

Media Mergers and Synergies

Not Quite What Many Expect

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Synergies

- Synergies are benefits obtained by blending separate activities, business units or companies
- Synergies are produced when more return and company value are obtained by merging rather than keeping them apart ($1+1=3$)
- The joint activities must create cost savings, higher productivity, higher profits, and/or higher share prices in order to produce synergies
 - Many mergers and acquisitions do not create synergies

Development of Convergence Strategies in the Media Business

- Functional Convergence Strategy
 - Joining common functions
 - Vertical integration of audiovisual producers and distributors
 - Film studios establishing film distribution companies
 - Audio recording firms establishing and acquiring audio distribution companies
 - Television channels acquiring production companies
 - Mergers of motion picture, television, and audio recording firms
 - Mergers of book, audio, and video firms

Development of Convergence Strategies in the Media Business

- Functional convergence has been a reasonably successful business strategy
 - Transaction cost savings between producer and distributor
 - Economies of scale and scope
 - through combination of DVD, CD, and book warehousing, order fulfillment, delivery
 - through combination of rights acquisition and management activities
 - through general business management combinations
 - Creation of new revenue streams
 - Cost centers turned into profit centers by serving competitors

Development of Convergence Strategies in the Media Business

- Content convergence strategies
 - Concepts that content can be shared between media because of convergence and that there will be benefits from cross promotion and branding
 - Initially involved product extension from magazine to TV
 - Development of niche programs and channels
 - Disney, Playboy, National Geographic,
 - Followed by product extension from TV to magazines
 - MSNBC, ESPN

Development of Convergence Strategies in the Media Business

- General content convergence has had mixed success
- Appears more effective with highly niched content rather than general content
 - CNN started using Sports Illustrated writers as commentators during sports shows after Time Warner merged
- Then started CNN/Sports Illustrated sports news channel
 - failure people who watch sports and read about sports are different and want different things

Convergence Strategies during the Rise of the Internet

- Acquisitions and mergers occurred because media firms believed future growth was through Internet and Internet-based companies believed they needed content from traditional media
- Exuberance and hype dominated business discussions and decisions

Massive Failures to Achieve Synergy in Media Mergers

- Time Warner—AOL Time Warner—Time Warner
 - Efforts to link activities of print and broadcast activities failed with audiences
 - Efforts to link AOL, print, and broadcast did not improve performance
 - Departures of Gerald Levin and Steve Case
 - Value loss: \$45 billion writedown
 - Company has refocused on traditional publishing and broadcasting
- Vivendi Universal
 - Created large conglomerate with multiple parts that did not fuse together and led to departure of Jean-Marie Messier
 - Messier left company with \$19 billion debt—largest in French corporate history
 - Company has now refocused on traditional media operations
- Bertelsman
 - Failed to create cooperation across divisions and led to in-fighting and departure of Thomas Middelhoff
 - Value loss: \$ 30 billion writedown
 - Company has now refocused on traditional publishing activities

Problems Creating Synergy

- Independent divisions, subsidiaries, and joint venture companies
 - Synergies primarily benefit the firm not its individual business units
 - Cooperation can interfere with priorities and strategies of the individual business units
- Cost accounting difficulties (allocation of fixed and variable costs; cross subsidization; uncompensated effort; additional tasks without additional resources)
- Limited incentives for cooperation
 - Primary corporate incentives based on individual business unit performance
 - Difficulty in evaluating the contributions of different business units
- Egos and hubris

Contemporary Approaches to Achieving Synergy

- Limiting investments in activities
- Engaging in coopetition
- Making multiple uses of all content
 - repurposing
- Integrating cross media activities into single content production centers
- Increasing the skill sets and activities of personnel

Increasing Coopetition in Search of Synergies

- Alliances, partnerships, and sharing arrangements with competitors and other firms are replacing acquisitions and mergers in many industries, including media
- Benefits
 - A means of achieving benefits of synergies without acquisition of competitors or heavy investments in joint ventures
 - Allow access to core competences of competing firms
 - Typically uses existing resources that require little reconfiguration or upgrading
 - Provides ability to share media platforms without conflicting with ownership policies and law
 - Avoids internal cost accounting and incentives problems

Financial Times Deutschland and Radio Station Coopetition

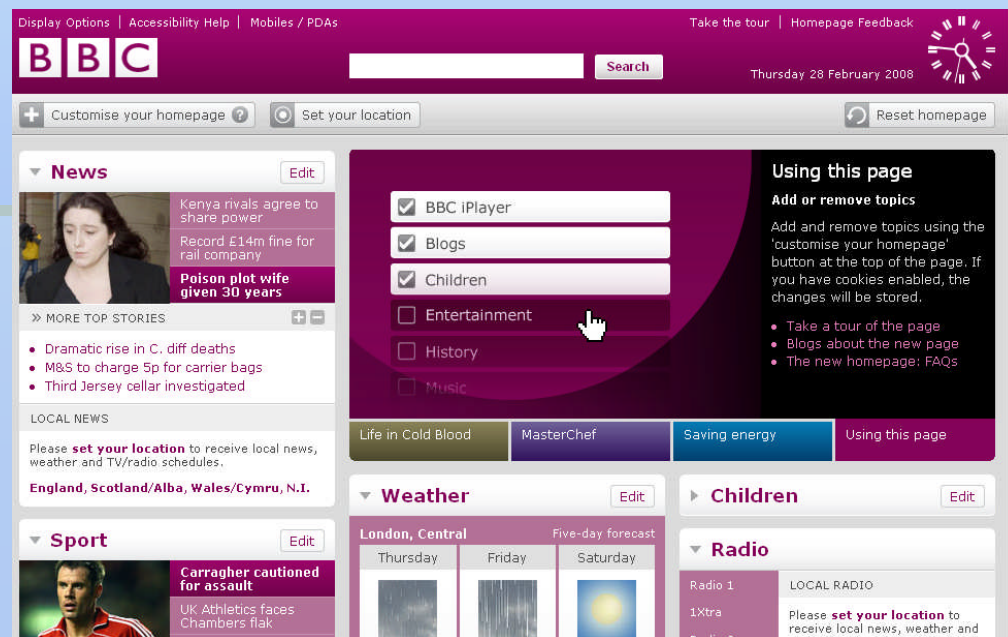
- FTD and stations compete for audiences and advertising expenditures; cooperate on financial news content
- FTD provides audio financial news to 30 radio stations for morning news programmes
- FT Deutschland mentioned twice in each broadcast segment
- No financial exchange
- Benefits
 - FTD--brand building and extension; radio removed as a competitor
 - Radio stations get better financial news, status of link to better known brand, and another on-air voice
- Creates no loss of audience or advertisers between the competitors

News Organizations are Now Seeking Synergies

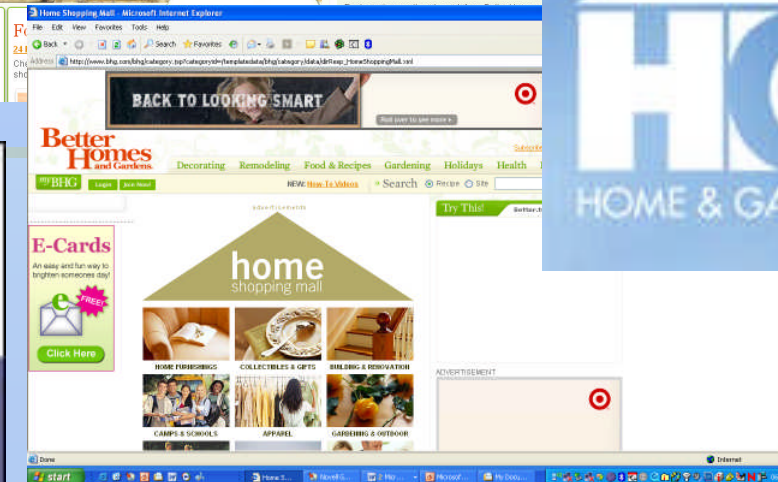
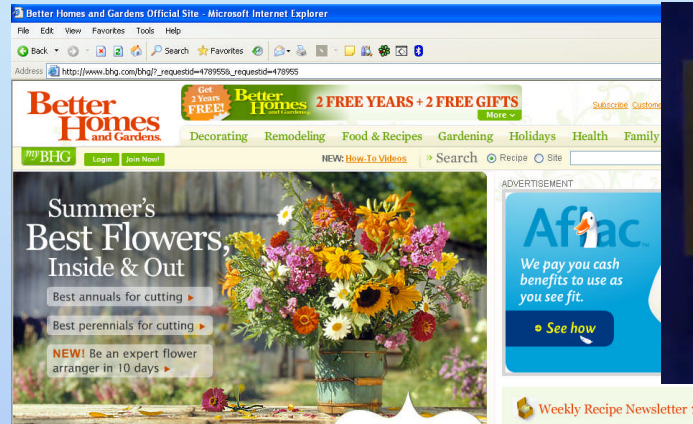
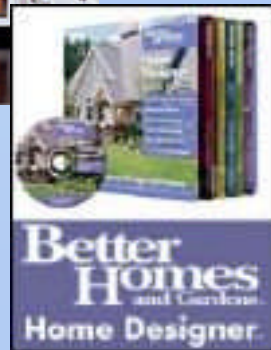
- Primarily based on cross-media news activities and primarily based on ownership and integration strategies
 - Newspapers and radio channels
 - News and public affairs
 - Newspapers and television channels
 - News, public affairs, reality show
- Radio, TV, newspapers, magazines, and online portals
- Radio, TV, newspapers, magazines, and mobile services

BBC and the Internet

- Most successful media online site
- Funded by the TV license fee
- News, features, music, video, how-tos, blogs, recipes, program information, encyclopedic knowledge



Cross Media Activities in the Magazine Industry



Cross-media operations are designed to reach *different audiences*, at *different times* of the day, with *different forms* of same content, serving *different needs*, and using *different distribution platforms*

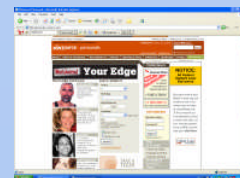
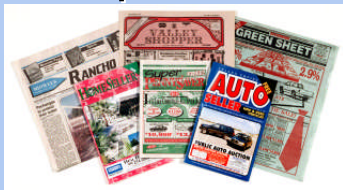
The right information and entertainment at the right time in the right form

Business Challenges of Cross-Media Activities

- knowledge and skill gaps
- high costs
- organizational resistance
- poor integration
- commoditizing content reduces value and price
- poor returns or losses

Limited profitability tend to produce joint media products

- Two or more products produced together that share common costs
 - Much trading of material and labor between units without cost full cost attribution
 - Equipment and facility uses
- Rarely able to fully cost account for individual products as separate business units or profit centers
 - They are interdependent NOT independent
 - Only were specific cost of individual activities can be identified can separation of costs be reasonably made
- The opportunity for most new initiatives can not exist without the base product



Conclusions

- Synergies are rarely been produced by media mergers and acquisitions
 - Do not often improve performance
- Primary advantages of cross media activities are in audience contact, branding, and loyalty
- Decreased value of ubiquitous content keeps price and profits low
- Content personnel are being asked to do more work but receiving little financial benefit
 - When financial benefit is obtained it tends to stay with the firms