



Competitive Strategy for

Media Firms

*Strategic and Brand Management
in Changing Media Markets*

Sylvia M. Chan-Olmsted

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Sylvia M. Chan-Olmsted
University of Florida



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This book is dedicated to my heavenly father,
who lavishes me with abundant grace,
and to my dear husband, who is the most
precious blessing in my life.

Preface

It is my pleasure to present to you this collection of work that addresses the strategic-competition aspect of the electronic media industries as they respond to the arrival of new technologies such as the broadband distribution systems, the Internet, and interactive television. Over the last 15 years, I have devoted much of my time researching the drivers and results of the strategic conducts of many fascinating media companies. I am always curious about the underlying economic factors that shape what we read, listen, and watch every day. I am even more inquisitive about the applicability of various business concepts for analyzing media products. After years of short-form journal article writing, I discovered that all of my work has centered on the topics of strategy, competition, brand management, alliances/mergers and acquisitions, and corporate diversification of media firms. The permeating theme in all these publications is evidently on how media firms compete strategically in a changing environment. With various articles tackling different electronic media industries and applying a mixture of business constructs, I started to see the need to integrate all these interesting subjects and to provide a tool that would help others share my approach to this area of media economics and management studies. With the encouragement of Linda Bathgate, Communications Editor for Lawrence Erlbaum Associates, and the sabbatical leave granted by the University of Florida, I embarked on a writing journey that would survey a relatively new area of investigation in media economics and management—strategy, all in the context of a changing digital media marketplace.

The premise of this book is the need for all media firms to strategize in response to the arrival of new media. The focus not only is timely but also means a more realistic, integrated approach to media industry studies. This book covers all electronic media industries, including both the content providers and distribution systems. It is also the first book to provide overviews of strategic management, branding, and corporate diversification concepts and apply the rich business literature in these

areas to media industries. I sincerely hope that you find the end product valuable and even inspiring.

I am grateful to Linda Bathgate, Communications Editor for Lawrence Erlbaum Associates (LEA), and the rest of the staff at LEA for their assistance in the publication of this work. I also appreciate the support from the College of Journalism and Communications at the University of Florida. I am especially indebted to my wonderful research assistants Byeng-Hee Chang and Goro Oba. I don't know how I would ever grow as a researcher without the stimulation and challenges from being an adviser to these exceptionally bright doctoral students.

I would like to also thank my mentor, Dr. Barry Litman of Michigan State University, who opened my eyes to this exciting area of research, and my dear friend, Alan Albarran, who constantly encourages me to climb the next step. Finally, I am most grateful to my parents, who instilled in me the work ethics that carry me through many long, hard days of researching and writing; to my husband, who is always there to take care of "things" when I close my home office door to work; and to my lovely children, Lanya and Wesley, who taught me that life is much more than just being a good teacher or researcher.

—*Sylvia M. Chan-Olmsted*

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Introduction: Enter the Arena of Strategic Media Management

WHY THIS BOOK?

Studies in media and communications have historically been conducted from a “content” perspective with focuses on their effects and roles or approached structurally within a political, legal, or technological context. Although these emphases help us understand and improve the societies we live in, the recent addition of the managerial and economic literatures into this discipline has provided media scholars with a means of comprehending further the critical issues of organizational behavior, business strategy, competition/market concentration, and financial performance that often shape how media firms and industries operate in a society.

It is a fair assessment to say that the fields of media management and economics have evolved tremendously over the last 20 years. The body of literature has grown to include not only basic textbooklike work that reviews general media management and economics concepts and practices (Albarran, 2001; Alexander, Owers, & Carveth, 1993; Doyle, 2002b; Gershon, 2001; Owen & Wildman, 1992; Picard, 1989), but also in-depth writings that survey specific aspects of media industries such as globalization, media ownership, competition, and finance (Albarran & Chan-Olmsted, 1998; Compaine & Gomery, 2000; Dimmick, 2003; Doyle, 2002a; Picard, 2002; Vogel, 2001). The development of various scholarly journals such as *The Journal of Media Economics*, *The International Journal on Media Management*, and *The Journal of Media Business Studies* also offers a platform for both theoretical and empirical work that investigates how media function as an economic institution in a contemporary market environment. In essence, the maturing

of media management and economics as a subfield of media and communications studies has been propelled by many scholars' painstaking tasks of laying the fundamental, general framework of how to examine media from various business perspectives and the continuous contribution of scholarly articles that address timely topics such as convergence, consolidation, audience demands of new media, and the evolution of media markets.

So what is the role of this book in the context of the current literary landscape? Compared to the books that offer an overview of management functions such as financial, personnel, and programming management in media organizations, this book attempts to focus more on a subfield of management studies that tackles the subjects of strategic and brand management, with empirical data to illustrate how these concepts influence the decisions and behaviors of media firms. It also holistically integrates the new media context in all chapters and offers both descriptive and analytical discussions. Compared to the books that address general industrial economic issues in media industries, this book is different in that it reviews more micro, firm-related subjects and how these strategic developments shape the media market. In essence, the goal here is to provide empirical contributions coherent to the analytical foundations of a relatively new area of media management and economic literatures.

Outside of the realm of media management and economics, abundant literatures exist in the general business discipline that address the concepts, practices, and issues in strategic or brand management. Although these works are valuable in providing the fundamental analytical frameworks for our studies, we would like to argue that media products have certain inherently unique characteristics that necessitate the revision of some generic concepts derived from nonmedia industries because strategic decisions are often resource dependent and rely on the specificity within a particular industry (Chatterjee & Wernerfelt, 1991). As it is the goal of this book to adopt and appropriately adapt relevant business frameworks and concepts for the analysis of media markets, we now review the major distinctions between media and nonmedia products. Understanding the unique combination of these characteristics is the first step in effectively examining media organizations as an economic institution.

Media products, as a "cultural" output, possess certain qualities that challenge the traditional premise of economic theory. Most notably, the complexity and ambiguity of the objectives of media organizations in a society present a difficult task in assessing economic "efficiency" in the allocation of resources (Doyle, 2002b). Although many media organizations operate to maximize profits and shareholder value, because of their visible role in a society, they also have to respond to the intrinsic cultural identity and value objectives of the society, which might be manifested in a set of regulatory objectives. This set of "official" societal objectives could be further complicated by the fact that a discrepancy

might exist between governmental and actual societal media needs. Because the notion of “economic efficiency” is inextricably linked to objectives, the application of conventional economic theory is difficult under such circumstances (Doyle, 2002b).

Media organizations offer dual, complementary products of “content” and “distribution.” The content component is intangible and inseparable from a tangible distribution medium. Because intangible, content-based media products may be stored and presented in various formats, media organizations would likely attempt to extend their product lines into related content formats to benefit from content repurposing, marketing know-how, and sharing of production resources. It is also logical for these organizations to acquire or develop distribution products and content products that complement each other. The fact that an existing product may be redistributed to and reused in different outlets, via a “windowing” process, reinforces the advantage of diversifying into multiple related distribution sectors in various geographical markets to increase the product’s revenue potential. Such a resource alignment advantage encourages certain expansion strategies (e.g., vertical integration and related diversification) and limits the competitive options of some small, stand-alone firms. Luckily, as a “cultural” good, the value of a content product is dependent on consumers’ appreciation of the meaning it expresses. Because each media content creation (not the distribution medium or a duplicated copy) is, by nature, heterogeneous, nonstandardizable, and individually evaluated based on consumers’ personal tastes, there are ample opportunities for new-product development based on creativity.

Many media “content” products are also nonexcludable and nondepletable “public goods” whose consumption by one individual does not interfere with their availability to another but adds to the scale economies in production. The public-goods notion magnifies the importance of abundant resources in initial investment (i.e., production of the first copy) and the benefit of appealing to a large audience because of the negligible marginal cost. Nevertheless, media markets are also highly susceptible to technological development and consumer preferences. The advent of digitization, for example, is lowering the initial cost of content production and enhancing product appeals, thus lessening the effect of scale economies. Adding to the complexity of the public-good characteristic, not only are the market boundaries between various types of media products becoming blurred (i.e., the degree of substitutability is increasing) due to technological advances, but also many media firms are dependent on dual revenue sources from consumers and advertisers. The dual-revenue source mechanism, coupled with the public-good nature of media products, tends to encourage the strategy of offering a media content that appeals to the largest possible group of marketable, desirable consumers. Although consumers’ content preferences and advertisers’ valuation of the preferences are intrinsically linked, without a direct payment from or a price mechanism based on consumers, the re-

sponsiveness of product development in reflecting consumers' preferences is less acute and the conventional economic resource allocation theorem is less applicable.

Finally, media products are subject to the cultural preferences and existing communication infrastructure of each geographic market or country and are often subject to more regulatory control because of their pervasive impacts on individual societies. Because of the importance of cultural sensitivity and understanding of the regulatory environment, media firms are more inclined to invest in related products or in related geographic markets to take advantage of their acquired local knowledge and relationships. The dependency on local communication and media infrastructure may also lead to a strategy that is geographically related (i.e., regionalized). This is because geographically clustered markets are often at similar stages of infrastructure development, and clusters of media distribution systems may lead to cost/resource-sharing benefits.

In addition to the aforementioned unique economic properties, today's media markets are competitive, global, and technology-driven and could easily be classified as having an uncertain industry environment. Literatures have suggested that "uncertainty" often leads firms' to active retooling or reinventing of their resources to gain competitive advantages (Landers & Chan-Olmsted, 2004). In other words, managerial decisions concerning the process and content of developing and implementing activities that align a firm's organizational resources with environmental changes (i.e., strategy formulation and implementation) become much more critical. Taking the emergent role of "strategic function" in media markets into consideration, this book is ultimately designed to add to the scholarly work in media management and economics by addressing the "strategy" dimension of media organizations with reviews and empirical investigation of relevant strategic management (including global diversification strategy) and brand management concepts.

HOW IS TODAY'S MEDIA ARENA DIFFERENT?

As mentioned previously, the process of strategy formulation and implementation is basically a firm's careful alignment of its internal resources with the changing environment to develop competitive advantages. The magnitude of this challenge is greater today than it has been historically because the media arena has changed significantly. Not only are there more media and media outlets, there are more ways to package and present media products. Not only have the geographical boundaries of media expanded, the boundaries between different media have become blurry. To set the stage for our discussions in media strategy, branding, and corporate diversification, we first review the major trends that have shaped the competitive arena of today's media markets.