

## Megamedia: The Growth of International Media Conglomerates

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Between the mid-1990s and the early years of the twenty-first century the world system of mass communications as we know it will be fundamentally transformed. Each of the individual media of human communications we have come to take for granted will have new forms and functions—from direct mail, books, newspapers and magazines to telephony, radio, television, fax, and computer networks. By the year 2000 several of these customary forms of human interaction will have withered away and all but disappeared and some will be transformed almost beyond recognition. None will remain untouched. Decisions made between late 1993 and 1995 in Europe, North America, and Japan will likely determine the economic and policy incentives that will drive and shape this structural revolution. The source of these changes is not shrouded in secrecy: it is the revolution in digital electronics.

There are two powerful engines of technology driving change. The first is the raw capacity to communicate audio, text, and video electronically. It is growing explosively. In 1975, the average viewer had from five to seven television channels to choose from. Now the average viewer samples from thirty-five channels via coaxial cable. By late 1993, Time Warner and TCI were installing five-hundred-channel fiber-coaxial systems, and the U.S. telephone companies were experimenting with on-demand digital video over standard telephone lines utilizing (ADSL) technology, which would provide literally tens of thousands of programs or channels from which a viewer could choose. Concurrently, data communications over computer networks in the United States are doubling in volume every three months -- a rate of growth difficult to comprehend.

The second engine of technological change, the per-unit price of electronic communications, is falling at dramatic rates. Advances in fiber optics, high-speed switching, microwave propagation, video compression, and satellite communications drive down prices by orders of magnitude. Furthermore, the entry of new competitive players in data, video, and voice communications bring these technologies quickly to the marketplace in what was once a domain of tranquil and slow moving monopolies. If over the last two decades the price decline and functional capacity of manufacturing an automobile had grown at rates equivalent to those in digital electronics, a Mercedes-Benz would now get 25,000 miles to the gallon and cost three dollars.

It is inevitable that the behavioral customs, organizational structures, and costs of modern marketing will be greatly influenced by these changes. To prognosticate significant change is easy. To assess issues of timing and the ramifications for public policy is much more difficult. I will turn first to a series of structural changes in the nature of commercial communications, focusing at this point primarily on the world's industrialized countries. In

my view, the great majority of these structural changes can be characterized as inescapable. It is simply a question of how soon. Some unforeseen technological, regulatory, or economic developments could hasten or delay one component or another, but none will alter the basic course of the digital revolution.

## 1. The Changing Technical Structure of Mass Communications

### 1.1. The End of Monopoly?

Mass communications as we know it today has generally been characterized by monopoly or oligopoly and only rarely by meaningful competition. Entry costs are high. Economies of scale are significant. Resource constraints, such as available electromagnetic spectrum for broadcasting, limit the number of channels available through federal regulation. For a hundred years, in fact, telephony has been legally defined as a "natural monopoly" much like the provision of postal services, water, and electricity. Television has required a great deal of spectrum. Although there are about sixty channels (VHF and UHF) on the broadcast dial, because of cross-channel interference problems, the number of usable broadcast channels in a typical metropolitan market is only about ten. (In New Jersey, for example, because of proximity of Philadelphia and New York, no VHF channels have ever been made available for local broadcasting.) The newspaper monopoly is a special case. In this instance, it is the migration of local retail advertising to the paper with the most upscale readership and largest reach that has put the weaker competing newspapers out of business in all but a handful of American cities. Although in the case of an open marketplace for magazines, economic theory would offer the potential of unlimited competition, the reality is otherwise. Constraints of "shelf space" in all but specialty outlets and high costs of promotion, production, and distribution (even with significant postal subsidies) has limited growth and diversity in magazines. Because of "title churn" and the ritual celebration of new and highly specialized periodicals, there is the impression of a growing cornucopia of magazine vehicles. Actually, the circulation, concentration, and total number of periodicals has not changed significantly since the 1940s.

The digital revolution will continue to apply steady and tectonically strong pressures on the existing communications oligopolies. Desktop electronic publishing and professional quality video editing on a Macintosh computer bring down production costs by two orders of magnitude. Electronic distribution and local, high-quality, laser-based color printing bring down costs of distribution and virtually eliminate the shelf space constraint. If the customer wants the latest copy of the *Pacific Northwest Recreational Vehicle News*, a copy can be printed out on glossy paper while she waits that is virtually indistinguishable from what they used to print in Seattle. Digital radio broadcasting will multiply the number of available channels by one hundred and reintroduce the prospect of national radio networks distributed directly to your car or stereo via satellite with CD-quality sound. Digital compression will permit a television broadcaster to send out from five to ten separate signals in the spectrum allocation that currently permits only a single analog channel. The same technology permits a cablecaster to transmit three-hundred-and-fifty channels rather than thirty-five without even replacing the cable. Optical fiber transmission and two-way cable architectures provide seamless access to thousands of "channels" or "programs." The meanings of such terms will be transformed.

The last bastion of monopoly provision has been the local telephone company. (Long distance services became deregulated as part of the divestiture of AT&T in 1984 in a formula now being copied by most of the world's industrialized nations.) But as businesses found it profitable to "bypass" the local phone company to gain access to long distance and as private computer networks, telephone-over-cable, cellular, and new wireless personal communications services (PCS) eat away at the local telco's market share, the last bastion will fall. This inevitable collapse of telecommunications monopoly is likely to take the form of regulatory compromise as telephone companies trade in their less meaningful pseudomonopoly in telecommunications for the legal right to provide commercial content and video over their upgraded digital networks.

### **1.2. The Media Implosion**

A related characteristic of the digital revolution is the blurring of boundaries between what we now know as distinct media of communications. If each is delivered electronically and printed or displayed on a terminal in the home, what is the difference between a newspaper, a newsletter, and a magazine? A telephone call to a dial-up information service could provide a response in audio, text-on-paper, or video -- as the customer desires. A telephone conversation shifts from voice to video in midconversation when the speaker wishes to illustrate a point. A computer program helps a child with math homework and includes extensive on-screen video illustrations precisely matched to the student's learning style. When the local newspaper provides a news wire to a video terminal in the home and the reader clicks his cursor on the illustration for the lead story to observe an event in high-resolution motion and sound -- how does that medium differ from what we once knew as local television news? Some individuals prefer to read their news because it is easier to scan but then switch to video to catch visual nuance in a public event or speech. Others prefer to watch a video newscast, pausing to call up text occasionally in order to read more carefully, for example, the new regulations on home office tax deductions. (The growth of home offices may well be related to the digital revolution.)

### **1.3. Mass Communications -- Personal Communications**

For the last century, mass communicators have piped their messages onto the electronic ether or into the stream of paper flowing onto newsstands and through the mails. The digital revolution changes all this. The distinction between one-to-many mass communications and one-to-one personal communications collapses.

The present-day model for the evolving broadband electronic network is the telephone system. Think about it for a moment: you have on your desk a small device with the capacity to connect you instantaneously to anybody in the industrialized world. Granted, there are a few constraints. It is low-bandwidth audio only, you can call only one person at a time, you have to know their phone number, and the called party has to be available and willing to answer.

In a digital world, the nature of these constraints is changed dramatically. You are free to send CD-quality audio, text, graphics, and video. (You can send the equivalent of two hours of video or a sixteen-volume encyclopedia in a few seconds if you wish.) You can call as many people as you want simultaneously. The nature of a phone number changes and becomes more like a magazine subscriber list or e-mail interest-group directory. But, true

enough, the called party still has to be available and willing to respond. This final factor is, of course, the key variable in the new media environment. What, then, are the policy ramifications of these technical developments? How does technological integration lead to institutional integration and economic mergers? These questions will be my focus in the following discussion.

## 2. The Growth of Megamedia

The transition from traditional to new media pits a technological engine against a phalanx of vested interests -- in effect, all of the old media monopolies. The traditional monopolists are in a difficult position. On the one hand, they want to prop up, sustain, and protect their monopoly as long as possible. On the other hand, they want to find an electronic way into what was once somebody else's monopoly communications channel. Each of these players is ill equipped for this process because each is bound up in taken-for-granted assumptions about media economics and audience choice that evolved into received wisdom in their traditional media domain.

Thus far, this has led to a relatively conservative and defensive strategy on the part of most international corporate players. The established companies have impressive stories at hand about new media failures and the strength of existing media. Take videotex, for example. Between 1978 and 1985, newspapers and telephone companies (most notably Knight-Ridder in south Florida, Times Mirror in southern California, and AT&T in New Jersey) pumped hundreds of millions of dollars into slow, difficult-to-read, difficult-to-use, and expensive home information terminals. They discovered that people preferred newspapers to videotex and pronounced home information terminals an officially dead duck. But that is "Type II" error, that is, a false negative. Consumers are responding to the implementation, not the underlying concept. When home information terminals become responsive, easy to read, easy to use, and cheap, they will indeed be used. Because the information was electronically delivered, it was assumed it would be electronically displayed. In the videotex tests there was virtually no conception of home printing. As it turns out, users greatly value the option of reading either off screen or off paper depending on content and circumstance.

There have been similarly dramatic failures of early prototypes of direct broadcast satellite (DBS) television (high-powered, direct-to-home satellite broadcasting), videodiscs, interactive television, and video telephones to further temper the entrepreneurial endocrinology of the world's mergers and acquisitions departments. But gradually the industry began to recognize that these were failures of implementation rather than of fundamental conception. As more and more of the corporate players made strategic investments in, or developed joint ventures with, each other, a new cultural dynamic begins to dominate the boardroom. The train is leaving the station, and if we do not ally ourselves with other first-rate companies, we will be left behind. The battle of the Goliaths -- the telcos versus the cable industry, the newspapers versus any electronic medium that threaten their turf -- is transformed. For example:

- Time Warner and U.S. West construct a significant joint venture: a telco and a cable-and-entertainment company working together. Unprecedented;

- Southwestern Bell buys two large cable systems in Virginia: a telco owning a cable television system. Also unprecedented. (It is perfectly legal, as the systems are outside Southwestern's telephone service area);
- BellSouth invests in Texas-based Prime Cable. As a small (\$250 million) investment, it was quickly overshadowed by the (to that point) mother of all media deals
- Bell Atlantic-TCI. The cover of *Business Week* had a one-word headline: "Wow!" This one really set up a new paradigm for aggressive, large-scale mergers. Although by late 1993 the policy review had not yet played itself out, the initial reading seemed to be that if the two companies spun off the cable systems within Bell Atlantic's service area as promised, they could very well win regulatory approval. At the time, TCI's Malone insisted that he was more interested in this merger than in QVC's attempt to take over Paramount Communications. But in the longer run, the merging of hardware and software strengths may prove to be the trademark of the merger mania; and
- Paramount-QVC-Viacom. By late 1993, this deal had evolved into a classic proxy battle, as two cable giants with large supporting casts of strategic corporate investors from cable and telephony dueled over one of the last motion picture-producing companies not yet part of a megamedia *keiretsu*.

These developments add to the already interesting international brew of fermenting corporate malt emerging in the last several years:

- Australian-born, British newspaper mogul (and, for technical reasons, now Americanized) Rupert Murdoch buys the 20th-Century Fox movie studio and emerging "fourth" American television network, Fox Broadcasting;
- SONY buys CBS records and the Columbia Pictures Studios;
- Matsushita buys MCA-Universal Studios; and
- Toshiba and C. Itoh make a significant, multibillion dollar investment in Time Warner.

The Time Warner merger is itself already a symbol of the megamedia mentality. At the time of the merger, then Time CEO Richard Munro predicted that by the end of the 1990s there would be only four or five dominant global media conglomerates. What if he is right? What would be the social and policy ramifications?

### 3. The Policy Ramifications of the Megamedia Revolution

There are, in my view, two primary and a number of secondary ramifications of the current merger mania that deserve serious consideration. It is particularly important that the following issues receive a full and public airing and examination before a radical change in the ownership and management of the information/communications commons of the world becomes a fait accompli.

#### 3.1. Protecting a Diversity of Voices in the Public Domain

This must be a central concern. Critics of capitalist media structures have for years argued that it does not really matter how many different capitalists own how many different media outlets. Without a meaningful diversity of ownership and control, the range of intellectual and political diversity that makes its way through the corporate filtering process is likely to be seriously constrained. Such critics have a point. But the potential existence of a single conglomerate voice or a de facto duopoly is most certainly even less desirable.

The corporate dinosaurs, the newspaper industry, for example, have been proclaiming a righteous concern about protecting a diversity of public voices, especially if the telephone companies are permitted to enter the information business. This is ironic. Policy researchers who raise the diversity issue may find themselves the political allies of older media institutions who simply feel threatened by economic change and electronic competition.

The key to a meaningful and effective policy role in times of dramatic structural change is to shape the incentives and structures of the change, not to become allies with those who would attempt to hold back the tide.

#### 3.2. Protecting Equitable Access

By access to the electronic network I mean two things--access to information and the right to communicate. Such access will require a rethinking of the fundamental tenets of the First Amendment as well as the broadcast and common carriage traditions of communication regulation. Ithiel de Sola Pool's seminal *Technologies of Freedom* (1983) forcefully raised this issue. But Pool's primary concern, perhaps a more appropriate one at that point in time, was to protect a diversity of voices from government intervention and censorship. However, as the distinctions between common carriers, publishers, and broadcasters melt away as an artifact of receding technologies, where is our vision of a bedrock policy -- an electronic First Amendment?

As human communication migrates from the traditional one-way communication conduits of pamphlets, newspapers, books, recordings, radio, and television to a two-way, broadband, digital network of networks, we need to formulate a new and appropriate first principle: the right to listen complemented by the right to talk.

For the next decade or so we will watch well-intentioned people struggle to fit a new economic and technological reality into an old policy paradigm. It will be a painful process as individuals only slowly come to recognize that the old orthodoxies about press freedom and universal service no longer make sense. Some ardent spokespersons, I predict, will call for a common carriage model whereby communications providers are required to reserve a certain percentage of their capacity for educational and community access channels. It is a familiar prescription and will, I suspect, meet with all the success that the American educational

set-aside in UHF broadcasting and the access cable channels enjoyed. The problem with that approach, in my view, is that it sticks too closely to the idea of broadcast channels, a notion much less relevant for a switched digital environment in which senders and receivers negotiate electronically about who wants to read or view what, when they want it, and at what price. When telephony and broadcasting merge, a TV program and a telephone call are they same thing. Send your public interest documentary without charge to all who might want to view it. Send a sitcom without charge but with embedded commercial messages. Make an expensively produced cultural production available for those who are willing to pay the necessary charge. Special interest cultural productions not possible in a public or commercial broadcast environment will now be economically viable. In such an environment, I argue, bandwidth is abundant and control of a "channel" is meaningless. The challenge to the would-be speaker is to get the attention of the would-be listener. The policy challenge is to design and protect an open commons and level playing field where intellectual property flows freely, whether it is independently supported, publicly supported, commercially supported, or pay-per-view.

I argue that a diversity of voices and equitable access ought to be the primary focus of communications policy research and development. Other matters are secondary. By way of explanation, I will review several other areas of intense policy debate. But my contention is that if the diversity and access questions are appropriately addressed, these other matters will resolve themselves.

### **3.3. Concern Over Transborder Data Flows**

No one questions the right of a nation-state to control the flow of people and physical goods at its borders. That is why departments of immigration and customs exist. But what about the flow of ideas, information, or communication that approaches a nation's border? For the first two centuries of the industrial revolution, the capacity to effectively communicate long distances electronically was greatly constrained. Undersea cables have physical points of landing that can be licensed and policed. With the exception of shortwave radio (which is susceptible to jamming), broadcasting is local. Most of the other mass media are physically produced as printed or recorded products that can be inspected and confiscated at international boundaries.

But with the growth of satellite, and especially DBS satellite technologies, as well as the explosion of wire line and wireless data networks, a nation-state's capacity to police its informational boundaries is diminished. Walter Wriston, observing the proliferation of electronic networks, called it the "twilight of sovereignty."<sup>1</sup>

The attempt by nation-states to protect the barricades, to define "who is us," and even to prohibit foreign direct investment in the communications and information industries is doomed to failure. Better that policy attention be devoted to the issues of diversity and access. Let the question of control be determined by a competitive marketplace.

### **3.4. The Protection of Local and Indigenous Culture**

Protecting indigenous culture is, of course, a related concern. It focuses, however, on the general dominance of American-produced commercial-entertainment mass culture. How are smaller and developing nations to protect themselves from the onslaught of Hollywood?

The traditional answer is to legally mandate that 50 percent (or some similar proportion) of programming or publishing have locally produced content. The Canadians, the French, and some third world nations have experimented with this approach to policy. But I would argue, as well, that such approaches are equally doomed to failure.

Here, however, there is an attractive alternative policy option for regional and national governments who wish to nurture local cultural initiatives as well as diversity -- namely, subsidize production. The Canadian and Australian film boards, for example, have achieved remarkable success. Not surprisingly, when the product is intellectually and commercially attractive, the megamedia conglomerates fall over each other in attempts to buy up the subsidiary rights and contract for distribution. But that brings us back to a central theme: without a multiplicity of corporate players, of whatever national origin, there would be no competition for the right to distribute.

### **3.5. Universal Service**

How will poor and sparsely settled regions of the world's nations be guaranteed access to the evolving national and international information infrastructures? Is there not a legacy of commitment to universal service? Is there not a principle of subsidy and cost-averaging to support rural and remote regions?

There is indeed such a legacy, but the spirit of that legacy is best served by a new approach to policy rather than a desperate clinging to old orthodoxies. It is worth noting, drawing on the American case, that universal service as a concept evolved out of a self-interested deal in 1913 by Theodore Vail representing AT&T and the American federal bureaucracy -- the Kingsbury Commitment. Vail traded a promise to provide telephone service to all who wanted it at regulated prices for protection from competition. Vail's successors lived up to the deal. Indeed, it made sense for both parties for half a century. But no longer.

If the megamergers take place as predicted, then the telephone, cable, broadcast, and satellite providers for a given region will each be competing to provide communications, transaction, and intellectual property services. Because of the use of advanced wireless (and satellite) transmission techniques, the cost of getting service to remote areas is a factor of two or three, no longer a factor of two hundred as in the days of coax and twisted pair. The awkwardness, slow pace, and inefficiencies of tariffed service provision is no longer justifiable. An engine of competition, real competition between well-financed and technologically aggressive competitors, is a better means to a universal service end.

### **3.6. The Protection of Privacy**

Should we not be concerned that the evolving megamedia companies that provide us with entertainment, news, and home shopping might have the incentive to abuse their access to information about the economic and intellectual tastes of their customers? Will customers become captives of commercial direct-marketing monsters?

The issue of protection of privacy is certainly worthy of sustained attention and research. We have the case of the Prodigy on-line service's attempt to censor and disconnect customers who had the temerity to raise questions about a service price increase on a Prodigy electronic bulletin board. We confront the prospect of automatic number identification (ANI) transforming a discreet, "just looking" electronic inquiry into an unwanted electronic sales pitch. The incentive for abuse is there. What are the policy options?



If one response is some sort of regulation that purports to slap the hand of electronic privacy offenders, I am unenthusiastic. It is likely to be ineffective. In my view, the best medicine is meaningful competition among vendors, such that those who try to cut corners on the privacy issue are publicized. Although it sounds like something less than a powerful legal remedy, it is likely, in fact, to be much more powerful in its effect on the long-term incentives of the communications vendors. Again, returning to my central theme: if meaningful competition on a level playing field is achieved and if policy based on protecting a diversity of voices and equitable access for those who wish to talk and those who wish to listen is obtained, the subsequent public policy concerns will be addressed.

#### 4. Conclusion

Issues of diversity and access, in my view, should be addressed directly and receive sustained attention from the policy community. If questions of national pride and local sovereignty dominate the political debate, and I suspect they will, we need to try to steer those debates back to the fundamentals. Neither diversity nor equitable access are the inevitable outcome of the new media revolution. To be achieved, they will require self-conscious attention and sophisticated political support.

To try to mandate or censor media content is Sisyphean. That does not mean, however, that no central vision of communication policy for the electronic age is possible. The vision, I argue, must be structural rather than content-based. If there is to be an electronic highway, make sure there is more than one. Make sure there is more than two. Design incentives and rewards in the domain of electronic communication so as many conduits as possible prove to be economically viable.

In the boardrooms of the megamedia corporations, through elaborate charts and diagrams, they envision an electronic highway into all of the homes of the world. But within these mahoganyed halls, they imagine that the competition will wither away, be co-opted, or simply be bought. They dream of owning and controlling a single highway to the home, a politically finessed, virtual electronic monopoly. This is where the communications policy community and the public must step forward. The time for a wake-up call is now.

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#### Endnotes

1. See Wriston (1992).