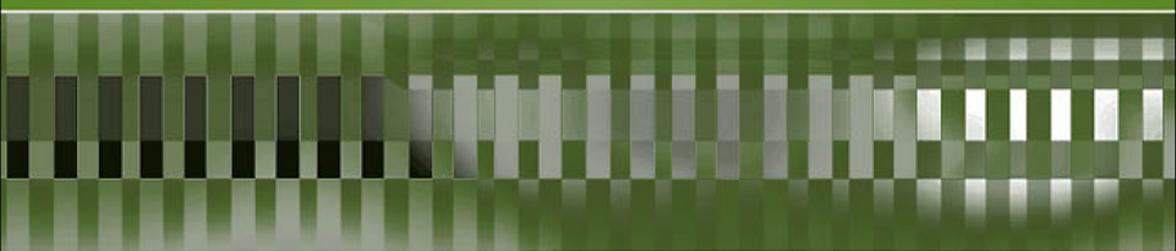


HANDBOOK OF  
**MEDIA MANAGEMENT  
AND ECONOMICS**



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## Industry-Specific Management Issues

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This chapter analyzes the most significant management issues facing various segments of the media industry (i.e., broadcast television, radio, multichannel television, newspapers, magazines, books, film, and recording). Some issues are universal and warrant close attention by all media managers. Many more issues are particular to a specific medium.

The SWOT (strengths, weaknesses, opportunities, threats) analysis considers present-day strengths and weaknesses to construct present and future issues (opportunities and threats). The following analysis presumes the reader understands the relative advantages of one medium over another. On the one hand, broadcast and multichannel television dominates the advertiser-supported media because it combines sight, sound, and motion (Lafayette, 2004). On the other hand, radio is inexpensive and therefore does a better job with products or services that need repetition to reach the customer in ways that advertiser-supported television cannot. The other media also have unique advantages that determine many of their strengths (and weaknesses for others) within the SWOT analysis. Because internal strengths and weaknesses of each medium are more readily apparent, they are omitted in this discussion.

The utility of studying threats and opportunities is in identifying the key issues, rather than an exhaustive list of problems and benefits. Media managers need to stay focused on the most important considerations at any given time, because there is not time to pay attention to every detail in every situation. Opportunities and threats are future-oriented and focused on external forces, which are features closely associated with the planning function of management.

Specific Medium	Threats	Opportunities
Broadcast Television	Cost of conversion to HDTV Loss of revenue streams Direct delivery of video content Demise of traditional TV news Audience fragmentation	Multicasting Interactivity
Radio	Alternative forms of distribution Loss of local identity	Talk formats Companionship
Multichannel Television	Alternative forms of distribution Government reregulation Cost of technology Programming expense	New revenue streams Changes in the advertising process/model
Newspapers	Production costs Competition from the Internet Declining readership	Local dominance
Magazines	Competition from within Competition from niche media Postal rates	Fresh approaches Cross-promotion
Books	Competition from cheap printers Media consolidation Declining reading skills Advent of personal printing (C2C)	Electronic publishing Online printing Printing on demand
Film	Copyright protection VOD Home theater systems	Control of production Strategic alliances & mergers
Recordings	Peer-to-peer file sharing	Internet-based delivery Cross-promotion of products

FIG. 14.1. Summary of media threats and opportunities.

The first section of this chapter examines each medium according to its opportunities and threats—the last half of the traditional SWOT analysis. For example, studies of TiVo users confirm that asynchronous television viewing defeats much of the advertising revenue stream, which for the dominant television industry is the only real source of profit. This looming threat creates a real management issue for television stations and networks alike. Figures 14.1 and 14.2 provide a summary of these challenges and opportunities.

The second section of this chapter briefly summarizes the major challenges as they relate to many segments of the media industry. For example, direct digital delivery of content threatens all established media. The removal of the middleman function, a trend sometimes called disintermediation, is a recurring theme in the discussion.

### BROADCAST TV: THREATS

The five main threats to the broadcast television industry encompass the following: cost of conversion to HDTV, loss of revenue streams, direct delivery of video content, competition from digitally enabled print, and audience fragmentation at the hands of cable and satellite video. The implicit threats stand in stark contrast to the rich opportunities available to a medium whose ubiquitous audience is accustomed to vivid video messages.

	Broadcast Television	Radio	Multichannel Television	Newspapers	Magazines	Books	Film	Recordings
Competition from alternative forms of distribution	X	X	X	X	X	X	X	X
Loss of key advantage	X	X				X		
Cost of technology	X		X					
Cost of programming			X					
Cost of production	X			X			X	
Declining reading				X		X		
Copyright and piracy						X	X	X
Audience fragmentation	X				X			
New ideas	X				X			
New technology	X							
New revenue streams			X			X		
Cross-promotion					X			X
Localism	X			X				
Alliances			X				X	
Continued strengths		X		X				

FIG. 14.2. Matrix of media threats and opportunities.

## Cost of Conversion

The cost of moving from the old standard-definition system to high-definition continues to drain the resources of broadcast television stations, many of whom see no short-term benefit to digital-quality conversion, other than satisfying a Federal mandate to accomplish the switchover by 2007, a deadline that likely will be extended. Managers are stuck with a service for which there is low demand and sparse content. Eventually, however, the transition will be complete and the medium will be even more vivid in terms of video resolution and audio.

## Loss of Revenue Streams

A simple Google search of the threats to conventional broadcast television points primarily to new viewing technologies that facilitate the skipping of commercials. If the 30-second spot has been the linchpin of the broadcast television business, then the prospect of asynchronous viewing by means of a TiVo-like device is the hurricane wind. Sometimes called a PVR (personal video recorder), sometimes a DVR (digital video recorder), it promises to change the way people watch broadcast television.

Much has been written about the future of broadcast network television in a world where viewers set their own viewing schedules. A hard-drive storage device, whether it is built into the receiver, bundled with set-top boxes, or a stand-alone TiVo device, empowers the viewer to get a season pass to programs regardless of their competition within a set schedule and allows the same viewer to jump over, not merely fast-forward past, entire pods of commercials. It's what you want to watch, when you want to watch it, most likely without commercial interruption.

Network executives (e.g., Jamie Kellner, chairman of The WB) have railed against the DVR (McClellan, 2003a), industry analyst Tom Wolzien has recommended regulatory action to protect advertiser-supported television (Higgins, 2004b), and programmers have studied ways to defeat the DVR. For example, NBC has experimented with starting top-rated shows a few minutes earlier than the break point at the top of the hour, to interfere with the recording of the end of programs that lead up to the break point. Other networks have encouraged long-form or embedded messages (McCarthy, 2003). Still others propose serial mini-movies interspersed in primetime to discourage ad-skipping.

The strong reaction against DVRs is the best evidence of the threat they pose. However, the eventual demise of the conventional primetime schedule creates an opportunity for networks that own vast libraries of drama and comedy series. NBC proposes to use materials from its Vivendi-Universal vaults to supply on-demand shows to viewers with a few hundred megabytes of storage space to spare.

The economics of broadcast television have changed little over the years (Ferguson, 1998, 2003), but competition and technology are forcing a shift in the way managers can produce enough revenue to show a profit. How will the economic model change? Some point to pay-per-view schemes and others propose subscribing to NBC or CBS in the same way that cable subscribers presently subscribe to HBO or another premium service. Program sponsorship will remain to defray the cost of production, similar to the mix of advertising and subscription cost for cable television and most print media.

### **Direct Content Delivery**

Another example of discontinuous change for complacent broadcast television broadcasters involves the near completion of the evolution of wireless broadcast television to *direct delivery* of video, via satellite, Internet, wired cable, or even DVD. In his book *Being Digital*, Nicholas Negroponte predicted that telephones and television would “switch” delivery systems. Tom Hazlett (2001) wrote an analysis that proposes the final switch by subsidizing the handful of homes that do not receive direct connections. Even Reed Hundt, former FCC chairman, proposed that HDTV be accomplished via broadband rather than broadcast (McConnell, 2003). Colossal shifts of business models could result from the migration of homes to wired or direct-to-home (DTH) delivery. Moreover, DVD versions of serialized TV shows (e.g., *The Sopranos*) threaten schedulers by giving the viewers more control, but also offer opportunities to make money off unsuccessful series that garnered critical acclaim but low viewing (Higgins, 2003c).

### **Demise of the Traditional Television News**

Another threat to broadcast television involves the demise of localism as a unique selling proposition for broadcasters (Friedman, 2003). If viewers want local TV news, the local broadcast stations have always had an oligopoly; no other medium could cover local news with video with sufficient resources. The Associated Press announced plans in 2003, however, to help its member newspapers provide video stories on their Web sites (McClellan, 2003b). As broadband (high-speed) Internet connections reach a plurality of homes, the potential for newspapers to spread their excess capacity into video is

substantial. Already, schools of journalism are preparing students for a convergence of media. Few have doubted the superiority of local newsgathering by print journalists, but only the availability of video distribution kept the reports from reaching broadcast television sets. Streaming video and overnight delivery of asynchronous video to DVR set-top boxes could create real competition for audiences that warm to the idea of on-demand video news.

Another viewpoint is that the dominant television news station in each market is doing so well that competition is actually limited, and that managers would be well-advised to expand their number of newscasts. Powers (2001) argued that there has been a movement from oligopolistic to monopolistic competition, at least in the top 10 markets. If this is true, broadcast television news may be more entrenched than has been previously thought.

### **Loss of Viewing Primacy and Audience Fragmentation**

In November 2003, for the first time, the advertiser-supported cable networks drew larger audiences than the broadcast networks (Dempsey, 2003). After years of paying more for smaller audiences, the advertising agencies began to question seriously the future of upfront buying from four networks that could no longer account for at least half the viewing (i.e., a 50 share).

Previously, the major networks were able to charge increasing amounts for smaller slivers of the audiences. Advertising agencies played along because they needed the huge audiences that networks could deliver. What has changed is that broadcast television networks no longer provide the dominant video vehicle. Advertisers still need broadcast, but they now wonder why the cost should continue to rise.

A case in point is the “disappearance” of the 18 to 34-year-old demographic, particularly the males. In September 2003, the networks noticed that Nielsen was underreporting the viewing of young males. Although the explanation is still being debated at this writing, a compelling case has been made that two systemic shifts have taken place. First, fewer males are entering the primetime viewing patterns, opting instead for cable channels that cater to their demographic and choosing to begin their viewing at 10 p.m. or 11 p.m. as they did when they were teenagers. Second, a growing number of young males are returning to their parents’ homes and spending less time with traditional media, in effect continuing their adolescence well into their 20s and early 30s.

The most serious cable-related threat is the use of interconnects (i.e., geographically linking cable operators and their programs) to beat broadcasters at their own game (Mermigas, 2003a). Forecasts estimate that cable could double its \$4 billion spot revenue, causing a sizable shift in the share of local advertising. Broadcast television at the local level is seeing its profit potential slide away, especially at a time when the share of viewing has shifted toward cable channels. Broadcast sales managers will have to finally compete head-on with the growing cable threat.

One predicted threat, the Internet, may or may not be affecting broadcast television much, either helping create more discretionary time for television viewing according to one source (Downey, 2001), or diverting time away from TV according to another source (Chmielewski, 2003). Broadcasters are treating the Web as a threat, by adding

news content to their own Web sites to leverage their excess capacity and repurpose their newscasts. Chan-Olmstead and Ha (2003) offered research on how television broadcasters perceive the Internet. Most television stations have used the Internet to build audience relationships, rather than selling advertising online. This research suggested that broadcast television managers are missing an opportunity to generate revenue.

A looming threat for broadcast television is the growth of local people meters, which tend to decrease estimates of viewing to broadcast channels and increase the same for cable channels. Regardless of whether the new measurements are underestimates or improved estimates, the net effect is lower viewing to network affiliated stations (Karrfalt, 2003).

Another threat to broadcast television is digital television in the form of video-on-demand (VOD). Some fear that viewing will become channel-less and content will find its way to the screen in unscheduled formats (Mandese, 2004). The impetus is technology: By spring 2004, DVRs, digital satellite, digital cable, digital TV, and DVD saw their respective penetration figures reach 3.6%, 21.0%, 18.0%, 5.9%, and 56.0% (Knowledge Networks, 2004).

## **BROADCAST TV: OPPORTUNITIES**

The main opportunities for broadcast TV require that stations make the most of their bandwidth and that program producers (often the networks themselves) find enhanced ways to deliver their content. Enhanced content options further require that managers develop ways for the audience to become more actively involved in the programming, rather than being passive viewers (Ferguson, 2003). The key strength for stations (and therefore the biggest potential opportunity) is the ability to provide local attention in a way that national media cannot (Heaton, 2003).

### **Multicasting**

If fragmentation of the audience is inevitable, then broadcasters need to provide specialized programming that emphasizes localism (Slattery, Hakanen, and Doremus, 1996). Even when broadcasting high-definition content (roughly 14 Mbps [megabits per second] of the available 19.4 Mbps bandwidth), stations can split their programming effort to create at least one additional single-definition channel that targets well-defined viewing interests related to several dominant themes: news, weather, entertainment, personality-driven talk, and sports (Eggerton & Kerschbaumer, 2003). A good example of multicasting would be a sporting event where a station could choose to telecast the important game in high-definition and another lesser interest game in single-definition. In those day parts when they are not broadcasting in high-definition, stations can divide the digital spectrum even further, especially for such limited-motion programming as weather (2 Mbps). (Eggerton & Kerschbaumer, 2003).

That niche channels like The Weather Channel can draw a cumulative audience is a clue that a local weather channel can succeed with local talent and local advertiser sponsorship. Local news is another opportunity for a full-time niche channel that is

fed by the excess capacity of expensive newsroom operations. Again, local sponsorships are the key to spreading revenue across day parts rather than concentrated in a single newscast or two (Eggerton & Kerschbaumer, 2003). The issue for broadcast television managers is how to choose, create, market, and cross-promote the extra content.

## **Interactivity**

An enduring view of television is that the audience and the viewing experience is passive (Jankowski & Fuchs, 1995). A whole generation of cell-phone users, instant-messaging addicts, and video-game players is finally chipping away at this commonly held view that the typical viewer prefers to be passive. Broadcast (and multichannel) television can bring home the full range of experiences found by young people in recent decades at the mall: the socializing, the gaming, the shopping, the widescreen theater experience, and the pursuit of entertainment.

## **RADIO: THREATS**

The main threats to music radio are competition from alternate forms of distribution and loss of local identity. Competition comes in the form of satellite radio providers, the Internet, independent retailers, and new personal technology options. Paul Kagan (2003) forecasted a host of competitive threats to radio, such as subscription-based Internet radio, customized CDs, and satellite radio. Automobile manufacturers have already begun to integrate personal music devices (e.g., the iPod) into their newer models.

## **Alternative Forms of Distribution**

It took TiVo at least 4 years to reach 1 million subscribers, but it only took XM radio half that long to achieve the same audience penetration (Gough, 2003b). Such is the allure of satellite radio, which has proven that people are willing to pay for radio, even when some of the 100 or so music formats being offered contain commercials (Claybaugh, 2002). Paying for radio must seem as strange to radio managers as paying for television did to broadcast television managers 20 years ago, but the trend is real. Radio managers should plan accordingly and treat satellite radio as a genuine competitor. They must look for ways to differentiate their programming, such as localized content, although XM satellite radio began offering local weather and traffic reports in 2004.

## **Internet Competition**

Again, direct delivery of content removes the need for a content provider. Radio is threatened by the Internet in three ways, according to the editors of *G2 News* (2003). First, the ability of radio to make money promoting music is threatened more and more by peer-to-peer (P2P) networks. Small, independent record labels pay P2P networks like Altnet to promote artists. Altnet uses Microsoft's digital rights management (DRM) to guard against unauthorized duplication.

Second, free and low-cost streaming music on the Internet threatens conventional radio. Arbitron and Nielsen rating services both measure such streaming media services as MusicMatch, listen.com, Microsoft's Windows Media Player's Radio Tuner, AOL's spinner.com, and RealNetworks' Jukebox, which is testimony to their popularity.

Third, portable radios are threatened by comparably sized portable MP3 players like the Sonicblue Rio S35S and the Apple iPod that hold hours and hours of music inexpensively. Time spent listening to radio will decline once listeners figure out they can choose their own songs and play them the way they want (*G2 Computer Intelligence*, 2003). B. Eric Rhoads, *Radio Ink* Magazine publisher, states:

What will happen four years from now [2007 based on 2003], when every cell phone, Palm Pilot and car radio receives 20,000 online stations? Will you be prepared when agencies demand that you provide interactivity, which is physically impossible with radio? Will you be ready for the day when FM listeners move to Internet, as AM migrated to FM? (Rhoads, 2003).

### **Fewer Independent Retailers**

Local radio stations depend heavily on local advertisers, but chain-owned retailers are growing faster than locally owned independents (Radio Advertising Bureau, 2003a). The problem is compounded by the growing influence of Internet shopping. For example, 20% of credit card purchases for the 2003 end-of-year holiday buying season were done online, a nearly 30% increase over the previous year (Jessell, 2004). November online sales alone grew 55% from 2002 to 2003, at \$8.5 billion. As local retailers lose business to chains and online sellers that use national advertising media, local media like radio and newspapers will lose revenue (Albarran, 2004).

### **Personal Music Technologies**

Many observers worry that MP3 and customized CDs will supplant music formats, but some see an opportunity for radio stations that tout [www.mp3.com](http://www.mp3.com) to cross-promote local music groups (Fybush, 2003). Even so, if syndicators can readily package their music wares directly to consumers, where is the need for live radio in the long term? If local radio moves farther toward voice-tracked content that sounds live and local, but is not, where is the desire for live radio?

Even for those managers who embrace the digital streaming world, there are still pitfalls. For example, the cost of copyright for online streaming is an ongoing issue (National Association of Broadcasters, 2003). Many of the problems center on the inconsistent operations of the Copyright Arbitration Royalty Panel (CARP) system. Until the controversy is resolved, most radio stations have discontinued streaming their content.

## **RADIO: OPPORTUNITIES**

Still, radio has a bright future as it moves to its own digital standard—in-band on-channel (IBOC) that allows analog and digital listeners to receive terrestrial broadcasts.

As long as listeners desire a specific sound, regardless of the music format, radio provides a convenient, ubiquitous source of programming that requires no effort on the part of its audience.

Talk radio continues to provide a unique source of political discussion that broadcast television and the Internet have not matched. Again, the content is created for the listener, requiring no effort on the part of the audience. Broadcast television political discussion adds little by showing the talking heads. Radio discussion is much more personal.

It is a small wonder that radio makes the perfect companion. Radio goes anywhere and everywhere. Radio is inexpensive and flexible. Revenues continue to be relatively healthy. Most of all, it is the most personal of local media, provided that programmers provide useful local information. Radio managers need to focus on the strengths and opportunities of their medium.

## MULTICHANNEL VIDEO: THREATS

The main threats to multichannel video are competition from alternative forms of delivery, government reregulation, cost of technology, and programming expense. Because multichannel video is primarily delivered via coaxial cable, most of the relevant literature is cable-centric (thus, the focus of this section). According to Mermigas (2003c), for example, other threats include the following: financial consequences of the industry converting to a largely pay-for-play model (e.g., tiered sports channels) and interference with the advertiser-support model from such interactive devices as the DVR (but also including set-top boxes, wireless 3G video phones, and server-based streaming media on the Internet).

### Satellite Competition

The successful merger in 2004 of DirecTV with Rupert Murdoch's Fox empire has completely awakened a sleeping giant in the form of DTH delivery of channels usually sent over coaxial or fiber cables (Shields, 2004).

At this writing, only 20% of homes get their multichannel content from a small dish antenna, compared to the 70% of homes that are wired. Yet, it is possible that cable and satellite penetration stands at the same division that AM and FM radio saw in the early 1970s, when only 20% of the listening was to a superior signal delivered by FM. If this analogy holds, it is conceivable that 20 years from now, expensive old technology will be substantially supplanted by DTH delivery.

It is more likely that cable will survive with a large share of homes, but with more fierce competition from DTH. The economics of cable is rooted in monopoly market structure. The adjustment to a shared customer base will create competition issues for cable managers.

Cable is often more expensive than satellite although it typically provides a lower quality analog signal. In 2003 the typical cable subscriber paid \$40 per month, but DISH offered 50 channels for \$25 per month. As local channels are added to most satellite channel lineups, the competitive advantage for cable will dim. In 2003, J. D. Power

and Associates reported that satellite customers were far more satisfied than cable subscribers, but reported a different average monthly cost for satellite and cable, \$48.93 and \$49.62, respectively, when other services beyond basic service were included (Higgins, 2003a).

Two kinds of telephone competition exist: point-to-point (broadband Internet and telephone service) and multipoint (video). These pose a threat to cable companies in the broadband arena, especially with regard to digital subscriber line (DSL) competition. Also, telcos (telephone companies) being entrenched as telephone service providers makes it difficult for Voice over Internet Protocol (VoIP) to penetrate many homes. The telephone companies loom large as competitors to cable and other multichannel providers who wish to take over information services.

Video competition from the telephone companies, however, has failed to materialize as a present threat, even after the many years following the Telecommunications Act of 1996 that gave telcos the right to compete with cable. One can wonder if there is much of a future threat, given the lackluster inroads made by any form of telco-sponsored program distribution. It would seem that the telcos have figured out that the “one wire” home is likely to be the wire that can carry the most bandwidth. Given their sheer size, however, the telcos may simply buy their way into multichannel video by acquiring major cable providers, especially if wireless phones and VoIP can possibly whittle away their share. Telcos may also find relief in the reregulation of cable.

## Regulation

Cable has been deregulated and reregulated more than once in the past 20 years. The monthly cost to the average cable subscriber has grown from under \$20 before deregulation in 1984 to well over \$40 in 2004. Rates have risen 40% from 1998 to 2003 (Radio Advertising Bureau, 2003b).

Local regulation is another management issue. Before satellite competitors appeared, cable was king and local communities often profited from exclusive franchises. The growing penetration of satellite homes, especially with further consolidation and the provision of local channels, may cause friction between municipalities and cable providers.

## Rising Costs

Like all media, the cost of programming cuts into profit. The threat is less for multichannel video because recycled materials are more accepted and quality expectations are lower (Carter, 2004). This claim is unsupported by research but reasonable nevertheless, especially given the relative newcomer status of cable and satellite channels. Audiences seem to appreciate the additional choice, even if it is poker and celebrities (or both).

The cost of technology, however, is a real concern. An immense amount of capital is required to support cable and satellite distribution systems. As expensive as it is to launch and maintain geostationary satellites, it is more expensive to replace miles of fiber cable.

The expense of technology is less a threat now because the multiple system operator (MSO) companies have finished paying for major upgrades throughout the United States.

### **Other Threats**

Multichannel video is not particularly threatened by audience fragmentation because it sells advertising across channels rather than within a particular channel. Where broadcasters have seen their value to advertisers shrink as audiences get smaller, multichannel video providers can more easily reach all their subscribers, particularly with roadblocking techniques that position a commercial on all advertiser-supported channels at the same time, something broadcasters have not yet figured out.

## **MULTICHANNEL VIDEO: OPPORTUNITIES**

The main opportunities for conventional cable operators are broadband connections, VoIP phone service (in addition to circuit-switched telephony), VOD (video-on-demand), set-top DVR rentals, and changes in the advertising process/model via interconnect (especially in conjunction with Ad Tag/Ad Copy, which permits individual household targeting). The main opportunities for satellite television are achieving greater parity with cable through the addition of local channels and the program leverage that comes from Fox ownership (now that nearly all satellite service is controlled by Fox, which also owns a production studio).

### **Broadband Connections**

According to [www.websiteoptimization.com](http://www.websiteoptimization.com), U.S. household broadband (i.e., high-speed Internet) penetration has reached 41.5%, compared to 74.2% penetration in the workplace. For people whose household income is greater than \$75,000, the penetration figure is 46% at the end of 2003 (Fadner, 2004). Technological breakthroughs are often based on 35 to 40% saturation levels, so it appears that broadband has fully arrived, but the pace of growth had begun to slow somewhat in December 2003. Nevertheless, an extrapolation of the adoption curve shows that broadband share in the United States should exceed 50% by June 2004 (Web Site Optimization, 2003).

Cable is a major player, competing with DSL, and had 15 million subscribers at the end of 2003 (National Cable Television Association, 2003) based on 80% of homes passed. At the same time, this base compares to a little over 7 million DSL subscribers and about 9 million for DTH satellite providers (whose service is high-speed download and low-speed upload) for the same time period. Clearly, cable has an advantage to further exploit.

Another viewpoint on the convergence of cable television and broadband is that the two platforms will remain distinct from one another (Chan-Olmstead & Kang, 2003). The argument is that the unique features of each medium work against the merger of services. If this is true, it would go a long way to explaining why most attempts to bring interactivity into the multichannel television marketplace have failed.

## VoIP

Cable providers have begun to offer inexpensive Internet-based phone systems to businesses, a service that competes with expensive circuit-switched telephony. The Telecommunications Act of 1996 opened the door for cable to compete with telephone companies (and vice versa), but it was cable's very gradual deployment of fiber cables that finally offered a significant new revenue stream. Given the massive resources of telephone companies, it is a little surprising that the competition has been so one-sided, even considering the percentage of DSL high-speed Internet subscribers that compete with cable modems. Cable's advantage is that it can cherry-pick customers much more easily than the phone companies can, because cable's new service is merely point-to-point communication. Offering video entertainment and information that can compete with cable networks is a much taller order for the telcos.

The major implication of VoIP is that another revenue stream is created for cable. A decade ago, broadcasters complained when cable had a dual revenue stream (advertising and subscriptions), when they had just advertising revenue. Today one could argue that multichannel has doubled its revenue streams, to include telephone service and broadband Internet. If a medium can add newer services as older offerings mature, the growth potential is greater.

## Video-on-Demand

Subscription video-on-demand (SVOD) is discussed more fully later in this chapter in its role as a threat to the motion picture industry, but it certainly portends to be an opportunity for cable. Cable subscribers are more accustomed to tiers of services than pay-per-view, and SVOD successfully bridges the two models. Anyone who has had the option of a single price for all amusement rides at a county fair, versus a per ride cost, understands the appeal of SVOD over VOD. According to Jupiter Research's latest report, the VOD market will grow from \$293 million in 2003 to \$1.4 billion in 2007; SVOD revenues will top \$800 million, up from \$56 million in 2003. Collectively, this market will grow 58% annually, from \$349 million in 2003 to \$2.2 billion in 2007 (Radio Advertising Bureau, 2003b). Even if these figures are optimistic, multichannel video has clear potential to expand its subscription revenue stream via VOD (Rizzuto & Wirth, 2002).

## Set-Top DVRs

As discussed earlier, the TiVo stand-alone DVR threatened advertiser-supported broadcast television stations and networks. Although stand-alone DVRs were initially slow to diffuse, reaching only 2 to 3 million homes in their first 4 years, the bundling (for a fee) of optional DVRs (either built into set-top boxes or attached as "sidecars") offers additional revenues for cable operators. Many expect that the DVR will only become commonplace in homes when cable operators (and manufacturers of higher-price television sets) quickly roll them out. If operators can charge extra for the devices, cable can create another source of revenue (perhaps even a stream if the subscriber views the additional

function as desirable). The telephone companies play a similar game with add-on features like call waiting and caller-ID.

### **Changes in Advertising Process/Model Via Interconnect**

Cable advertising has always promised to be a substantial second revenue stream for the MSO, but the use of sophisticated insertion equipment and interconnected cable systems puts the whole idea on steroids. Since the beginning, broadcast advertising has been based on broadcast markets guaranteed by grade-B signal contours. Cable interconnects, however, allow cable systems to gerrymander their own ad-hoc markets. Whereas broadcast television stations must rotate advertising taglines for co-op advertising, cable interconnects can insert taglines by neighborhood (similar to, but better than, zoned editions for print). One advertising executive for WPP Group media-buying service Mindshare says, “Most people don’t know how to use it yet, but it will become more prolific. When it does, it begs the question: When is broadcast going to be able to do this? They’ll have to have a relationship with cable in order to do it” (Haley, 2003).

With system upgrades in place by 2004, cable operators have the digital fiber technology to be competitive. More important, the capital spending is in the past and the cash flow has begun. Cable operators are free to reduce debt somewhat and look for acquisitions (Higgins, 2004b).

According to Mermigas (2003c), cable is no longer a single-product, basic subscriber-based industry, but a bundled service, tiered user-based industry. She writes, “Despite the broad loss of basic subscribers, cable operators actually are growing their significantly more valuable nonvideo subscribers—which are typically high-speed data-only customers—faster than they are losing video subscribers. So, counting all of its varied services, cable’s overall basic subscriber rolls are actually rising” (¶11).

## **NEWSPAPERS: THREATS**

The main threats to newspapers are production costs, competition from the Internet, and declining readership. According to the industry’s economic data from the Newspaper Association of America, national and retail advertising has recovered after the post-9/11 slump to the levels in 2000, however, classified advertising is down 20% from 2000 to 2003, or about \$1 billion. Classified advertising was always a huge source of revenue for newspapers, but the advent of person-to-person contact via Ebay.com or Monster.com has shrunk the demand for print ads helping people sell their unwanted items or locate a job. The main implication of this unprecedented advertising competition is that newspapers can no longer count on a near-monopoly for employment and sale advertising.

### **Production Costs**

Newsprint costs are a major threat to newspaper profit, considering that they account for about 20% of cash operating expenses. Picard (2004) identified these costs as a major issue for newspapers. For example, the *New York Times* saw costs rise 13.1% in a single

year (Graybow, 2003). In recent years, most newspapers have gone to narrower page widths to cut losses.

### **Internet Competition**

Christie, Di Senso, Gold, and Rader (2000) explained that the Internet threat to newspapers in the United States is two-fold. First, domestic newspapers rely more on advertising for revenue than do foreign newspapers, especially with regard to classified ads that are threatened by Internet competition. Second, the consumer is also lured away by the Internet, in terms of discretionary time and competition for viewpoints. They concluded that displacement is a major threat because readership is already down because of both declining literacy and increasing media choice.

Online classifieds, particularly in the form of help-wanted and auction Web sites, continues to threaten an important source of revenue for newspapers. Most newspapers have been improving their own Web sites to improve revenue. For example, New York Times Digital showed substantial growth in 2003 in employment and automotive classified, thanks in part to deals with AOL and General Motors (Gough, 2003a).

The issue, of course, is whether or not the competition for classified advertising serves as a significant threat to the viability of daily and weekly newspapers. Some observers noted the resilience of the newspaper industry to change (Picard, 2004) and others were less sanguine (Albarran, 2002). Chyi and Lasorsa (2002) examined reader attitudes toward online editions and found that most preferred the print editions, suggesting that the newspaper medium is not likely to change in the near future.

### **Declining Readership**

According to Scarborough data from the Newspaper Association of America (2003), daily adult readership declined from 55.8% in 1998 to 52.8% in 2002. Sunday readership also declined, from 68.1% to 64.5%. The clear challenge for management is to stem the losses, while competing media see gains in consumption.

Functional illiteracy is a growing threat (Picard & Brody, 1997). People can read, but some so poorly that they cannot enjoy a newspaper. Ninety million American have low-level reading skills (Terry, 1996). Over time, the No Child Left Behind Act will improve basic skills, but functional illiteracy is a current threat to newspaper circulation.

## **NEWSPAPERS: OPPORTUNITIES**

The greatest opportunity for newspapers lies in leveraging their dominant position in local communities. Newspapers, regardless of declining readership and circulation, are central to the culture and zeitgeist of their metropolitan areas. Radio talk shows feed off of newspaper content, and broadcast television news producers get their agenda delivered daily to their front porch. Despite the old technology, newspapers function as the official journal of events for a community, and no one should underestimate the importance of what gets printed in the paper each day (Picard, 2004).

As a result, newspaper editorial operations have tremendous capacity to inform and persuade, but typically only once per day in traditional format. As previously mentioned, as a threat to broadcast television, newspapers in a video streaming era have the unique opportunity to provide visual stories that individual TV stations only wish they could or pretend they can. For decades local broadcast television news had a monopoly on vivid and visceral impact. With a few notable exceptions, broadcast television news is superficial and sensationalistic. Soon it will have a formidable competitor as journalism schools are already training a generation of news practitioners who can write clearly as well as construct compelling images.

Newspapers have numerous opportunities to use the Internet. In many cities, the local Internet portal with the most information belongs to the local newspaper. The “journal” function of daily newspapers lends itself to online chronicling of news, events, and directories. Studies on Internet opportunities portray a bright future for newspapers, despite competition from other media (Lacy, Coulson, & Cho, 2002).

“Watching” a daily newspaper will be different from just reading it. The form and content will offer not just new business opportunities for managers and owners, but also change the way reality is socially constructed. And if IBM ever perfects an inexpensive, portable display technology based on flexible transistors, the newspaper may become the dominant electronic medium in the future.

## **MAGAZINES: THREATS**

The main threats to magazines are competition for talented writers and editors from within the magazine industry and competition from Internet and traditional media, especially niche cable. Rising postal rates are a continuing threat because preferential second-class handling had long made subscriptions affordable (Daly, Henry, & Ryder, 1997). Greco (2004) noted that declining circulation issues make it difficult for magazine publishers to make money.

### **Internal Competition**

Top editors, publishers, circulation directors, and other executives move among periodicals so that the industry feeds on itself. It is a corollary of product diversity that industries will find a shortage of talented employees. Turnover is an ongoing problem in magazines because of internecine competition.

### **External Competition**

The Internet itself is like a giant newsstand, with many more dedicated topical Web sites than the number of available magazine titles. Many sites are tied to fledgling print content providers who hope to make it onto the mainstream newsstands. For established print magazines, however, competition from a free Web source providing a near substitute can lure away paying subscribers. In the case of such men’s magazines as *Playboy* and *Penthouse*, adult content on the Internet has killed an entire category of magazine content.

## Circulation Issues

Greco (2004) reported that proliferation of magazine titles threatens the profits per title. Readership per title declined 10% between 1996 and 2002, whereas the cost per single copy at the newsstand rose 35%. The implication is that advertisers are not willing to pay more for fewer readers.

## MAGAZINES: OPPORTUNITIES

The major opportunities for magazines lie in renewing long-standing target audiences with fresh approaches and in cross-promotion among competing media. First, a mature medium like magazines requires renewal (e.g., reinventing *Redbook* as *Rosie*). Second, despite how competition from other media is a threat under normal circumstances, magazines find a giant opportunity in cooperating with those same media to launch new titles (Lagorce, 2003). Thus, cross-promotion has become a key vehicle for magazines to cut through the clutter of offerings.

For example, *O*, the Oprah Winfrey magazine, and *Martha Stewart Living* are both successful because the audience is tied to the broadcast or multichannel television product. Cross-promotion is a way to overcome the odds against a new title floundering before its third birthday, which is the usual insurmountable hurdle (Greco, 2004). Another “safe” opportunity in new magazine titles is the use of brand extensions. For example, *Teen Vogue* capitalizes on the main brand but focuses on a younger readership. Another spinoff title is *Sports Illustrated on Campus*.

## BOOKS: THREATS

Rawlins (1998) identified several threats to (and opportunities for) the book publishing industry. For example, cheap, fast, high-quality paper copying threatens copyrighted books, especially those with expensive per-copy prices. He writes:

Imagine a world of small cheap personal copiers, where you can rent, then copy, expensive paper books just as you can rent music, software, or movies today. Imagine a world where one student in a class buys a copy of a textbook, then copies it for all the others. Imagine a world where publishers in Pacific Rim and Middle Eastern countries buy one copy of a book then sell duplicates just above the duplicating cost (¶ 23).

Other threats to the book publishing industry are media consolidation, declining reading skills, and the advent of Creator to Consumer (C2C) printing.

## Media Consolidation

Although the sheer number of book publishers has mushroomed to 73,000 (many of whom only publish one title), the number of major book publishers continues to decline

as larger companies acquire smaller publishers. Desktop publishing may have decreased the cost of press runs, but the cost of being large has fueled mergers.

### **Declining Readership Skills**

Functional illiteracy probably threatens book reading to a greater degree than newspaper reading. Print journalism has headlines and photographs, sentences are shorter, and the required attention span to complete a newspaper is far less than the average bestselling book. As a result, book retailing has changed over the years. A customer is just as likely to purchase a magazine, a video, or a music CD as they are to purchase a book.

### **Creator to Consumer**

C2C is an issue for book publishers because it limits the amount of control publishers have over what gets printed and what does not: Readers simply bypass the publishers. Disintermediation, a new concept abetted by new digital technologies, removes the middleman when the Internet becomes the distribution channel. In the book industry, fledgling authors find few barriers to entry on the Web. Vanity press opportunities still abound for those who want to hold the book in their hands, but there is a growing market for book titles with very light demand.

Traditional publishers have responded by printing books on demand, using the same digital efficiencies that spawned the Web. Such micropublishing, as well as experiments with e-books, may turn the threat of C2C into an opportunity. Even so, the digitization of books makes piracy an even greater threat than in the past (Greco, 2004).

## **BOOKS: OPPORTUNITIES**

The main opportunities for the book publishing industry are electronic publishing, online printing, and printing on demand.

### **Electronic Publishing**

Rawlins (1998) wrote:

The problems facing the publishing industry seem insurmountable, if publishing proceeds as it does today except that books are electronic instead of on paper. But with a new view of publishing the apparently severe problems become opportunities. The only viable long-term solution is for publishers to make book buying cheaper or more convenient than book copying, as it used to be 5 years ago. Publishers can do so if they keep a stable number of captive readers and amortize costs over their entire list. (¶ 29)

Rawlins further explained that the same 500-page textbook that costs 10 cents a page (or 5 cents second-hand) only costs 3 cents a page on a large copier or 1 cent a page on a large printer. Electronic distribution brings the cost down to 1/5 cent per page. The

electronic text content can be augmented with video/sound or automatically cross-referenced: “Electronic books can be easier to distribute, less expensive, less risky, more powerful, more flexible, more immediate, and easier to search and collate. They can also be interactive, changeable, and adaptive” (Rawlins, 1998, ¶ 6). Small wonder that electronic books have become more popular. But as easy as it is to distribute books electronically, it is harder for publishers to guard against piracy. Greco (2004) noted that the success of e-books is at least a decade away and that technology has its limits.

### **Online Printing**

Rather than try to keep a wide selection of books in stock, retailers could provide electronic copies to customers. Assuming a reliable encryption scheme, books could be read on electronic devices, even cell phones or laptop computers. Bookstores could cut their inventory to just one hardcopy of every available title.

### **Printing on Demand**

Another option is to print books in the store on demand. For \$200,000 a high-speed, high-quality printer could produce an attractive bound book in under an hour, similar to 1-hour photo labs. The high cost of the printers would be offset by the reduced costs in inventory and shipping.

### **Online Book Sales**

Once books are in print, the retailing function is influenced by e-commerce sites (e.g., Amazon.com). Booksellers like Barnes & Noble or Waldenbooks see competition from online book sales. Greco (2004) described the competition as intense, not just for distributors and retailers, but for the publishers themselves.

## **FILM: THREATS**

The main threats to the film industry are copyright protection, VOD, and the rise of home theater systems. The first threat is real and also applies to other video industries. The second threat is more subtle because the movie industry will still produce content that is feature-length and high-cost, what most people conceive as a movie or film. But as movies become less of an out-of-home phenomenon, the identity of the film industry will suffer. People will still look on movie attendance as a social outing, but the number of theatrical releases may decline. The trend according to the Motion Picture Association of America (2003) shows an 8.3% decline in the number of films released each year in the United States, from 509 in 1998 to 467 in 2002.

### **Copyright Issues**

Once a film becomes a stream of digital bits, it can be copied from DVDs (with the help of readily available decryption keys posted on the Internet) or digitized from stolen prints.

Once a movie becomes a computer file, pirates can share the content with anyone in the world, much like MP3 music files but with an immensely greater file size and download time. The Motion Picture Association of America (MPAA) estimates that piracy costs the film industry \$3.5 billion a year, with 350 thousand to 400 thousand films illegally swapped on the Internet each day (Graser, 2003).

Fortunately for Hollywood, downloaded files are most frequently those media that enjoy repeated play, such as video games and songs ripped from CDs, rather than movies. Films are less likely to be played again and again, and therefore, obtaining a free copy is less attractive to the consumer. The cost in time and effort to steal an entire feature film is greater than buying a legal copy, in the event that someone wants an archival file to enjoy multiple times. Still, the cost of DVD burners is under \$200, compared with \$3,000 in 2001 and will likely become standard equipment on many desktop computers (Graser, 2003).

### **Video-on-Demand**

VOD is an exhibition window for theatrical films that comes long after the Cineplex and the video rental store. Yet, the marketing of subscription video-on-demand (SVOD) overcomes some consumer resistance by bridging the pay-per-view concept and the premium channel (pay-per-month) concept. According to one industry enthusiast, “By reinforcing the benefits of the subscription business model and emphasizing that there is no payment for each use and no separate purchase decision by the consumer, psychological hurdles are removed” (Starz Encore Group, 2003).

The film industry has yet to discover if more profits can be achieved by releasing VOD movies earlier, immediately following (or instead of) theatrical release. As discussed earlier, the diffusion of in-home theater projection systems may eventually prove a threat. One wonders if someone with a video system with surround sound and a 50-inch high-definition picture will still be willing to pay box office prices to see new releases. Perhaps movie studios will alter the release window schedule to benefit the high-tech user.

No one is predicting the demise of big screen theaters. The social opportunity for young people is not easily substituted by other media distribution. However, the future of video rental stores is far less certain. To the extent that the film industry competes with video rentals, alternative distribution is a threat. But it can also be a huge opportunity.

## **FILM: OPPORTUNITIES**

If content is king, then the relationship between co-owned studios and networks should eventually favor the producers. With new technologies, the old triumvirate of production, distribution, and exhibition is being broken down. The exhibition function is becoming less meaningful, especially in filmed entertainment, as consolidation and technology tighten their grip. Hollywood unions like the Writers Guild of America (WGA) foresee the demise of the license-based residual system, if content is simply placed on a giant video server for audiences to retrieve using broadband or fiber delivery, according to WGA East President, Mona Mangan (personal communication, January 7, 2004).

Whatever labor sees as a threat, management may see as an opportunity. Strategic alliances and mergers have always been a huge opportunity for the film industry. The

sale of Vivendi-Universal to General Electric (GE) subsidiary NBC is hailed as a way to repurpose thousands of hours of filmed entertainment. The film libraries of major studios have always had high value, but extracting the value was a problem because of the shelf space of channels and the ability of content packagers to schedule the material. When the audience can pay a single subscription fee, a kind of library card, the value is easier to realize.

Even if the SVOD model fails to capture the fancy of viewers everywhere, the incredible success of sell-through DVDs in 2002 and 2003 is making the video rental industry nervous. According to Amdur (2004), “services such as Netflix, as well as deep sell-through discounting at Wal-Mart and other mass-market retailers, may be stealing some of the traffic [from video rental stores]” (¶ 4). Blockbuster insists that the movie industry is beholden to the video window opening before the VOD window, owing to \$12 billion in gross profits from home video and DVD, far greater than the \$500 million generated by pay-per-view and VOD.

### **RECORDING INDUSTRY: THREATS**

The main threat to the recording industry is not some wolf at the door, but one already roaming the hallways: peer-to-peer file sharing. Although Napster has been neutered, off-shore services like Kazaa still provide the means for music lovers to download copyrighted materials without paying anyone. As a result, recording studios and retailers alike are reeling from the losses.

This threat is not without its critics, because it is not reasonable to assume that everyone is a thief. Indeed, economist Stan Leibowitz argued that the recording industry is not suffering as much as the RIAA would have the public believe. The losses, he claimed, are substantially less than what one should expect. Leibowitz attributed the stability of sales to basic honesty among CD buyers, “It’s not that say, 10 percent of record sales is a trivial amount of money, but it’s not going to be the death of the record industry” (Cave, 2002, ¶ 13).

### **RECORDING INDUSTRY: OPPORTUNITIES**

The main opportunity for the recording industry lies in Internet-based digital music delivery systems. For example, record companies can join forces with the digital music services that are selling songs for 88 cents (Wal-mart) to 99 cents (Apple’s iTunes). Another opportunity may be the continued cross-promotion of music-related media products.

The recording industry is beginning to recognize that its original retail chain is not the only way to make money. Rack jobbers (who supply CDs to mass retailers) will still provide a convenient outlet for the casual buyer of music, but legal music downloads and digital rights management (DRM) are becoming the means to keep the industry healthy. Leibowitz argues that the consumer is willing to pay for the convenience, “It may be the cost of putting these collections of songs together. Even though it seems low, it’s more effort than the typical person is willing to go through. That may be what the salvation of the record industry is—that it’s simply too hard to do on your own what they do for you” (Cave, 2002, ¶ 18).

## SYNTHESIS

Media managers have a lot more in common than what the foregoing discussion implies. As media converge and ownership consolidates, the issues look the same except from the functional level. Ferguson (1997) identified some unique concerns facing media managers in a global sense (e.g., operating in a fishbowl of public attention).

Lavine and Wackman (1988) foresaw five primary management issues of the 1990s and the new millennium: increasing competition, rising fragmentation, human productivity, technology as a change agent, and increasing ownership concentration. The foregoing discussion of industry-specific issues includes three of the five; productivity and concentration are concerns common to all. Competition is felt the most by media industries that were functionally unique (broadcast television, multichannel television, and newspapers), but shared by the rest to varying degrees. Fragmentation is a common problem for today's media, largely owing to the tremendous change brought about by new media (e.g., the Internet) and by new technologies (e.g., compressed digital media).

Turow (2003) identified six trends for the new millennium: media fragmentation, audience segmentation, distribution of products across media boundaries, globalization, conglomeration, and digital convergence. Audience segmentation, or targeting, is more important for radio and magazines than broadcast television and newspapers, but some degree of segmentation is important to all media. Media managers will need to treat segmentation as a separate issue. Globalization of media is increasingly important to all as a means of finding new markets for media products whose value is diminished by fragmentation and segmentation.

From the preceding industry-specific analysis, I can posit 10 enduring themes that emerge within and across the various media. These management issues can be clustered in at least ten areas that fall into four broad categories of issues, related to the resources of the sender, the technology, the demands of the receiver, and regulation. All of the clusters are discussed in the following with regard to what we already know and what managers need to understand and learn about the possible scenarios.

### Consolidation

With the exception of cable (Higgins, 2003b), all media continue to move to a smaller number of dominant corporations. The number of individual radio station owners is the most dramatic example, falling 24% from 5,222 in 1995 (before the Telecommunications Act of 1996) to 3,829 by the end of 1999 (Corporation for Public Broadcasting, 2001).

Clustered media ownership is becoming prevalent in the newspaper industry. According to Martin (2003), one third of all United States dailies are part of a cluster. Clustered newspapers tend to compete less aggressively, and they have higher advertising and subscription prices than nonclustered papers. Radio also does clusters and cable interconnects are based on clusters.

### Competition

Competition is a key macro-level variable for all media industries (Albarran, 2002). The four types are monopoly, oligopoly, monopolistic competition, and perfect competition.

These categories fit the media in clear patterns: cable and most local newspapers have monopoly structure; broadcast networks and stations operate as an oligopoly; radio and magazines exist in monopolistic competition; and the Internet approximates perfect competition because it has few, if any, barriers to entry. The greater opportunities depend on whether the media product comes from an established company or a newcomer. Perfect competition favors the latter and monopoly favors the former. Although a barrier to entry is an important element of market structure, economies of scale and scope protect the largest and most vertically integrated firms. Nevertheless, all media managers must differentiate their products to survive.

## **Convergence**

Mermigas (2003b) wrote that there is a lot of fear among the mature media industries, and for good reason. A key management issue will be how to combat slow (or no) growth. Being big enough to compete with the other giant corporations is crucial, but not becoming the next AOL Time Warner is equally important.

## **Digital Conversion**

Managers in all the media industries must contend with offering their content online. For some, it is a matter of keeping up with the competition and trying to grow new revenue streams. For others, the goal is to build a new business model that takes advantage of the 24/7 nature of information in the digital age. Deadline pressures, for example, are entirely different for media that offer information continuously. Interactive advertising opportunities are redefining the nature of the media. Managers must focus on the basic function of their particular medium rather than the discrete product it was before the digital age. Change is coming fast, and no one really knows what the media landscape will look like in 10 years, or even 5. Apparently, media use in the home will be very different as broadband connections become ubiquitous and high-tech devices become cheaper. Microsoft and others are shifting their focus away from the home office and into the living room, a trend that promises more change in the immediate future.

Digital rights management (DRM) portends to be a sea change for media audiences and media managers alike. DRM models allow content to be sold for a specific period of time, like a subscription. In the music industry, a lifetime license to a particular song can now be bought for under a dollar, but the term could just as easily be 3 months. The listener would receive a digital key that would unlock an encrypted file, but the key could be made to expire after awhile (offering an opportunity for renewal or conversion to lifetime access). Some unusual promotion opportunities also exist. For example, licensed users could be permitted to share brief, unencrypted portions of the content with their friends and be paid a bounty if the friend purchases a license.

Digital conversion is especially an issue for managers whose digital media content is provided free to the audience in anticipation that advertisers will pay the freight. Pop-up ad blockers and DVRs are effective ways for the audience to skip commercial messages.

The implication for managers is how to carefully gauge the demand for products. In the case of music, consumers will want the flexibility to listen again and again. Conversely, in the case of movies, the demand for repeat showings is less important.

## **Piracy**

Although piracy is primarily an issue to media that get repeated play (e.g., music), theft has always been an issue to media managers. Digitization has exacerbated the problem and further expanded the definition of intellectual property. Encryption schemes are frequently thwarted by hackers, who believe that all data (copyrighted or not) should be free. Once the decryption codes are posted on the World Wide Web, the battle is lost (Kerschbaumer, 2001). Piracy is particularly dangerous for media that are easily rendered (e.g., books) versus those with greater complexity (e.g., video).

## **Asynchronous Viewing**

Per-use pricing causes managers who have been focused on advertising support, even among subscription-supported media, to think differently about the audience. Indeed, the broadcast and multichannel television scheduling function is subverted when viewers empowered by DVRs or SVOD eventually choose their content from a menu, or choose their channels a la carte (Eastman & Ferguson, 2002). Books and music have always been an asynchronous experience, but radio and video can expect more discontinuous change, especially when the product relies on an advertising revenue stream.

## **Automation**

Technology-driven tactics like radio voice tracking and broadcast television centralcasting will continue to be important opportunities for media managers. As in most businesses, personnel costs are substantial for all media. Labor-saving methods help cut these expenses. Menu-driven, server-based distribution of video content may take the food analogy (Eastman & Ferguson, 2002) a step further: Like fast-food restaurants that moved the soft-drink dispenser from behind the counter out into dining areas where customers pour their own, video channels can move their schedule-based content from behind the network curtain of program scheduling out into the living room, where viewers can choose their own shows from a menu. In choosing their channels or restaurants, consumers can opt for self-service or full-service, depending on the situation.

## **Demassification**

One measure of advertiser-supported media is how efficiently it reaches a mass (albeit targeted) audience. As audiences become demassified, media managers must contend with increasingly fragmented audiences. To make matters worse, some functions within the media become less crucial (e.g., the program scheduling function), requiring different strategies and a realignment of talent. Ultimately, the media become more product driven than service driven in the age of disintermediation (where middlemen are less necessary).

## Audience Measurement

Another consequence of audience fragmentation is the increased cost and complexity of audience measurement. The portable people meter is a necessary solution, but an expensive one. If Nielsen Media Research, for example, moves from a national people meter sample of 5,000 homes to 10,000 homes (as it did in 2003) to keep up with smaller and smaller audiences, broadcast television managers must find a way to pay more for essentially the same service and make the declining ratings sufficiently attractive to advertisers. Perhaps measuring audiences for advertisers will be less important in media that are forced by technology (and new opportunities) to rely less on advertising.

## Regulation

Regardless of the medium, managers need to be wary of legal and regulatory problems. Less a problem for the entertainment media, the information media continue to guard against liabilities brought on by libel and newsroom diversity. All media managers must be wary of litigation (e.g., harassment) in some form. The complexity of contracts and union negotiations challenges all media managers in a world with more interlocking alliances among content owners and producers.

Finally, all the technology in the world is powerless against the will (and whim) of government regulators. A case in point is the opportunity of VoIP. The promise of yet another revenue stream for cable can be quickly undone if the government decides the threats to tax revenue or subsidized 911 service are reasons to restrict VoIP, or remove its competitive advantage. Anyone wistful for advertising-supported media might welcome government protection for disadvantaged audiences that may rely on free over-the-air channels, by requiring DVRs to limit or prevent ad skipping. A different FCC could decide that pay-per-view or viewing empowerment must not threaten the status quo. A different Justice Department or Supreme Court could break up the media conglomerates as easily as with the 1948 Paramount case or the 1984 AT&T divestiture.

Any one of these 10 issues is cause for concern among media managers, but they must contend with all of them to varying degrees. The challenges get greater with each new innovation and with every ownership consolidation. However, as Mermigas (2004) wrote: "Too many media companies and executives are content with simply acknowledging or dismissing the threat and challenge of VOD, PVR, intellectual property piracy, commercial ad skipping and anything else that smacks of a new competitive landscape that further fragments and even alienates viewers and advertisers" (¶ 23).

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