

## Introduction

The so-called digital revolution is transforming media and communications industries worldwide. Media companies in the US, Europe and elsewhere are keen to take part in the changes and, if possible, to emerge at the forefront of an increasingly transnational and competitive communications marketplace. The volume and scale of mergers and alliances involving media players that has taken place in recent years has raised considerable challenges for regulators and state authorities across the globe. This book examines how media policy-makers in the UK and Europe have responded and it assesses the main socio-political and economic implications of recent shifts in media and cross-media ownership policy.

In some respects, technological advances appear to have encouraged greater diversity throughout the media. Entry barriers have been coming down in many sectors and not only has the number of broadcast channels in Europe multiplied rapidly since the early 1990s but the recent growth of the Internet has also introduced a diverse array of new players. But, at the same time, digitization and converging technologies have encouraged strategies of expansion, diversification and ever-increasing concentration of ownership amongst leading players in the media and communications industries. This new era of consolidation of ownership and mega-mergers presents European regulators and policy-makers with complex and difficult challenges.

The prevalent impetus towards deregulation of conventional broadcasting and press ownership restraints is usually explained in terms of a need to allow domestic players to exploit important new economic and technological opportunities, preferably ahead of international rivals. Drawing on empirical research carried out in the UK, this book sets out to explain exactly what sort of economic benefits result from greater concentrations of media ownership. It investigates the commercial and

strategic advantages of consolidation and cross-media expansion and the extent to which press and broadcasting interests are actually converging. The socio-political and cultural consequences of permitting concentrations of ownership in the media sector are extremely profound and these are also examined and explained.

Ownership of the media is a 'hot' political topic. In many European countries, policies to deal with media concentrations have been reviewed in recent years and, in some cases, radically revised. This book analyses how policy-makers in the UK and at the European Commission have weighed up and responded to competing concerns surrounding the development of large media conglomerates. In so doing, it seeks to open up for question the capacity of existing mechanisms for policing the media to cope with influential corporate media interests.

### **Why are media firms expanding?**

An important reason why media firms are expanding is because the traditional boundaries surrounding media markets are being eroded. National markets are being opened up by what is sometimes referred to as 'globalization'. 'The communications revolution has . . . caused an internationalization of competition in almost all industries. National markets are no longer protected for local producers by high costs of transportation and communication or by the ignorance of foreign firms . . . Global competition is fierce competition, and firms need to be fast on the uptake . . . if they are to survive' (Lipsey and Chrystal, 1995: 258).

The emergence of a borderless economy and more international competition has naturally affected media markets and firms across the globe (Alexander et al., 1998: 223). The transnational integration of what were previously thought of as just national markets through, for example, the European Union and North American Free Trade Agreement (NAFTA), has accelerated the process. Throughout the 1990s, policy-makers in the US and Europe sought to develop initiatives that supported the development of a 'Global Information Society'. To some extent at least, their hopes have been realized by the dramatic growth of a truly transnational and borderless distribution infrastructure for media in recent years – the Internet.

So, changes in technology are also helping to diminish traditional market boundaries. And it is not just geographic market boundaries that are being affected but also product markets. Technological convergence has blurred the divisions between different sorts of media and communi-

cation products and markets. The term ‘convergence’ is used in different ways but, generally speaking, it refers to the coming together of the technologies of media, telecommunications and computing. It is also used sometimes to denote greater technological overlap between broadcasting and other conventional media forms. Digital technology – i.e. the reduction of pieces of information to the form of digits in a binary code consisting of zeros and ones – is the driving force behind convergence. Sectors of industry that were previously seen as separate are now converging or beginning to overlap because of the shift towards using common digital technologies.

The implications of convergence are far-reaching. With the arrival of common digital storage, manipulation, packaging and delivery techniques for information (including all types of media content), media output can more readily be repackaged for dissemination in alternative formats. For example, images and text gathered for a magazine, once reduced to digits, can very easily be retrieved, reassembled and delivered as another product (say, an electronic newsletter). So, digitization and convergence are weakening some of the market boundaries that used to separate different media products.

Convergence is also drawing together the broadcasting, computing and IT sectors. According to some, ‘[u]ltimately, there will be no differences between broadcasting and telecommunications’ (Styles et al., 1996: 8). More and more homes are now linked into advanced high capacity communication networks and, through these, are able to receive a range of multimedia, interactive and other ‘new’ media and communication services as well as conventional television and telephony. Because of the potential for economies of scale and scope, the greater the number of products and services that can be delivered to consumers via the same communications infrastructure, the better the economics of each service.

The ongoing globalization of media markets and convergence in technology between media and other industries (especially telecommunications and broadcasting) have caused many media firms to adapt their business and corporate strategies accordingly. As traditional market boundaries and barriers have begun to blur and fade away, the increase in competition amongst the media has been characterized by a steady increase in the number of perceived distributive outlets or ‘windows’ that are available to media firms.

The logic of exploiting economies of scale creates an incentive to expand product sales into secondary external or overseas markets. As market structures have been freed up and have become more competitive and international in outlook, the opportunities to exploit economies of scale

and economies of scope have increased. Globalization and convergence have created additional possibilities and incentives to re-package or to 'repurpose' media content into as many different formats as is technically and commercially feasible (e.g. book, magazine serializations, television programmes and formats, video, etc.) and to sell that product through as many distribution channels or 'windows' in as many geographic markets and to as many paying consumers as possible.

The media industry's response to these developments has been marked. Media firms have been joining forces at a faster pace than ever before. They have been involved in takeovers, mergers and other strategic deals and alliances, not only with rivals in the same business sector, but also with firms involved in other areas that are now seen as complementary.

Convergence and globalization have increased trends towards concentrated media and cross-media ownership, with the growth of integrated conglomerates (e.g. Time Warner/AOL, Pearson, Bertelsmann etc.) whose activities span several areas of the industry. This makes sense. Highly concentrated firms who can spread production costs across wider product and geographic markets will, of course, benefit from natural economies of scale and scope in the media (DTI/DCMS, 2000: 50). Enlarged, diversified and vertically integrated groups seem well suited to exploit the technological and other market changes sweeping across the media and communications industries.

At least three major strategies of corporate growth can be identified and distinguished: horizontal, vertical and diagonal expansion. A 'horizontal' merger occurs when two firms at the same stage in the supply chain or who are engaged in the same activity combine forces. Horizontal expansion is a common strategy in many sectors and it allows firms to expand their market share and, usually, to rationalize resources and gain economies of scale. Companies that do business in the same area can benefit from joining forces in a number of ways including, for example, by applying common managerial techniques or through greater opportunities for specialization of labour as the firm gets larger. In the media industry, the prevalence of economies of scale makes horizontal expansion a very attractive strategy.

Vertical growth involves expanding either 'forward' into succeeding stages or 'backward' into preceding stages in the supply chain. Vertically integrated media firms may have activities that span from creation of media output (which brings ownership of copyright) through to distribution or retail of that output in various guises. Vertical expansion generally results in reduced transaction costs for the enlarged firm. Another benefit, which may be of great significance for media players, is that vertical integration gives firms some control over their operating environment and it can

help them to avoid losing market access in important ‘upstream’ or ‘downstream’ phases.

Diagonal or ‘lateral’ expansion occurs when firms diversify into new business areas. For example, a merger between a telecommunications operator and a television company might generate efficiency gains as both sorts of service – audiovisual and telephony – are distributed jointly across the same communications infrastructure. Newspaper publishers may expand diagonally into television broadcasting or radio companies may diversify into magazine publishing. A myriad of possibilities exists for diagonal expansion across media and related industries. One useful benefit of this strategy is that it helps to spread risk. Large diversified media firms are, to some extent at least, cushioned against any damaging movements that may affect any single one of the sectors they are involved in. More importantly perhaps, the widespread availability of economies of scale and scope means that many media firms stand to benefit from strategies of diagonal expansion.

In addition, many media firms have become transnationals – i.e. corporations with a presence in many countries and (in some cases) an increasingly decentralized management structure. Globalization has encouraged media operators to look beyond the local or home market as a way of expanding their consumer base horizontally and of extending their economies of scale. For example, UK media conglomerate EMAP acquired several magazine publishing operations in France in the mid-1990s and has since expanded heavily into the US market. French media company Vivendi, a majority shareholder of Canal Plus, has pay-television operations in several national markets across Europe and recently acquired Universal film studios through its takeover of Canadian company Seagram. Swedish group Bonnier which specializes in business news and information recently expanded into the UK with the launch of a new daily newspaper called *Business AM* in Scotland.

The basic rationale behind all such strategies of enlargement is usually to try and use common resources more fully. Diversified and large scale media organizations are clearly in the best position to exploit common resources across different product and geographic markets. So, enlarged enterprises are better able to reap the economies of scale and scope which are naturally present in the industry and which, thanks to globalization and convergence, have become even more pronounced.

This points towards what Demers calls the ‘paradox of capitalism’ – that intensified global competition results in *less* competition over the long run (Demers, 1999: 48). Even with a loosening up of national markets and fewer technological barriers to protect media incumbents from new competitors, the trend that exists in the media – of increased concentration of ownership and power into the hands of a few very large transnational

corporations – clearly reflects the overwhelming advantages that accrue to large scale firms.

### **Why study media concentrations?**

The issue of who owns the media, and how much of it they own, matters. As explained in Part I, it is important for broadly two reasons. The first is pluralism. A great many writers have focused attention on the potential harms that may result from concentrated media ownership, including the abuse of political power by media owners or the under-representation of some significant viewpoints.<sup>1</sup> Individuals and societies have a need for diverse and pluralistic media provision. Concentrations of media ownership narrow the range of voices that predominate in the media and consequently pose a threat to the interests of society.

Recognition of the need to safeguard pluralism has historically been the main reason for regulating ownership of the media. However, concentrated media ownership matters to society, not only because of pluralism and democracy, but also because ownership patterns may affect the way in which the media industry is able to manage the resources available for media provision. Restrictions on ownership could, for example, result in a duplication of resources which prevents the industry from capitalizing on all potential economies of scale. The ways in which ownership patterns affect the economic strength and efficiency of the sector are not solely a matter for broad societal interest but are obviously of immense and particular concern to media firms.

Industrial or ‘economic’ arguments favouring a more liberal approach towards concentrations of ownership seem to have become more influential in determining media ownership policies in the UK and Europe since the early 1990s. The elevation of industrial interests may, at least in part, be attributed to ‘technological mystique’ surrounding developments such as convergence and globalization and to the perception that policy-making ought to help industry capitalize on such developments (Hitchens, 1995: 640). But relatively little work has been done to quantify precisely what efficiency gains or other economic benefits or, indeed, what disadvantages greater concentrations of media ownership might bring about. This book sets out to uncover, based on the experiences of leading UK media corporations, exactly what sort of economic or commercial advantages are created as media firms enlarge and diversify.

Above all, ownership and control over the media raise special concerns that do not apply in the case of other sectors of industry. Media concen-

trations matter because, as exemplified in the notorious case of the Berlusconi media empire in Italy (and, on a lesser scale, as frequently evidenced elsewhere), media have the power to make or break political careers. As was said of a former UK media baron: ‘Without his newspaper, he is just an ordinary millionaire. With it, he can knock on the door of 10 Downing Street any day he pleases’ (Financial Times, 2000: 24). Control over a substantial share of the more popular avenues for dissemination of media content can, as politicians are well aware, confer very considerable influence on public opinion.

So policies that affect media concentrations have very significant political and cultural as well as economic implications. As these policies undergo sweeping ‘reforms’ to cater for the perceived needs of an increasingly dynamic media and communications environment in the 21st century, it is important to question whether the structures we are left with adequately safeguard the need of European citizens for media plurality. This text traces the development of media ownership policies in the UK and at the European level since the early 1990s. Taking account of the conflicting objectives that policy-makers have been faced with, it analyses key shifts in position and assesses who stands to gain or lose out from the wholesale redesign of media and cross-media ownership policies.

### **Layout of the book**

This book is divided into four parts each organized around a specific theme. Part I asks, ‘Why does ownership of the media matter?’ It examines how society is affected by media concentrations and it outlines the main public interest goals for media ownership policy. It explains, first, the socio-political and cultural concerns associated with media empire-building and, second, the broad economic or industrial policy priorities surrounding media ownership.

Part II investigates, in closer detail, the relationship between media ownership restrictions and the economic performance of the media. This section is based on original research focused on a number of leading UK media firms including EMAP, Granada, News International and Pearson and it examines how exactly media firms benefit from strategies of horizontal, diagonal and vertical expansion. Part II investigates the extent to which press and broadcasting interests are actually converging and, more generally, it unravels the economic implications of policies that encourage monomedia expansion and cross-media diversification.

Part III, again based on original research, focuses specifically on UK media ownership regulation. It analyses how the media ownership rule changes in the 1996 Broadcasting Act came about. It also examines the changes in policy proposed in the 2000 White Paper on communications. The UK case provides a revealing account of the pressures and difficulties faced by national policy-makers in seeking to negotiate the conflicting public interest policy priorities surrounding media ownership. It demonstrates the crucial significance, in the reshaping of rules on media ownership, of underlying power relations between politicians and media owners.

Part IV examines relevant developments across Europe. It traces recent trends in media ownership within other European member states such as Germany, France, Italy and the Scandinavian countries and it explains the different approaches and policy instruments used to promote pluralism and regulate media concentrations. Part IV also considers the likelihood of a shift in responsibility for media ownership regulation to the transnational European level. It explains the political controversies and legal and practical obstacles that continue to deter progress towards a collective European Union (EU) policy approach to media ownership. It reviews the role played by EU competition law in promoting media diversity and pluralism and addresses the question of whether regulation of media ownership can now be left to competition-based interventions alone.