkyB), the French channel Canal plus and the media and advertising giant Havas (Paris). Havas in turn owns stock in Canal Plus and CLT. But in June Murdoch's

contract was cancelled again before signature. In the television field Bertelsmann is partner of Murdoch in Vox, a German TV station.

### 3.14 Outlook

No end to the media mergers is in sight. Enterprises such as the News Corp. or Microsoft, which are largely debt-free, are likely to become active. A possible takeover target is Metro-Goldwyn-Mayer Inc. (MGM), of Santa Monica, California. The lion that was about to fall silent because of bankruptcy is roaring strongly again. Hits have again been produced such as the Science Fiction thriller *Species* (\$60 million earned by February 1996), the gangster comedy *Get Shorty* (\$70 million by February 1996) and *Golden Eye*, the last James Bond episode (more than \$300 million by February 1996). Despite a few flops (e.g. *Showgirls*) MGM raised its cinema play revenues in 1995 from \$149 to \$333 million in the USA. Gross turnover abroad rose from \$55 to \$150 million.

For many years the company was near bankrupt. It was taken over by the investor, Kirk Kerkorian, in 1969 and later merged with United Artists. In the 80s MGM was sold off in slices, as it were. Parts of the film library went to Ted Turner and the production studio to Sony. In 1990 the remains went to an Italian who soon went bankrupt and from there to the French bank Crédit Lyonnais, which itself soon got into trouble. This led to transfer to the receivership company, Consortium des Realisation. That company has charged the investment bank, Lazard Frères & Co., to prepare its sale.

Since then rumours have been flying in Hollywood. One of the companies being named is Bertelsmann which according to the German daily Frankfurter Allgemeine Zeitung makes no secret of its wanting to get into Hollywood. Frank Manusco, an experienced film manager, was appointed to head MGM by Crédit Lyonnais in mid 1993. He recruited respected directors, actors and managers. Film production was revitalised and the TV subsidiary reactivated. The remaining film library, containing 1,450 films and 2,500 hours of TV programming, was also used more effectively again (Some like it hot, West Side Story, Rocky and James Bond films). Other potential buyers being mentioned are TCI, the French Chargeurs group and the Philips subsidiary, PolyGram.

The biggest U.S. Pay-TV company belongs to General Motors. It is DirecTV, a subsidiary of Hughes Communications. The company has been on the mar-

ket since 1994 and in April 1996 was satelliting TV programmes directly to 1.5 million U.S. households. That would tend to suggest that the big future does not belong to cable television. DirecTV can deliver on up to 900 channels. For \$30 a month it provides news from CNN, golf tournaments, weather information, two Disney channels, three Western channels, animal films from Discovery, etc.. On 100 channels 30 cinema films are offered every month, available at any time for \$2.99 (Spiegel 18, 1996).

Commenting on the 1996 Cannes film fair, RTL chief Helmut Thoma characterised the power relationships on the film market as a gold rush. He spoke of totally exaggerated prices. It was obvious, he said, that this was the preparation for the fight for the digital television market developing in Europe. The increased demand led to a price explosion. In 1991 a Hollywood film cost about DM 450,000 (c. \$300,000). In 1996 the prices were around DM 2 million (c. \$1.32 million). On the relationship to Hollywood Thoma said (Spiegel 29.4.1996): "We have the refineries, they have the oil." In other words, the structural requirements for further vertical integrations are in place.