MEDIA OLIGARCHY: IMPLICATIONS FOR ENTREPRENEURSHIP IN INTERNET MEDIA

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Summary

This essay will examine the changing shape of the telecommunications industries in the US over the last quarter of the twentieth century by charting the perpetual trend of media mergers and concentrated ownership of the telecommunication industries. Although the Internet has offered some potential for increased numbers of independent telecommunications entrepreneurs, the same oligarchs that dominate other major media are prevailing in this new territory as well. The America Online acquisition of Time Warner seems fitting to demonstrate the impact that major media conglomerates can have on access to cable and online networks in the future, which may hinder the viability of Internet entrepreneurs, and thus more producers of content who are independent and diverse.

1. Introduction

Beginning in the 1980s, the Reagan administration began deregulation of communications businesses in the US. During this time, each of the major broadcasting networks were bought by larger conglomerates, and the decade culminated in the first mega media merger, uniting Time Inc. and Warner Communications Corp. The trend in deregulation and concentration of ownership continued at an accelerated pace in the 1990s in the wake of the Telecommunications Act, as an unprecedented wave of mega media mergers erupted when Disney acquired ABC/Capital Cities, Westinghouse purchased CBS (before Viacom obtained CBS), and America Online acquired Time

Warner. The vertical and horizontal integration of what used to be distinct businesses has yielded a synergy between the production and distribution arms of the conglomerates, which independent producers cannot rival. Moreover, these arrangements have raised heightening concern over issues such as source diversity, competition, and access to networks. For consumers, it has often meant higher prices and fewer choices. Although the Internet has offered some potential for increased numbers of independent telecommunications entrepreneurs, the same oligarchs that dominate other major media are prevailing in this new territory as well. This essay will discuss the implications for business activity in the context of concentrated ownership, particularly among Internet portals and access providers. America Online's recent ventures in the US and Europe will be used as a specific case study.

2. Background: Deregulation, Mergers, and Acquisitions

Media conglomeration, as well as cross-promotion within a conglomerate, is not a new phenomenon born out of Internet technology. Rather, utilizing Internet portals as another means of cross-promotion is the latest manifestation of what media conglomerates have been doing for a long time. Therefore, before we proceed with a critical analysis on the contemporary history of Internet portals, it is important to retrace (at least briefly) the circumstances that have led up to the current situation. Two aspects of the contemporary media business environment that stand out are mergers between communication companies and a deregulatory political climate.

Communication empires have developed since the earliest days of mass media. For example, in the late nineteenth century businessmen like William Randolph Hearst sought to multiply their profits by putting together a chain of metropolitan newspapers, as increasing newspaper circulation raised advertising revenue (see chapter *History and Development of Mass Communications*). As Mosco has discussed, however, newspaper monopolies developed into powerful entities, beginning most notably in the 1980s when the Reagan administration supported deregulation in a number of industries, including communications. Deregulation was a dramatic shift for the communications industries, as broadcasters had been regulated under the "public interest, convenience and necessity" banner since the Federal Radio Act of 1927 and Federal Communications Act of 1934 (see chapter *Telecommunications Policy*). Using "ancillary" justification, as Turow explained, the Federal Communications Commission even regulated cable television because of its relationship with broadcasting. Most notable, perhaps, was the FCC's "must carry" provision that required cable operators to carry all broadcast stations in their market area on their network. The rule particularly helped independent stations that might have otherwise been dropped from cable systems. During the 1980s, however, regulatory provisions (such as "must carry") began to fall to the wayside, while mergers and changes in ownership became the new trend.

The deregulatory climate of the 1980s led to a wave of unprecedented media mergers and acquisitions, which culminated in the first mega merger of Time Inc. and Warner Communications Corp. in 1989. Time Warner then purchased Turner Broadcasting System, which had acquired MGM's lucrative film library. In addition, during this period, there were nearly 600 mergers and acquisitions in the electronic publishing industry, highlighted by Rupert Murdoch's purchase of Triangle Publications, which included *TV Guide*. These deals were significant because of the marketing strategies that could be derived from them. As Gomery explained, a book published by Murdoch's HarperCollins can be excerpted in the company-owned newspapers and magazines, made into as a Twentieth Century Fox film and a Fox television show, while being promoted in *TV Guide* and syndicated throughout the world by the vast Fox film and television distribution organization.

According to Hundt, the growing dominance of media empires (like News Corporation and Time Warner) led the FCC to promote *vertical* integration within media companies to increase *horizontal* competition among conglomerates starting in 1995. With media interests lobbying Congress for further deregulation, and anticipating passage of the Telecommunications Act of 1996, another (and perhaps bigger) burst of mega media mergers erupted in 1995, when Disney purchased Capital Cities/ABC (which united several film studios with one of the four major broadcast networks, as well as cable networks, publications, etc.). Thereafter, CBS merged with Westinghouse, and Viacom (which owns Paramount films) acquired CBS/Westinghouse. News Corporation, which owns the Fox television network, purchased New World Communications Group (uniting yet another film powerhouse with a major broadcast network). Most recently, America Online acquired Time Warner, which gives the Internet service provider a vast array of content to promote and distribute online.

According to former FCC commissioner Reed Hundt, these types of vertically integrated mergers were part of the FCC's strategy, to allow the broadcast networks to team up with movie studios and other sources of programming to compete with cable television. This notion, however, runs counter to the previous FCC financial interest and syndication (fin/syn) rules, which were designed to prevent the broadcast networks from dominating program production and distribution, by restricting the networks' participation in production and ownership of prime-time programs, as well as their domestic syndication. Now, through vertical integration of different types of media, corporate conglomerations can synergize the efforts of their film studios, television networks, cable networks, music studios, record distributors, publishing companies, magazines, and various commercial outlets to help the market value for each other. For instance, company news programs can promote movies that the film studios are producing; music studios can produce soundtracks for feature films, and so on. As Turow explained, *Time* magazine once devoted a cover story to both the film and the book *Presumed Innocent*, which is interesting because all three (*Time* magazine, the film, and book) are produced by Time Warner subsidiaries. Citing another example, Disney is able to cross-promote its films through soundtracks on their record labels, broadcasting on their television network, offering book versions, merchandising, and Saturday morning cartoons.

As these examples have demonstrated, vertical integration is more specifically defined as the process by which corporate conglomerates own the companies that produce the products that they also distribute. For example, media conglomerates may own movie studios, record labels, television shows, books, and magazines, which represent the product line. Vertically integrated conglomerates may also own cable systems, retail stores, music clubs, books stores, theme parks, home video distributors, and movie theaters, which represents the distribution line. As Gomery explained, vertically integrated media corporations have significant economic advantages from "making the basic product to selling it in more and more markets to controlling the very outlets from which customers buy or rent." Two of the main advantages are reduced costs of sales (as a vertically integrated conglomerate "literally sells to itself") and "market access." For example, a vertically integrated conglomerate can practically guarantee that a feature film will be released on video, appear on a cable channel or network television, have a soundtrack released, and so on. Accordingly, a key holding for today's conglomerates is a film studio, because they can produce a plethora of content to be repackaged through various outlets.

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Biographical Sketch

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