

June 3 2002

**Media Concentration
in the European Market.
New Trends and Challenges**

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1. Concepts

The last years of the twentieth century have been witness to three moments of far-reaching consequences and great symbolic significance: in the political arena, the fall of the Berlin Wall spelt the end of the division of the world into two antagonistic blocs; in technology, the development of the Internet meant that information could be transmitted and interpersonal communication could be conducted instantaneously and cheaply between people of different countries and continents; and, from the economic viewpoint, the birth of the World Trade Organization heralded the arrival of a globalised world, with increasingly fewer economic barriers.

The communications industry has been no stranger to that phenomenon, characterised by the creation of greater links between people who are not geographically close and by the competition of corporations in a global marketplace. For instance, in the year 2000, 40% of the mergers and takeovers of companies on a global scale –whose value reached the record figure of 3.5 trillion dollars– took place in the telecommunications, new technologies and communications companies sector¹. That year, two of the largest concentration operations were carried out by communications groups: AOL acquired Time-Warner and Vivendi gained control of Universal.

The globalisation phenomenon has re-opened the debate on the concentration of communications companies. Some of the controversial issues remain the same as those raised in earlier decades: Do citizens have access to differentiated sources which are really accessible so as to be able to compare information and make informed decisions? Do market conditions provide favourable conditions for the entry of new

¹ Teresa La Porte et al. (VI.2001), *Globalisation of the Media Industry and Possible Threats to Cultural Diversity*, report prepared for the European Parliament, University of Navarre, Pamplona.

contents providers? To what extent should a communications company be allowed to grow in a market? How and by whom should the concentration processes of communications companies be regulated?

However, today new challenges and voices of alarm have been raised, fuelled by irrefutable figures as well as groundless fears. In the first section of this chapter we will study the main theories and concerns on media concentration; we will then go on to analyse conceptual aspects which will allow us to identify the scope and real nature of this phenomenon: Where does the difference lie between industrial concentration and market concentration? When can it be affirmed that a physical or judicial figure controls a company? Which markets are relevant for the study of concentration processes (local, regional, national, international)? How do concentration processes come about; and what kind of communications groups emerge as a result of the mergers, takeovers and launching of new media?

1.1. Main Hypotheses in Recent Research

Thucydides provides us with the first surviving written testimony on the effects of the concentration of power. This Greek historian fought in the Peloponnesian war in the fifth century B.C.; pondering on the causes of the defeat of powerful Athens by Sparta, Thucydides left for posterity his pithy vision of the mechanisms of politics and government: “hegemony annihilates itself”².

So, the Athenian historian considered that any attempt to control massive power over a long period of time was destined to failure: just as in the myth of Sisyphus, reaching the goal was easy, but he would inexorably fall down the slope again just as the desired end was on the point of being attained.

² See Simon Hornblower (1991), *A Commentary on Thucydides*, Clarendon Press, Oxford.

In the business arena, history also shows that unfettered growth produces paralysis, a loss in flexibility, excessive bureaucracy and a weakening of the corporate culture: indeed, the rankings of the largest companies show constant fluctuations and few hegemonic positions sustained over time.

Despite this, the awareness of this fact does not help to reassure many writers. Marx, will say, for example, that without the coordinated action of the weakest (the proletariat), the strongest (the owners of capital) –even though they may not always be the same– will tend to exploit the rest.

Even though hegemonic positions do not tend to last for long, and although in today's society there does not appear to exist a class struggle, there are risks of dominant positions in any market: at least in the “transitional periods” –when a company has achieved a good growth rate but has not yet felt the negative effects of its inordinate size– the concentration of power can prove to be an obstacle to free competition.

In the area of communications, situations of hegemonic power are particularly serious: as well as obstructing the entry of new competitors into the market, they hinder the exchange of ideas and imply that one business group may exert undue influence over political decisions and public opinion.

For this reason it is not surprising that the first systematic reflections on the effects of the concentration of communications companies go back to the Second World War: in 1942, H. Luce, founder of Time magazine promoted the work of the Hutchins commission, which after several years of investigation published the celebrated report “Freedom of the Press”. Already then, the Hutchens report identified the phenomenon of concentration as one of the three great dangers for the freedom of the press³.

³ William E. Hocking (1947), *Freedom of the Press. A Framework of Principle. A Report from the Commission on Freedom of the Press*, The University of Chicago Press, Chicago, 142.

In Europe, in the sixties and seventies, the governments of some countries, the European Council and the Commission of the European Community began to take an interest in the possible negative effects of the growth of companies; in that context can be found the report drawn up by M. Leynen in 1979 –which would be a working document for the Council–, the national reports ordered by the Commission, especially from 1978 onwards, the report presented by E. Gunter to the German government in 1967, the Rodgers report (1975) and the report conducted by G. Vedel for the economic and social Council of France (1979).

Also in those years the first work on the problem of the lack of transparency in the capital of communications companies was produced (M.H. Seiden, 1974), and on the effects of concentration in the political system (H. Schiller, 1976) and on the homogenization of contents (W.T. Gormley, 1976)⁴.

Concentration was a reality clearly bounded by national borders: in almost every country, the presence of foreign companies was hardly significant, so that the studies were decidedly national in nature. In Europe, with the exception of Great Britain, Finland and Luxembourg, the audiovisual sector was dominated until the mid-seventies by public monopolies, which –at least in theory– had been conceived, among other reasons, to guarantee information pluralism. Therefore, until the nineteen eighties, research on media concentration in the old continent tended to be limited to analysing the degree of press concentration in each country.

From the nineteen eighties onwards, work was published on the concentration of the print and audiovisual media, but almost always from a “national” perspective. In some cases, such as in the work published

4 On those first works referring to concentration, see Carles Llorens-Maluquer (2001), *Concentració de empreses de comunicació i el pluralisme: la acció de la UE*, doctoral thesis, Universitat Autònoma de Barcelona, Barcelona.

by G. Wedell and G. M. Luyken⁵ or J. P. Jeandon⁶, the European market was analysed but only as a mere account of the situation of various national markets; it would still take some time before the first quantitative analyses exploring the problems and challenges posed by the concentration of communications media in the European market would make their appearance.

Another line of work –particularly prolific in the eighties– refers to the so-called “critical theory”⁷. This academic school, quite broadly defined, is made up of researchers who assume some historical and economic postulates of Marxism and a great many of them have been trained in the area of political economy. Of the most well-known work of this period are the studies of J. Curran and J. Seaton⁸, A. and M. Mattelart⁹ and B. Bagdikian¹⁰. In Spain, the works of E. Bustamante and R. Zallo¹¹ and J. C. Miguel¹² stand out. Those books refer, above all, to the hypothetical negative effects of concentration; however, not one of them is based on quantitative analyses of the market.

Other research makes an analysis of the legal aspects of concentration,

5 George Wedell and Georg-Michael Luyken (1986), *Media in Competition*, The European Institute for the Media, Manchester.

6 J. P. Jeandon (1988), *Impact des nouvelles technologies sur la concurrence dans l'industrie de la télévision en Europe*, CEE, Luxembourg.

7 See Hanno Hardt (1998), *Interactions: Critical Studies in Communications, Media & Journalism*, Rowman & Littlefield, Lanham.

8 James Curran and Jean Seaton (1981), *Power without Responsibility: The Press and Broadcasting in Britain*, Fontana, London.

9 Armand and Michèle Mattelart (1986), *Penser les media*, Editions La Decouverte, Paris.

10 Ben Bagdikian (1990), *The Media Monopoly*, 3rd ed., Bacon Press, Boston.

11 Enrique Bustamante and Ramón Zallo (coord.) (1988), *Las industrias culturales en España, grupos multimedia y transnacionales*, Akal, Madrid.

12 Juan Carlos de Miguel (1993), *Los grupos multimedia. Estructuras y estrategias en los medios europeos*, Bosch, Barcelona.

such as the work of A. Van Loon and G. A. I. Schuijt¹³, or A. Lange and J. L. Renaud¹⁴. On the other hand, B. Compaine¹⁵, B. Guillou¹⁶, R. Picard¹⁷, A. Nieto and J. M. Mora¹⁸ and F. Cabello¹⁹ are more interested in company strategy and the typology of communications groups.

In 1993, A. Sánchez-Tabernero, with the collaboration of several researchers of the European Institute for the Media, published the first study on concentration in Europe based on a detailed quantitative study of 17 countries. The Institute itself has continued this line of work with partial reviews of the report or with the analysis of new problems. Other Institute researchers prepared several documents at the request of the Commission of the European Community, such as the "Transparency and Media Control in Europe" report, published in 1995.

In the nineties –especially towards their close– partial studies on concentration in Europe have been published with diverse approaches and contents:

- a) Analysis of an exclusively national scope;

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- 13 Ad van Loon and G. A. I. Schuijt (1989) *Cross media ownership*, Institut voor informatierecht, Amsterdam.
- 14 André Lange and Jean Luc Renaud, *The Future of the Audiovisual Industry in Europe*, The European Institute for the Media, Manchester.
- 15 Benjamin M. Compaine (1982) *Who owns the media?*, 2nd ed. White Plains, New York.
- 16 Bernard Guillou (1984) *Les stratégies multimédias des groupes de communication*, La Documentation Française, Paris.
- 17 Robert G. Picard (1989), *Media Economics*, Sage, New York.
- 18 Alfonso Nieto and Juan Manuel Mora (1989), *Concentración informativa en España. Prensa diaria*, S. P. Universidad de Navarra, Pamplona.
- 19 Fernando Cabello (1999), *El mercado de revistas en España. Concentración informativa*, Ariel, Barcelona.

- b) Compilations of legislation in the European arena, the most notable is the book by E. Machet and S. Robillard²⁰;
- c) Analysis of the “new world order” of information and proposals on the need for limiting the power of the giant communications companies: C. Hamelink²¹, N. J. Woodhull and R. W. Snyder²², D. Alger²³;
- d) Reports on concentration or on the lack of transparency in the advertising industry, both from the perspective of the advertisers as well as from the position of the advertising intermediaries: R. Rijkens²⁴ and F. J. Pérez Latre²⁵;
- e) Biographies of the principal company owners and studies on the communications groups: J. Tunstall and M. Palmer²⁶, K. Maney²⁷;
- f) Studies on the communications industry in Europe: A. Pilati and G. Richeri²⁸ and annual reports by agencies and media buying companies (Zenith Media), investment banks (James Capel), research

20 Emmanuelle Machet and Serge Robillard (1998), *Television & Culture: Politics & Regulation in Europe*, The European Institute for the Media, Düsseldorf.

21 Cees J. Hamelink (1994), *The politics of world communication: a human rights perspective*, Sage London.

22 Nancy J. Woodhull and Robert W. Snyder (eds.) (1998), *Media Mergers*, Transaction Publishers, New Brunswick.

23 Dean Alger (1998), *Megamedia: how giant corporations dominate mass media, distort competition and endanger democracy*, Rowman & Littlefield Publications, Lanham.

24 Rein Rijkens (1992), *European advertising strategies: the profiles and policies of multinational companies operating in Europe*, Cassell, London.

25 Francisco J. Pérez Latre (1995), *Centrales de compra de medios*, EUNSA, Pamplona.

26 Jeremy Tunstall and Michael Palmer (1991), *Media Moguls*, Routledge, London.

27 Kevin Maney (1995) *Megamedia Shakeout: the inside look at the leaders and the losers in the exploding communications industry*, Wiley & Sons, New York.

28 Antonio Pilati and Guiseppa Richeri (2000), *La fabbrica delle idee*, Baskerville, Bologna. See also, Antonio Pilati (ed) (1993), *MIND Media Industry in Europe*, J. Libbey, London.

institutes (IDATE, The European Institute for the Media) and public institutions (the European Audiovisual Observatory).

However, no up to date analysis of the phenomenon of the concentration of communications corporations in Europe has been carried out in the last few years. This study takes into account certain facts which were barely conceived of or had not become sufficiently important at the beginning of the last decade:

- a) The globalisation of markets and the emergence of new media have changed the notion of "relevant markets": they can no longer only be linked to geographical areas bounded by national borders.
- b) The development of new technologies necessitates the establishment of two types of mechanisms ensuring free competition: some refer to distribution (systems preventing discrimination in access to the "highways") and others to content (media ownership and market shares).
- c) Concentration in the advertising sector has provided advertising agencies and media buying companies with enormous negotiating power; for this reason, proposals on a possible review of the legal framework must be formulated without excessively weakening the media's position with regard to the advertising intermediaries²⁹.

Let us now go on to examine the cases where company growth results in a market concentration; we will also examine the mechanisms –as well as industrial growth– which can cause the appearance of hegemonic groups.

29 A detailed aspect of this phenomenon can be seen in Francisco Pérez Latre and Sergio Puertollano (2000), *Planificación de medios en mercados locales: situación, problemas y oportunidades*, in VV.AA., "Estudios de Empresa Informativa. Homenaje al Profesor José Tallón", U. Complutense, Madrid, 529-535.

1.2. Industrial Concentration and Market Concentration

Concentration can be analysed from the market viewpoint or from the perspective of the companies. In the first case, concentration increases when the position of dominance or influence of the main companies becomes stronger, the public's power of choice is reduced and when some "independent voices" disappear. From the business point of view, concentration implies industrial growth of the communications groups.

Some processes of industrial concentration do not generate market concentration: for example, if a company which owns radio stations in Greece and is not present in the Swedish market sets up a new radio station in Stockholm its industrial concentration will be increased but it will also cause a fragmentation of the radio broadcasting market of that capital city.

On the other hand, market concentration may not be the result of the growth of a company: in many European cities and especially in the United States, newspaper closures have given rise to their competitors becoming local monopolies.

As Compaine and Gomery warn, monopolies and oligopolies are wonderful for the owners of the companies which find themselves in a privileged position, but are seriously harmful both for the companies attempting to penetrate the market as well as for consumers³⁰. For this reason, there is general consensus on the need to avoid positions of excessive domination which may imply a likely risk for free competition.

But controversy does not arise in the field of general principles but when practical applications are put forward. For example, what is a

³⁰ Benjamin M. Compaine and Douglas Gomery (2000), *Who owns the media? Competition and concentration in the mass media industry*, Erlbaum, 3rd ed., Mahwah, N.J., 511-520.

“reasonable” market share? Should the same maximum share be established for each type of media: newspapers, magazines, radio stations etc.? What is a meaningful geographical area: local, regional, national, European? Do there exist other ways of gaining dominant positions which do not involve market percentages: for example, the control of “bottlenecks” in production or distribution? When can it be determined that an owner or group of shareholders “control” a company?

Some of these questions do not allow for a “scientific” reply: there is no easy way to distinguish whether it is better, for example, that a communications group reach 25% of the market share in daily press, radio and television or that it possess 50% of daily press circulation, but is not present in the other two product markets. It is not even possible to formulate criteria applicable to heterogeneous markets: legislation could ban a television company from holding 40% of subscriptions to pay television channels in the United States with the aim of avoiding a situation of domination; however, in much smaller markets, a lower percentage could present difficulties for the company’s economic viability.

In order to avoid these cases, the regulatory and control bodies tend to concentrate their activity on external growth processes: they examine if mergers or company takeovers give rise to situations where there is a risk of abuse of a dominant position. In contrast, they usually place less emphasis on the analysis of the internal growth processes (launching of new media) and on other factors which favour market concentration (such as the disappearance of competitors)³¹.

The regulation of external growth has the advantage of being able to be carried out “ad casum”: each concentration operation is studied and it is decided if it should be approved, banned or permitted, but on condition of fulfilling some requirements (such as carrying out divest-

31 See Pierre Larouche (2000), *Competition, law and regulation in European telecommunications*. Hart Publishing, Oxford.

ments or making the commitment not to hinder competitors' access to distribution channels).

On the other hand, internal growth is more difficult to deter, for at least three reasons:

- a) Firstly, because –in those cases– one or several companies' increased presence in the market is a consequence of their capacity to innovate and their favourable reception by the public: anti-concentration measures would mean that a company in a dominant position would be prevented from launching new media in the same market or from increasing the transmission or audience size of the media it owns. That is to say, restricting the possibilities of internal growth would be tantamount to penalising innovation, the search for higher quality and the decision to take on business risks.
- b) Also, the increase in a communications group's market share could be compatible with increased offer available to the public; this has been the case, for instance, in many countries around the world in the last twenty years with the proliferation of television channels: in some markets, the leading television company has set up new channels and has even increased its market share, but the public has many more options at their disposal, even though several share the same ownership.
- c) Finally, it is certainly not easy to determine on a hard and fast rule on what should be the maximum levels of market concentration not to be exceeded under any circumstance. Those market shares should be established for each type of media (newspapers, magazines, radio, television....) and for each type of market (with regard to its population). They should also include provisions for "cross ownership" for multimedia corporations. On the other hand, market share could be calculated based on the time the media are consumed by the public, on the total turnover figures of the companies in the sector or on the advertising market.

There are several procedures for the calculation of the degree of market concentration: some –such as the Index of relative entropy– are not widely used, owing to their excessive complexity³². Others, such as the Curve of Lorenz, permit a graphic approximation to the problem of concentration, but are not particularly appropriate in enabling regulatory bodies to reach decisions.

The Curve of Lorenz compares the real situation of concentration with a hypothetical case in which concentration would equal zero. The vertical axis indicates the number of companies expressed cumulatively and as a percentage, from lower to greater; the horizontal axis shows the chosen variable (turnover, market share, etc.), also expressed by a cumulative percentage. If the size of the companies –referring to the variable chosen in order to measure the degree of concentration– is the same, the Curve of Lorenz will be where the graph is bisected; and the further away the line is from the diagonal, then greater will be the degree of market concentration³³.

Other measurement systems are not precise enough: for example, the Gini Index merely expresses in mathematical form what the Curve of Lorenz shows graphically: it takes the rate of the numerical distance between the bisector of the angle and the real curve of Lorenz. With regard to the “Four firm concentration ratio” (CR4), this is limited to adding up the market shares of the four leading companies in a market. So, in a market A where one company has a 77% share and another three have a share of 1% each one, then it will have a CR4 of 80. Market B where the four largest companies have 20% each will have the same CR4; however, in this second case, the chances of a company abusing its dominant position are fewer.

One of the procedures most applied for measuring the intensity of

32 See, e.g. Jong, H. W. from (1989), *Dynamische Markttheorie*, Leiden, Stenfert Kroese.

33 See Alfonso Nieto and Juan Manuel Mora (1989), *Concentración informativa en España: prensa diaria*, Servicio de Publicaciones de la Universidad de Navarra, Pamplona, 59.

competition or the degree of concentration in a market is the Herfindahl-Hirschman Index (IHH); it is a simple formula and expresses more than the CR4; it is calculated by adding together the squared market shares of the companies of a certain sector.

We will look at two cases. In market A there are only four radio companies with the following audience shares: 70%, 20%, 5% and 5%. The IHH of this radio station market would be 5.350 (the added squared figures of 70, 20, 5 and 5). In market B there are also only four radio stations, but each one of them has an audience share of 25%; in this case, the IHH would be 2.480, which is the sum of adding four times squared 25. A higher IHH means a higher level of market concentration and a lower intensity of competition.

The IHH is useful for comparing situations of concentration in different markets and for viewing over a period of time the evolution of the intensity of competition in a market. However, it is impossible to establish an IHH from which it can be said the degree of concentration is “excessive” or “not tolerable” for the regulatory authorities: that figure depends on the characteristics of each market, the type of business, and, in the last analysis, on the decision taken by the public through their political representatives.

For instance, in some countries, people may be more concerned by the risk of cultural colonialism than by the growth of home-grown communications corporations; this has traditionally been the case in Austria, Ireland and the French-speaking area of Belgium, as they are the natural areas for expansion for companies from Germany, Great Britain and France respectively. This circumstance explains why the legal frameworks of the first three countries mentioned permit a high degree of concentration, favouring the development of Austrian, Irish and Belgian communications companies.

Market dominance has been calculated up till now with regard to two possible realities; the total company turnover and audience share or (distribution) reached. However, it would be more significant to analyse the share reached of the public's time: this system would not

only enable a joint measurement to be made of all the media's presence in the market –print, audiovisual and interactive– but it would also more clearly reflect the capacity of each company to modify public opinion; a monthly magazine read for half an hour would not have the same influence as a television channel with a viewing time of two hours per person, even though the number of readers and viewers were the same.

Having said all this, regulators should establish measurement and control systems of the degree of concentration which can be put into practice; because to attempt to establish the “perfect system” would mean also having to analyse the degree of public attention, the place of consumption, the type of contents offered by each medium, etc. And those realities are of such complexity that to measure them is impossible or would require too disproportionate a cost.

There also exist other possible ways of abusing a position of dominance in a market which do not originate in achieving a particularly high turnover or share of the audience: vertical integration implies that one or several companies can control some “bottlenecks” in the process of the preparation or distribution of contents and can acquire a position of “gatekeeper” which means they can prevent the appearance of competitors and impose conditions.

In latter years the most widely known case in the world of possible abuse of its dominant position through a strong vertical integration has been that of Microsoft: in the US and EU the organisms charged with defending competition examined if the link between the operative system (Windows) and the browser (Explorer) implied disloyal competition for other companies (such as Netscape) and represented a mid-term risk for consumers both with regard to price policies as well as a loss in incentives for innovation.

In the area of audiovisual media, there are a number of types of possible “bottlenecks”: exclusive broadcasting rights of some programmes, conditional access systems (decoders, browsers, guides of electronic

programming and operative systems), and telecommunications systems (cable and terrestrial or satellite digital television platforms)³⁴.

Occasionally, attractive programmes can encounter insurmountable difficulties in reaching the public when no access is available to the appropriate distribution channels. And, in the opposite sense, the economic viability of some distributors may depend on their being able to acquire certain contents (especially rights to broadcasting sporting events and to the most popular films). On the other hand, in the print sector competition is rarely distorted by a process of vertical integration.

In this study some systems are used to analyse the degree of concentration which, despite their drawbacks –as we have already mentioned, all measurement processes are necessarily limited–, allow for the identification of the fundamental problems of concentration of communications companies in Europe. In the quantitative analysis in chapter II the market share of the leading companies in each sector is indicated and their evolution between 1990 and 2000 is analysed. Other problems referring to the possible distortion of free competition are analysed with the study of particularly significant cases.

In the following section of this chapter we will deal with a controversial issue: how can we determine that a certain physical or legal figure has gained control of a communications company?

1.3. The “Control” of Companies

Since 1776 when Adam Smith published his “Inquiry into the Nature and the Causes of the Wealth of Nations” the idea that rivalry between different companies in a market generates products and services of

³⁴ Alberto Pérez Gómez (III.2000), *Las concentraciones de medios de comunicación*, “Cuadernos del CAC”, 85.

higher quality at the lowest possible price has had huge currency. Most researchers and policy-makers consider that competition not only guarantees those advantages for the consumer, but also favours entrepreneurial innovation and plurality in information³⁵.

Even still, some writers argue that the main incentive for a company to innovate lies in being able to dominate a market and benefit from its hegemonic position: without those prospects companies would reduce investment in R+D; according to this theory an imperfect market is, to a certain extent, desirable so that innovators can recoup their additional investments; therefore, the key to policy on free competition should not be what percentage is reached by the market leaders, but if there exists an abuse of their dominant position over a long period of time with the result that competitors are prevented from innovating.

This way of thinking is largely based on the principle of “creative destruction” formulated by Joseph Schumpeter. This celebrated economist from the beginning of the twentieth century was one of the first to suggest that temporary monopolies stimulated innovation and economic growth. Those dominant positions tend to have fewer negative effects –according to Schumpeter– than positive ones; monopolies that are not based on legal concessions undergo “economic Darwinism”: the majority disappear and only the better prepared, those more adaptable to change survive³⁶.

The main players of “market control” are the firms. But these, at the same time, are controlled by persons or by other companies who make the business decisions: they choose in which markets to be present and with which products, they select managers and other staff, they ap-

35 Jan van Cuilenburg, *On Measuring Media Competition and Media Diversity: Concepts, Theories and Methods*, in Robert G. Picard, op. cit.

36 “Even in the world of giant firms – affirmed the Harvard professor – new ones rise and fall into the background. Innovations still emerge primarily with the “young” ones and the “old” ones display as a rule symptoms of what is euphemistically called conservatism”. Joseph A. Schumpeter (1939), *Business Cycles. A Theoretical, Historical and Statistical Analysis of the Capitalist Process*, McGraw-Hill, New York, 97.

prove marketing and investment plans and, in short, it is they who determine how corporations will compete.

In the past, most communications companies were in the hands of individuals or families; also, in previous centuries in some countries many newspapers and magazines belonged to political parties or factions of those political parties. Even today, in many places—for example, Latin America—a great part of the main communications groups is still controlled by a few families.

In states with planned economies and no free market, the mass media are usually the property of the respective governments or of other public entities. It is also evident in those cases who owns the communications companies.

However, the number of companies joining the world of free competition is continually on the increase; and in this economic environment, company capital is more dispersed and in the hands of a greater number of shareholders.

Until a few years ago, it was considered that with possession of over 50% of the capital total control of the company could be exercised. Some writers suggested that participation of between 20% and 50% of the capital gave “partial control”³⁷. This was also established as such in some legal texts³⁸.

The fragmentation of company capital has rendered those legal provisions, to a great extent, obsolete; control is now usually exercised with less participation in firms’ capital. There are several reasons to explain why the communications groups have a greater number of owners and, in many cases, none of them has a majority percentage of capital.

37 See Loreto Corredoira and Alfonso Sánchez-Tabernero (1994), *Transparencia y control de los medios informativos*. Fundación de la Comunicación Social, Madrid, 9-10.

38 See e. g. the Regulation on foreign investment in Spain (RD 2077/1986, of September 25), which in section 1.3. stated “it is considered that a foreign investor can exert an effective influence on the management or control of the Society when his participation is equal to or greater than 20% of the capital”.

- a) In the first place, ownership in family companies has already reached the fifth or sixth generation, with a subsequent dispersion of capital among relatives; moreover, some of them have sold their shares for capital gain or because they have lost management control.
- b) Also, one way of guaranteeing the permanence of the most valuable employees has been by offering them a share in capital, which has meant the incorporation of new shareholders into companies.
- c) The proliferation of mergers and takeovers in the communications sector has generated share gains among the former owners of the companies which took part in those concentration operations.
- d) In the audiovisual area, communications groups have formed alliances –both for economic reasons (capital build-up) as well as political reasons (greater power of influence)– with the aim of strengthening their position with regard to radio, television and mobile telephone licence concessions.
- e) The necessary capital to penetrate some sectors –such as telephone and cable and satellite television– and the possibilities of international expansion have caused many companies to go public in order to finance those investments. In this way, small investors have begun to buy up minority shares in communications companies.

The dispersion of capital of companies makes it difficult to evaluate the effects of capital transfer in the communications market: the mergers and takeovers can be interpreted in different ways, based on different ways of understanding who makes the business decisions or who has a decisive influence on them.

This fact was clearly shown when the French company Vivendi, chief share-holder of Canal + and one of the foremost pay television operators in Europe, acquired Universal, one of the main film production companies in Hollywood and world leader in the music industry.

For some analysts, with the international expansion of Vivendi, Europe

was beginning to close the gap with the North American cultural pre-dominance in the audiovisual industry. However, an article published in *Le Monde* claimed precisely the opposite; Professor Musso, after reminding us that 54% of Vivendi's capital was in foreign hands, especially in Anglo-Saxon pension funds, concluded: if the takeover is successful, "a hostile takeover bid of Vivendi will always be possible, which will return the "champion" to its land of birth and turn it into a supplier of American products via European distribution networks (...). In case of failure, the industrial disaster for the European audiovisual sector will be such that there will be nothing left for us to do but prostrate ourselves for ever before the Hollywood dream factory to supply the innumerable European audiovisual distribution channels. Whatever happens, America will win"³⁹.

It is not possible –nor perhaps convenient– to avoid argument on the interpretation of the effects of concentration operations; but there is a need to establish widely accepted criteria which permit a definition of who controls a company.

In the first place, it is important to clarify if business control is equivalent to editorial control. In the EU's legal system, the owner of each company has almost complete decision-making power over contents: he names management, determines the competitive strategy, chooses the business plan, approves staff recruitment, etc. Neither the European Community's legislation nor that of the Member States establishes real areas of autonomy for media managers.

Managers' room for manoeuvre in setting out the editorial line depends on the "internal rules" of each company: institutional culture, degree of owner's involvement –or, by their delegation, of the senior managers– in the contents of the media, newsroom statutes, behaviour codes, managers' negotiating capacity and other unwritten codes.

39 Pierre Musso (7.XII.2000). *Vivendi-Universal: l'Amérique gagnante*. "Le Monde".

In second place, it is important to determine with what share of the capital can control be exercised over a company. The Regulation on concentrations of the EU⁴⁰ defines in its articles 3.3 and 3.4 the concept of control currently in force in the legal framework of the European Union:

“Control results from the rights, contracts or other means that, in themselves or as a whole, and taking into account the circumstances *de facto* and *de jure*, confer the possibility of exerting a decisive influence on the activities of the company, in particular a) ownership rights of the use of the totality or a part of the assets of the company; b) rights or contracts which permit a decisive influence on the composition, deliberations or decisions of the organisms of the company.

The person or persons or companies will be said to have acquired control: a) being holders of said rights or beneficiaries of said contracts, or b) that, without being holders of said rights or beneficiaries of said contracts, they can exercise rights inherent in the same”.

According to this legal text, control is equivalent to the capacity to “have a decisive influence” on the most relevant decisions of the company. The Regulation of the EU discards, therefore, the idea of linking the concept of control to the possession of a certain percentage of the capital. When judging concentration operations, the Commission must appraise if there is a “decisive influence” on the part of a physical or legal person on the capital of a company. As we shall see in chapter IV, the flexibility of this assessment system means it is easier to make an adequate appraisal of the degree of real concentration produced in each market.

A more recent legal document⁴¹ distinguishes between “sole control”

40 Regulation (EEC) No. 4064/89 of the Council of 21.XII.1989 on the control of concentration operations between companies.

41 Commission Notice on the notion of a concentration under the Council Regulation (EEC) No. 4064/89, (OJ 1994 C 385/10).

and “joint control”: “sole control” implies that one or several physical or legal persons own the majority of the shares with a voting option of a company. However, a concentration operation brought about by a “qualified minority” can also result in a “sole control” situation; it happens in this way a) when specific rights are attached to the minority shareholdings, enabling them to determine the strategic commercial behaviour of the target company (“legal basis”) or b) where the shareholder is highly likely to achieve a majority in the shareholders’ meeting given that the remaining shares are widely dispersed (“de facto basis”).

In accordance with the Notice of 1994, Baches Opi lists seven situations where “joint control” occurs:

- a) When two companies share between themselves the voting rights of the “joint venture”.
- b) When two companies have the right to name the same number of members on the board of directors of the “joint venture”.
- c) When there is a situation of inequality between two or more companies with voting right ownership of a third company, and several owners can veto decisions referring to essential aspects of the “joint venture”.
- d) When there is a common exercise of voting rights. Even in the absence of veto rights, two or more companies acquiring minority shareholdings in another company may obtain joint control: i.e. the minority shareholders together have a majority of the voting rights and act together in exercising those voting rights.
- e) If one of the parent companies has a casting vote, joint control does not exist. However, it can arise when this casting vote is exercised only after arbitration and attempts at reconciliation or in a very limited field.
- f) If each of the parent companies has the casting vote for one year alternatively.

- g) Where in a 50/50 joint venture one of the parent companies has a call option which can be used under certain conditions, or a put option⁴².

Having outlined the concept of control of a company we shall advance further in the study of concentration situations with the identification of "relevant markets". In the following section we shall see how this concept is defined by the European Union and we shall study how it can be applied to the communications industry.

1.4. Notion of "Relevant Market"

The protests, demonstrations and attempts to boycott international meetings on globalisation have been one of the most surprising political and social phenomena of the beginnings of the twenty-first century. In years of few ideological battles –at least in the more prosperous countries– an antagonistic fight has arisen (that on occasions has gone beyond a dialectic discussion) between those in favour of economic integration on a worldwide scale and those who demand protection for the less developed economies.

The defenders of globalisation believe that economic integration, caused both by technological progress and the general increase in freedom, generates long term prosperity for everyone⁴³. In contrast, those who oppose globalisation see in this phenomenon the potential exploitation of the poorer countries by the richer ones.

In any case, globalisation appears to be an inexorable reality, which particularly affects the communications industry: this sector is tech-

42 Sergio Baches Opi (1997), *US/EU Merger Control: How should the US experience influence the enforcement of Council Regulation 4064/89 on the control of concentration between undertakings?* Leuven University Press, Leuven 29-31.

43 For example, *The Economist* (23. IX.2000) wrote in its leading article following the famous anticapitalist protests at the Seattle summit: Globalisation is only "the best of many possible futures for the world economy".

nology “intensive”; contents transport is quicker and cheaper, especially in audiovisual and interactive media, but also in the print media; and a large part of the products attracts global audiences, in particular entertainment, but also specialised information, for example, economy and finance, computing or automobiles.

The breaking down of national borders makes it necessary to re-define the context of the markets where problems of concentration and lack of competition are raised. The bigger the size of the market analysed, the less the degree of concentration tends to be: there are more local and regional situations of monopoly than on a worldwide scale, among other reasons –because some markets– owing to low levels of consumption cannot allow more than one company to survive.

In this context, when studying situations of dominant positions in each market, the question is raised as to how far “down” should the policy of defence of competition go: Is it enough, for instance, just to guarantee the public’s choice between several newspapers, radio stations and television channels on a national level or should a diversity of offers also be promoted in each region and city?

In order to address this issue, it is necessary to understand that the political, economic and media structure of each country determines which competition policy is the most appropriate; for Spain, where each region has its own parliament with legislative power and governments with widespread powers, the political debate –and, therefore, media diversity– at a regional level is of greater importance than in Sweden; and in Great Britain where the London press has a strong penetration nationwide, the local press monopolies are less important than in France, where the Parisian newspapers are usually marginally present outside the capital.

Policies on free competition should be aimed towards what is possible and set aside Utopian situations of perfect competition and maximum balance between companies present in each market. In this context, the growing number of places –in Europe and, especially the United States– with newspapers in a situation of monopoly can be understood as a

negative but inevitable fact, which is partly compensated for by the appearance and development of many other ways of distributing local information: free publications, radio stations, television channels and Internet.

The European Commission has established two basic criteria in order to determine the markets of reference in which situations of concentration should be measured⁴⁴: contents of the offer (product or service) and geographical area. “The product market of reference includes all products and services that consumers consider interchangeable or replaceable by virtue of their characteristics, price or anticipated use made of them” (art. 7).

The geographical market is defined as “the zone in which the affected companies carry out activities of supplying products and rendering of services of reference, in which the conditions of competition are sufficiently homogeneous and can be distinguished from other neighbouring geographical zones owing, in particular, to that the prevailing conditions of competition there are markedly different to the former” (art. 8).

Therefore, when examining concentration issues, the Commission combines the notions of “product market” and “geographical market”; and identifies as an “unwanted” situation the dominance of one company in the market which means it can conduct itself with relative independence from its competitors, because no replaceable products exist.

The Commission uses the soft drink business as an example of a possible “substitution” (art. 18). In order to determine if the drinks of two different flavours –A and B– belong to the same market, consumer behaviour with relation to a price rise is analysed: if the price of the drinks of flavour A were raised between 5% and 10% and a significant number of consumers passed over to flavour B, then both drinks would

⁴⁴ *Comunicación de la Comisión, relativa a la definición de mercado de referencia, a efectos de la normativa comunitaria en materia de competencia (97/C 372/03)*, Diario Oficial de las Comunidades Europeas, 9.XII.1997.

belong to the same reference market; indeed, the price policy of the flavour A drinks would be dependent on that of flavour B.

In order to apply the concept of market of reference defined by the Commission to the communications industry it is necessary to determine which media are interchangeable for the public and which is the geographical area in which the messages are distributed: Does the significant rise in the price of a financial newspaper imply an increase in subscriptions to an on-line financial information service? Can the closure of a local newspaper be compensated by the appearance of a news channel in the same city? What degree of substitution exists between magazines and television theme channels or between music radio stations and the variety of adaptations of the model of television made popular by MTV?

Cuilenburg suggests that “for a start, media markets serving the general public may be classified into news and information markets on the one hand, and entertainment markets on the other. As national languages usually bind the consumer markets, in many cases geographically, media markets correspond to national, regional or local markets”⁴⁵.

The appearance of hybrid genres between information and entertainment, the convergence of technologies of information and communication and the development of media of international scope makes it difficult to define markets in terms of contents or products. As Cuilenburg himself warns, “in assessing media diversity in television program supply, do we limit diversity measurement to broadcasting and cable only, or do we take webcasting into account at the same time?”⁴⁶.

Indeed, the communications markets are increasingly complex, multi-media, international and difficult to define, because the very same contents use several distribution platforms to reach the public: in practice,

45 Jan van Cuilenburg, *op. cit.*, 59-60.

46 *Ibid.*, 60.

the inhabitants of a local market connected to Internet in their homes, have access not only to conventional offers – publications, radio stations, local television – but also to all mass media which have on-line versions on the Net.

For this reason, some writers have proposed a new concept to measure positions of dominance in a market: “ownership of time”⁴⁷. No longer can concentration be regulated by establishing limits on ownership of the media; that model referred to a system with a relative scarcity of supply. Neither can a distinction be made between media that inform, educate or entertain.

The use of the “ownership of time” of the public has two advantages: a) it allows the grouping together of several media belonging to the same owner; b) it makes it easier to take into account the relative influence of a medium with regard to its audience. As Woldt explains, “using audience shares brings the assessment of media pluralism closer to the main issue behind media concentration, the potential influence of media on the minds and the behaviour of the citizens. A channel with an average audience share of 30 per cent in principle has a greater chance of exerting influence over the audience than a niche channel with 2 per cent”⁴⁸.

In order to gain greater operative power for regulating concentration the “ownership of time” model must address certain problems. In the first place, it is not easy, on the face of it, to group together audiences of different media, such as magazines, radio station and webs; in second place, adding together audiences of heterogeneous products, such as a news channel and one of films, implies conferring the same power to influence public opinion to two contents of different characteris-

47 See Alfonso Nieto (2000), *Time and the Information Market. The Case of Spain*. Media Markets Monographs, EUNSA, Pamplona.

48 Runar Woldt, “Ownership of Time”. *Audience shares and the regulation of media pluralism*, paper presented for the International Conference “Time and Media Markets”, School of Communications, University of Navarra, Pamplona, 4-5, V.2000.

tics; finally, audience rating measurement systems must be improved so they can more accurately reflect the real data on media consumption.

Market size is another aspect which is permanently under debate. In this study we have chosen two types of geographical markets of reference: the European states and the European Union as a whole. In both cases regulatory bodies exist –national Governments and the EU Commission– with power to prevent situations of abuse arising from dominant positions. A further reason for only studying those markets derives from a fact of political consideration: the most important decisions in Europe are discussed and taken by the European Union institutions and national parliaments.

Although there are situations where pluralism does not exist in local and regional markets, the development of Internet has partly alleviated those problems which, on the other hand, can only be analysed case for case and not with the panoramic vision used in this study. Also, as has been pointed out, in some local markets, owing to their small size and low level of consumption, it is inevitable that monopolies will exist such as in the daily press sector.

In the final section of this chapter we will analyse the typology of communications groups; as the main actors in the media markets, their diversification and growth strategies constantly present new challenges for the authorities charged with safeguarding free competition.

1.5. Typology of Communications Groups

The most successful and dynamic communications companies have not followed uniform paths in their expansion processes. Growth plans have been determined in all cases by the resources available, by the capacity of management to take on new business challenges and by the legal framework of each market. Those circumstances and the different ways each company has of competing have generated a great variety of growth strategies.

Having said this, it is possible to distinguish common tendencies and several models which group together the greater part of the strategic decisions of the companies. In the following chapters we will discuss those tendencies and the causes behind them; for now, we will restrict ourselves to examining the typology of the communications groups and look at how the different criteria of media accumulation affect concentration.

It is important to remember that in the area of communications, together with the general objective referring to concentration - the determination to prevent any company from abusing its position of dominance in the market and harming possible competitors or their clients - there is another objective of a more specific nature: that nobody may exert undue influence on public opinion⁴⁹.

With regard to this second aspect, more attention should be given, for instance, to a company with ownership of radio stations transmitting news contents with a market share of 40%, than to another company with a similar share but whose stations exclusively broadcast music. Therefore, the result of showing the different typologies of communications groups can be highly revealing with regard to a variety of criteria, such as contents, geographical area or degree of integration. Table 1.1 allows us to identify those varied typologies.

⁴⁹ Commission of the EEC (23.XII.1992), *Pluralism and Media Concentration in the Internal Market*, Green Paper, Brussels, 1.

TABLE 1. 1. A Typology of Media Companies

Geographical Scope	-local -regional -national -international
Type of Media Company	-print -electronic -electronic and print -audiovisual -multisectoral
Content	-information -general -specialised -both -entertainment -education -several kinds of content
Industrial Process	-vertical integration -horizontal integration -vertical and horizontal integration -conglomerates
Owners' Purpose	-profit oriented -public service oriented -ideologically oriented
Type of Ownership	-public -private -mixed

Source: Adapted from The European Institute for the Media

With regard to their geographical area, companies can be local, regional, national or international. Insofar as they decide to widen their area of coverage, their relative position in the market tends to weaken; conversely, if they concentrate themselves in a limited geographical zone, they need a high market share to obtain high profit margins.

From the point of view of the communications media available, companies can possess print, audiovisual or interactive media, or integrate several of those possibilities. When the activity of the companies is reduced to one type of media –newspapers, or radio stations, or news agencies, etc.– they try to dominate in that sector; in contrast, the multimedia companies rarely occupy a leading position in several media at the same time.

As far as the contents are concerned, communications groups can provide news, entertainment, educational contents or a mixture of these

possibilities. Although, as Wolf explains, almost all the messages transmitted by the media include a certain dosage of entertainment⁵⁰.

The diversity in contents means that it is difficult to reach a dominant position in all the sectors. In contrast, some specialised companies –for example in economic and financial information, the production of cartoon feature films, the publication of academic and scientific books and journals– have reached large market shares in those sectors worldwide.

With regard to the production process, companies can be vertically or horizontally integrated. The first possibility helps in the control of “bottlenecks” in the initial part of the process (elaboration of contents) or in the final part (distribution); horizontal integration only poses the problem of reaching a predominant position in a market through the accumulation of media, as happens in many countries with newspaper chains or companies with ownership of magazines, radio stations or television channels.

The owners’ basic proposal determines whether companies will be directed more at providing a public service, profit gain or the achievement of political or ideological objectives. The difference in mission has an influence on the choice between two possible priority criteria in companies: short term profit (which implies, among other aspects, a strict cost control policy) or the creation of entry barriers (which means more investment in research and development, in staff training and on-going search for higher quality).

The owners’ characteristics determine whether the companies will be public, private or of mixed capital. Public companies always have specific obligations, referring both to contents as well as the funding system. Indeed, in Europe, until the eighties and nineties when technology brought greater audiovisual offer, governments considered that the best way to guarantee pluralism lay in establishing public television

50 Michael J. Wolf (1999), *The Entertainment Economy*, Penguin Books, New York.

monopolies –and, in some countries, also in the radio sector– , which would enable all social groups to have access to those communications media⁵¹.

The six criteria shown permit multiple combinations; for instance, the typology of a communications group can be specified by the following characteristics: national area, specialisation in electronic media, exclusively devoted to entertainment, integrated horizontally, profit driven and privately owned. As we have pointed out, each typology presents different problems for the pluralism of ideas and opinions and for free competition in the market.

Often, the typology of groups is conditioned by the growth systems chosen. Table I.2 shows the different forms of growth, identifies in which situations companies, faced with other possibilities, tend to choose one procedure and what general effects each growth model has on competitors and the market.

TABLE I. 2 Media Concentration and Diversification Processes

System of Media Concentration and diversification	General conditions required	Effects (companies and market)
Mergers	-crisis in the industry	-decrease in level of competition in the market -more favourable conditions for the companies
Acquisitions	financial, industrial and commercial superiority (buyer) -need to improve competitive ability (seller)	-quick growth of the companies that invest large sums of money -less 'voices' in the market
Media Expansion (new outlets)	-market changing, growing or with new possibilities (i. e. new media)	-slow growth of the company -more diversity in the market
Deals Between Companies	-maturity of the industry and considerable entry barriers	-dangerous competition in the market avoided -power sharing

Source: The European Institute for the Media

As Mosconi explains⁵², the external procedures of growth are more and

51 This aspect can be read in more detail in Jan Wieten, Graham Murdock and Peter Dahlgren (eds.) (2000), *Television across Europe*, Sage, London.

52 Franco Mosconi (XII.2000), *L'economia dei quotidiani Modelli a confronto: dimensione e concentrazione di mercato*, "Problemi dell'informazione", 435-436.

more frequent in European communications companies. This fact is partly due to the economic situation: on the one hand, the crisis in some sectors –such as cable television and satellite digital television platforms– have stimulated merger processes in those industries; in second place, the growth in the value of communications and new technology companies present on the stock exchange greatly enriched some companies allowing them to finance takeovers: the most relevant example of this phenomenon was the purchase of Time-Warner by AOL⁵³.

In many communications companies a cultural change has also taken place which has favoured the proliferation of mergers and takeovers: at the root of many of the external growth processes can be found a new desire to increase size as quickly as possible and a certain obsession with not losing ground to competitors.

“Natural” or “internal” growth consists in the launching of new media. This phenomenon comes about when the “game rules” in the market change, either because of legal reasons (such as the deregulation of the European audiovisual market from the eighties) or because of technological factors (such as the development of digital television and Internet in the latter years of the twentieth century).

Mergers and takeovers generate rapid growth in companies, at the same time as causing a decrease in the number of “different and independent voices” in the market. Every takeover represents, moreover, the disappearance of a competitor. In contrast, the launch of new media usually causes a slower growth of companies (they require several years to achieve the consolidation of new businesses) and implies a certain fragmentation of the market (although if the company launch-

53 A proposal for the classification of external growth strategies can be found in Joseph L. Bower (III.2001), *Not All the M&As Are Alike and That Matters*, “Harvard Business Review”, 93-102.

ing a new offer is the market leader it may reinforce its predominant position)⁵⁴.

Joint ventures between communications groups neither bring about change in ownership nor increase in size, but they can affect the competitive situation of the market: in mature industries, with highly qualified rival companies –able to build strong entry barriers with their respective businesses and markets– management can discover that to pact is more profitable than confrontation; with those agreements, “relative concentration” is increased: several companies decide to share their spheres of influence and help each other to protect their respective positions of leadership in certain geographical zones, contents or types of media.

The difficulty in regulating joint ventures and agreements between companies derives from the fact that these operations of “relative concentration” are not easy for the anti-monopoly commissions to analyse and are not covered by the legal provisions on free competition.

The conceptual definition given in the first chapter serves as a basis for choosing some criteria appropriate for the study of the degree of concentration of the communications market in Europe. This study refers primarily to three types of media which have a particular power to influence public opinion; newspapers, radio stations and television channels; these media continue to have an undisputed prominent role in political and cultural debate and in the modification of the public’s values and behaviour.

The quantitative data refer to the European States: the variations in market percentages gained by leading companies in the last decade will be shown, both in order to compare the evolution of each State as well as for the identification of the differences regarding the current situation and the tendencies between some countries and others. The

⁵⁴ See Alfonso Sánchez-Tabernero et al. (1993), *Media Concentration in Europe. Commercial Enterprise and the Public Interest*, The European Institute for the Media, Manchester.

study of each State enables us to present, at the same time, a general vision of the concentration of communications groups in Europe.

This work aims to suggest future lines of action both for companies as well as for regulatory bodies. Since legislation and the anti-monopoly commissions have national or European jurisdiction, it has seemed preferable not to deal with problems of abuse of a position of dominance in some regions and cities.

The distortion of free competition can arise, above all, from the predominant position of a leading company in a market or from the existence of a company with a strong vertical integration, controlling a "bottleneck" vital for the survival of its competitors. Because of this last reason, special emphasis will be placed on showing the sectors in which vertical integration can produce more negative effects both for the public as well as for rival firms.

For a thorough analysis of concentration the underlying economic, technological and legal causes behind this phenomenon must be exhaustively studied; aspects which will be dealt with in the third and fourth chapters of this study; the most important effects of mergers, takeovers and launching of new media must also be looked at and will be pursued in the fifth chapter.

In any case, before siding either with those who look on with trepidation at the growth of communications groups or with those who take the opposite viewpoint and see no cause for alarm, it would be appropriate to study the basic data with reference to the concentration of the communications market in Europe. Only in this way –with the detailed information of the second chapter– will we be able (as has already been suggested on other occasions⁵⁵) to distinguish fact from fiction.

55 Pierre Yves Lochon and Alfonso Sánchez-Tabernero (X-XII.1991), *Concentration des médias européens: le double visage*, "Médiaspouvoirs", 31-39.

2. Trends in the European Market

After studying the main concepts with reference to concentration, the most relevant statistics on the mass media industry in Europe are shown. First, a comparison will be made between current statistics and those of 1990 and then the main tendencies in the last decade of the twentieth century will be described.

As has been pointed out, there are very few comparative reports which draw together information on the communications industry in the European Union. Each country Member has a particular political system with a concrete influence on the communications market. The versatility of this market means the task of comparing data in order to draw general conclusions is not an easy one. We have attempted to overcome these obstacles by consulting national experts. Each one of them has provided the most relevant information according to the measurement criteria already indicated. An in-depth analysis is made of the data referring to the traditional media (press, radio and television) and some interesting statistics on the new sectors (pay television and Internet) are included. A brief study is also made of the magazine, publishing, film distribution, record companies and advertising market sectors.

The evolution of the mass media in a market depends, in good measure, on external circumstances. As we know, economic development promotes consumption which, in turn, generates an increase in advertising expenditures. In a more obvious way, the political and institutional events of a country bring about changes for the media, such as those caused by the deregulation of telecommunications. In a short time, a media space can be revolutionised by technological innovation, re-inventing supply and creating new demands. And, lastly, the cultural and linguistic environment conditions the expansion of a type of product to its nearest markets.

Political events are decisive for the communications sector. The outlook of the Central and Eastern European countries radically changed at the beginning of the nineties. Go-ahead entrepreneurs, multinationals and citizens were enthused with the hope of starting a free political system. However, several decades of Communist regimes can rot the economic and social core of any country. The media market in Central and Eastern Europe has not had so much time to develop according to the parameters of the rest of the Western countries⁵⁶. This report, therefore, does not include information on this area of Europe. Its particular genesis would, in justice, require its own special study.

The report refers, above all, to the communications industries of Austria, Belgium, (French-speaking and Flemish), Germany, Denmark, Spain, Finland, France, Great Britain, Greece, Ireland, Italy, Holland, Norway, Portugal, Sweden and Turkey⁵⁷. Occasionally, in order to demonstrate the global context of the European media, comparisons are established with the communications industries of the United States and Japan.

The growing influence of economic globalisation on cultural, political and social aspects makes it advisable to identify the chief movements of European companies in the struggle for continental media leadership. As well as analysing the basic data of national markets, the principal foreign capital investments are also studied. The growing commercialisation of the media means that proprietors intervene in the editorial control of the communications companies. It appears that shareholder control of a communications company involves at least a risk of editorial control. Working with this hypothesis, we will measure the presence of foreign capital in order to highlight the main advantages

56 See Alfonso Sánchez-Tabernero (1993), *Media Concentration in Europe*, EIM, Manchester.

57 For the tables, the countries will be identified by the following initials, respectively: AT, BE (Fl and Fr), DE, DK, ES, FI, FR, GB, GR, IR, IT, NL, NO, PT, SE, TR.

and threats of the globalising process in the European communications industry.

2.1. The Print Media

The print media industry is chiefly made up of the daily press, magazines and books. These three sectors form the most traditional economic sphere of communications; from the mid nineteenth century onwards the press has become the benchmark of that industrial environment. For a number of years, outspoken doom-mongers, radio and television business magnates and renowned writers have sounded the death knell for newspaper companies and have forecast the progressive demise of newspaper readers. Some of the main threats were found to be the expansion of commercial television, editors' inability to attract a younger readership, the antiquated structure of the newspaper industry, the relative drop in advertising, the increase in fixed costs and the lack of experience with the new media⁵⁸. However, despite the drop in the total circulation of the press in Europe, the so-called "new media" have barely made inroads in the public's reading time. In the last few years newspaper companies have been especially vigorous, reacting to new technological opportunities.

Internet's popularisation since 1996 opened up another perspective for newspaper publishers and almost all of the newspapers embarked on the adventure of the Web. Technological improvements in the newsrooms and the news product as an online version –interactivity with the reader, personalised news, multimedia adaptations⁵⁹, etc.– remote printing systems and a more flexible costs structure have reinforced newspapers. Many newspaper publishing companies have been the seed of the present multimedia conglomerates.

⁵⁸ See Paul Simpson (1994), *European newspaper industry*, Pira International, Surrey.

⁵⁹ See Alfonso H. Molina (1997), *Newspapers: the slow walk to multimedia*, "Long Range Planning", Vol. 30, No.2, (218-226).

Newspaper circulation in Europe is in excess of 90 million copies. In the United States, consumption is notably lower: 58 million issues⁶⁰. The degree of penetration is similar in both areas, but the penetration of newspapers in some European countries – such as Great Britain, Norway, Sweden or Finland – is double that of the North American press. On the other hand, as far as prestige and the desire to be international points of reference are concerned, *The Times*, *Le Monde*, *Frankfurter Allgemeine Zeitung* or the *Financial Times* are as noteworthy as any of the main North American titles.

The market structure in many European countries remains in a combined system of national press and regional press. In some markets, in latter years, companies distributing free newspapers have flourished in urban centres with a high population density such as the popular Swedish *Metro*, owned by the Modern Times Group company, which has been successfully exported to some twenty European capital cities. Many of these newspapers seek to attract local and district advertising, being offered to commuters as they travel on the underground, bus or suburban trains. Newspaper publishers have shown their concern at the readership lost to these free publications⁶¹.

Each newspaper market finds itself in a different situation. Since 1990 titles have disappeared in Austria, Belgium, Germany, Denmark, France, Ireland, Switzerland, Holland, Turkey, but the total number of newspapers has increased in Great Britain, Greece, Finland, Italy, Norway, Sweden and Spain (table 2.1). Newspaper circulation follows different courses: the increase in Austria, Germany, Finland, Norway, Spain, Great Britain, Holland and Turkey, contrasts with the fall in the rest of the countries (table 2.2).

⁶⁰ See ANPA (2001), *Facts about Newspapers*, Washington.

⁶¹ See Noticias de la Comunicación (XII.2001), *Los diarios gratuitos preocupan a los editores*, Nº 209.

TABLE 2.1
Number of Newspapers (Titles)

Country	1990	2000
AT	17	16
BE (fl)	13	8
BE (fr)	15	8
DE	394	389
DK	44	38
ES	128	140
FI	66	56
FR	75	71
GB	100	123
GR	19	22
IR	8	6
IT	82	94
NL	47	37
NO	78	74
PT	24	28
SE	156	161
TR	368	360

Source: authors' own research

TABLE 2.2
Newspapers Circulation (in Mill. of Copies)

Country	1990	2000
AT	2,7	2,5
BE (fl)	1,2	1,0
BE (fr)	0,9	0,52
DE	24,7	28,5
DK	3,2	2,9
ES	2,9	4,0
FI	2,8	3,3
FR	8,6	8,3
GB	30	26,7
GR	0,8	0,6
IR	0,8	0,8
IT	6,4	5,9
NL	4,6	4,8
NO	2,5	3,2
PT	0,5	0,7
SE	4,9	4,2
TR	3,3	4,8

Source: authors' own research

As far as consumption level is concerned, the Scandinavian regions are still worthy of note for their extremely strong press industry, with the highest readership levels in the world, only matched by Japan. In Sweden, for instance, 80% of the adult population read newspapers, despite the fact that circulation has been in decline ever since the seventies⁶². In Norway 600 issues are sold for every thousand inhabitants and 91% of its citizens are regular readers. Something similar occurs in Finland. In Denmark, newspaper readership has experienced a notable increase from 1985 but in the last few years the two national newspapers have suffered serious losses.

In Austria four million issues are distributed in a population approaching eight million. In other countries, newspapers are bought up or disappear because of the fierce competition to attract advertising revenue.

In Holland, since 1990 the number of titles has dropped to 37. The regional Dutch newspapers (29) have fallen in the number of issues sold

⁶² See Ole Prehn (2000), *La concentración de empresas de comunicación en Suecia*. Report for the European Parliament. Archives from the Departamento de Empresa Informativa de la Universidad de Navarra (from now on, DEIUN).

to the benefit of the national newspapers (8), which represent 45 per cent of the total circulation. There are morning and evening newspapers and free local newspapers with a high percentage of advertising space which are delivered door to door.

The lowest circulation levels in the European Union correspond to the countries in the South of the continent. In Italy, Spain, Greece and Portugal they do not reach 120 issues sold for each thousand inhabitants. These figures contrast with the high television audience figures. In Greece, since 1989 circulation has fallen; however, the number of titles has risen⁶³. For Portugal, the low literacy levels compared to the European average represents an added difficulty, since twenty per cent of the population do not benefit from school education. Portuguese newspaper circulation is the lowest in Europe.

In countries with high literacy levels, newspapers still attract greater levels of advertising revenue. This is the case in Germany, which has a high number of titles, with a high circulation rate of daily press, and a strong regional market with few national newspapers.

In the United Kingdom, general news press has grown relatively in the last few years thanks especially to the so-called *Sundays*. The United Kingdom is the country where this format has the greatest repercussion in the world⁶⁴. In its neighbouring country, Ireland, six daily newspapers, five morning newspapers and one evening newspaper are sold. Circulation remains balanced and forty weekly newspapers are printed in regional markets.

The following three tables provide a key for gaining an understanding of the structure of the newspaper market showing the leader's market share, that of the second competitor and the total of both. As table 2.3 shows, in every country, except Denmark, Spain, Greece, Holland and

⁶³ See Emm Heretakis (2000), *La concentración de empresas de comunicación en Grecia*, DEIUN'S Archives.

⁶⁴ See Peter Humphreys (1999), *United Kingdom's report*, "The Bulletin", vol. 16, No. 1.

Turkey, the leading company has been the same since 1990. These figures show the sector's stability and the control that some groups exert in certain markets. In some cases, the leading companies maintain the sales quotas; in others, they have absorbed some of their competitors; or –less frequently– the main rival companies have disappeared. The second competitor's market share gives us an idea what real control the leader exerts over the rest of its competitors. In some countries the difference between the first and the second is striking, as occurs in Austria, Ireland or French-speaking Belgium.

TABLE 2.3
Daily Press Market Leaders (Circulation) (%)

Country	1990		2000	
AT	Mediaprint	54,5	Mediaprint	50,2
BE (fl)	VUM	31	VUM	42,2
BE (fr)	Hersant-Rossel	40	Rossel & Cie	52
DE	Springer	23,9	Springer	23,6
DK	Dagbladet	25,1	Berlingske	24
ES	Grupo Correo	15,3	Prisa	15,7*
FI	Sanoma	25,5	Sanoma	25
FR	Hersant	25	Hersant	24
GB	News International	34,7	News Internat.	28,2
GR	El Typos	19,3	Lambrakis Group	17,1
IR	Indep. Newspapers	51	Indep. Newspapers	47,5
IT	RCS	17,8	RCS	19,5
NL	De Telegraaf	18,3	Perscombinatie	30,6
NO	Schibsted Group	25	Schibsted Group	34
PT	Lusomundo	25	PT Telecom**	45,3
SE	Bonnier	20,2	Bonnier	26
TR	Sabah	18,9	Dogan Group	39,5

*Correo Group became leader in september 2001, after its merger with Prensa Española (total market share: 20,1)

**Lusomundo was bought by Portugal Telecom in november 2000.

Source: authors' own research

TABLE 2.4
Second Placed Groups of Newspapers'
Market Share (%)

Country		2000
AT	Styria	12,7
BE (fl)	De Persgroep	34,6
BE (fr)	IPM	24
DE	WAZ	6
DK	Dagbladet Politiken	22
ES	Grupo Correo	13,7
FI	Alma Media	17
FR	Ouest France	10,5
GB	Trinity	22,8
GR	Tegopoulos	13
IR	Irish Times	15
IT	Espresso	10,6
NL	De Telegraaf	30
NO	A-Pressen	16
PT	Cofina	16,4
SE	Schibsted	9
TR	Bilgin Group	23,5

Source: authors' own research

TABLE 2.5
Two Largest Publishing Groups of
Newspapers' Market Share (%)

Country	1990	2000
AT	68	62,9
BE (fl)	59	76,8
BE (fr)	68	76
DE	29	29,6
DK	48	46
ES	29	29
FI	31	42
FR	35	34,5
GB	58	51
GR	36	30,1
IR	75	62,5
IT	32	30,1
NL	35	60,6
NO	45	50
PT	30	61,7
SE	31	35
TR	34	63

Source: authors' own research

In Austria, the newspaper publishing company, Mediaprint, with its flagship newspaper, *Neue Kronen Zeitung*, controls fifty per cent of the market⁶⁵. Austria receives a big amount of foreign capital, especially from German companies, owing to its geographical, social, cultural and linguistic proximity. The structure of the Austrian sector is made up of a strong regional market, led by local newspapers, whose main competitors are the regional editions of the *Neue Kronen Zeitung*⁶⁶. Small markets are more prone to concentration processes and foreign investment, especially if their neighbours are large countries, with companies seeking to create scale economies⁶⁷.

In Holland, Perscombinatie (previously PCM) and De Telegraaf are the leading groups in the newspaper sector and together make up more than sixty per cent of the market. The leader in 1990 –De Telegraaf–

⁶⁵ See Manfred Knoche (2000), *La concentración de empresas de comunicación en Austria*, Archives DEIUN.

⁶⁶ See Paul Simpson (1994), *European newspaper industry*, Pira International, Surrey.

⁶⁷ See Andrea Grisold (1996), *Press concentration and media policy in small countries*, SAGE, London.

despite have notably increased its market quota went down to second place in 2000.

In the Scandinavian countries, the national governments give aid to the press in the form of subsidies for expenses related to distribution and printing costs with the aim of promoting free competition. For the newspapers competing against the market leader, the subsidies barely provide a fifth of the company's resources. In Norway, the granting of subsidies follows criteria such as diversity, pluralism and the promotion of competition. Subsidies prevent the existence of monopolies and promote the consolidation of newspapers in local markets with a low population density, which otherwise would be unprofitable without the government's help.

Even with the subsidies, in some countries the highest market share are concentrated in a few companies, as table 2.5 shows. In Norway, for instance, Schibsted and A-Pressen control fifty per cent of newspaper circulation in the country. Schibsted represents the main Norwegian communications group, with a considerable presence in the press, commercial television and Internet services. The growth process of this group has been similar to that of other European groups. It began with a newspaper, *Aftenposten*, founded by Christian Schibsted in 1860. From then on, it carved out for itself an ever more solid position in the Norwegian market. In 1992 it was floated on the stock exchange. Family ownership was reduced to a third and it is now managed by professional investors. It is the sector leader of the main electronic media (television and Internet) and has carried out joint ventures with other Scandinavian groups⁶⁸.

In Sweden, the regional press represents forty per cent of the market; advertising investment makes up the sixty per cent of the Swedish newspapers' revenue and most of them are sold by subscription. Bonnier has gained a large percentage of the market: it is the traditional

⁶⁸ See Johann Roppen (1999) *Denmark's report*, "The Bulletin", vol. 16, No. 4.

leader and its dominant position does not seem to be under threat in the short term. In the same way, Sanoma - WSOY in Finland heads the press market, it brings together an important section of the market and combines, with business acumen, the printing of newspapers with the publication of books and magazines and radio broadcasting. In 1999 it was floated on the stock exchange and is one of the most profitable European groups in Europe. In Denmark, the concentration processes of the regional markets of the press have strengthened foreign groups such as Berlingske Officin, of Norwegian ownership⁶⁹. Dagbladet Politiken, which was leader in the nineties, now holds second position.

In Switzerland, Ringier still retains the leadership of the newspaper market as it did in 1990. The newspapers of this country are characterised by their strong dependence on advertising, making up between sixty and eighty per cent of the newspaper publishing companies' revenue. The structure combines a strong system of regional newspapers and few newspapers of a national scope which lead some local markets. Of the three main languages spoken in Switzerland –German, French and Italian–, the main one is German (70% of the population) and the circulation of newspapers in this language greatly exceeds the rest.

In some countries, regional newspapers tend to be bought up by large national companies wishing to consolidate or increase their regional market share, as is the case in Austria with Mediaprint or in Denmark with Berlingske. In Spain, one of the most important newspaper publishing companies, the Grupo Correo, sold over half a million issues, the total sum of its ten regional titles. After several failed attempts, in 2001 it has succeeded in reaching first place in national circulation: it has merged with Prensa Española, which prints the Madrid daily, *ABC*, as well as other regional newspapers. With the merger, the Grupo Correo has recovered its leadership of the sector, with a quota of 21%. Its chief competitor continues to be the Grupo Prisa, which publishes

⁶⁹ See Ole Prehn (2000) *Danish Media Landscape*, at <http://www.ejc.nl>.

El País –leader of the national newspapers–, *As* –in the sporting press segment– and *Cinco Días*, the second economic newspaper. In all, it controls fifteen per cent of the market. In Spain, the eight largest press groups amass 80% of the total newspaper circulation.

In Germany, the structure of the press market appears to be highly diversified and local, but newspapers are mostly put together in central offices: therefore, different local titles share the same news on culture, economy, national and international politics. The most consolidated companies are Axel Springer and WAZ⁷⁰. Emblematic newspapers, as different as the popular *Bild* or the quality *Frankfurter Allgemeine Zeitung*, are published by them.

Greece is going through a re-structuring period in its newspaper market. National newspapers live side by side with regional ones, although the former are gaining importance to the detriment of the latter. Newspapers with political news content control the greater part of the market, whilst the sporting and financial newspapers have a lower circulation. Lambrakis, Tegopoulos and Bobolas are the leading companies in the sector. *Ta Nea* and *To Vima* head the list of the most widely-sold newspapers, both are owned by the Lambrakis group.

In Italy, the social, political and economic institutions control a considerable part of the media industry. In turn, family groups, such as Berlusconi, Agnelli, Romiti or De Benedetti dominate the Italian economy. Family ties are very strong. The well-known phenomenon of the “Chinese boxes” arises: by means of holding shares in some companies, ownership is controlled by others. Rizzoli-Corriere della Sera (RCS) is leader in the press, a sector with a low readership level and low advertising investment. Espresso, owner of *La Repubblica*, holds second place. The high business concentration makes it difficult for new competitors to break through: foreign groups with strong financial

⁷⁰ See Runar Woldt (2000), *La concentración de empresas de comunicación en Alemania*, Archives DEIUN.

muscle can only break into the Italian market by means of deals and joint ventures with local partners.

Belgium represents a special case. The traditional linguistic-cultural division between territories of French and Flemish influence requires a special study for each geographical area. But, recently, the market has gone through one of the most intense integration and concentration processes in Europe. The Flemish group VUM broke this historical division in June 1999 when he bought 33% of Mediabel, the second group of the French-speaking part of Belgium. When the total circulation in the country does not reach two million issues, VUM controls 42% of the market in the Flemish side. Mediabel, in turn, groups together IPM –second newspaper publishing company, with 24% of the market– and Vers l’Avenir. VUM’s takeover sparked off heated debate among the main newspaper publishing companies, such as Rossel and De Persgroep, not only on cultural issues, but especially, on the high level of concentration in the Belgian newspaper market⁷¹.

In Great Britain, the market is divided between the quality and popular newspapers. In the last decade the economic structure of the regional and local press has also been strengthened. Of the national press groups, News International stands out, market leader publishing both *The Times* and the tabloid *The Sun*, among others. The Trinity Mirror group, created after a merger in 1999, is leader of the regional sector and main rival of the newspaper publishing company of News Corporation⁷².

In Ireland, the recent accelerated growth of the Irish economy has favoured the communications industry and, especially, the press. The presence of British owners is still significant. The strongest company, Independent Newspapers, controls almost half the sales of the daily

71 See Daniel Biltereyst (1999), *Belgium’s report*, “The Bulletin”, vol. 16, No. 3.

72 See Peter Humphreys (2000), *Concentración de empresas de comunicación en el Reino Unido*, Archives DEIUN.

newspaper market. It is also leader in the Sunday press and controls forty per cent of the regional market.

In 1998, 77 per cent of the newspapers sold in Ireland were, totally or partially owned by Independent Newspapers⁷³. This multimedia giant's empire stretches to Australia, New Zealand and South Africa. As well as having some titles in the United Kingdom, it owns a packet of shares in Lusomundo in Portugal.

In Portugal, newspapers belong to giant corporations which acquired them from family firms in the mid eighties. The families could no longer deal with rising production costs and were unable to finance investments for the re-modelling of their companies. Portugal's entry into the European Union and the re-privatisation of companies has provided the climate for the concentration of capital in a few hands. The groups pursue political interests and have developed multimedia strategies favouring foreign investment. Companies, such as the British Pearson, the German Bertelsmann, the French Hachette Filipachi, the Brazilian Globo or the Spanish Telefónica, Recoletos and Iberdrola own shares in the capital of many of the Portuguese communications groups, such as Lusomundo, Impresa, Media Capital or Impala. Impresa, presided over by the former prime-minister, Francisco Pinto Balsemao, was floated on the stock exchange with 30 per cent of its capital in June 2000. In November of that year, Portugal Telecom bought the whole of Lusomundo, which publishes the newspapers *Jornal de Notícias* and *Diário de Notícias*, as well as owning radio stations and film and video distribution companies.

73 See Wolfgang Truetzscheler (2000), *Irish Media Landscape*, at <http://www.ejc.nl>

TABLE 2.6
Daily Press Leaders and Foreign Capital Investment (2000)

Country	Company	Market share (%)	Foreign capital (%) – Country
AT	Mediaprint	50,2	50 (WAZ) – DE
BE (Fl)	VUM	42,2	0
BE (Fr)	Rossel	52	40 (Socpresse) – FR
DE	Axel Springer	23,6	0
DK	Berlingske	24	87,9 – NO
ES	Prisa	15,7	0
FI	Sanoma	25	0
FR	Hersant	24	0
GB	News International	28,2	100 (News Corp.) – US
GR	Lambrakis	17,1	100 (Stock Exchange)
IR	Indep. Newspapers	47,5	100 (Stock Exchange)
IT	RCS Editori	19,5	0
NL	Perscombinatie	30,6	0
NO	Schibsted	34	9
PT	PT Telecom	45,3	75 (Stock Exchange)
SE	Bonnier	26	0
TR	Dogan Group	39,5	*

* 33% of Hurriyet and 21% of Milliyet invested in Stock Exchange.
 Source: authors' own research

In spite of the aggressive wave of mergers and takeovers in the nineties, the traditional publishing companies, save a few exceptions, have retained control over their newspapers. The press sector –after that of radio and television– is the one which receives the least foreign investment in Europe. Among the leaders, as table 2.6 shows, national newspaper publishing companies predominate; in some cases, they are family firms which have diversified their business and have hindered the entry of new competitors. Many of the newspaper publishing companies have invested in television, radio and Internet companies.

The most important presence of foreign capital in leading companies is that of News International, Rupert Murdoch's flagship, which dominates the British market and raises questions on the legislation on concentration in the United Kingdom⁷⁴. The leading company in the most comfortable dominant position is to be found in French-speaking Belgium: Rossel, with 52 per cent of the total in its linguistic space, is controlled, moreover, by a French publishing company, Socpresse, which

⁷⁴ See James Harding and Ashling O'Connor (19.XI.2001), *UK to abolish curbs on Murdoch's media ambitions*, "Financial Times".

owns 40 per cent of its capital. The German group's –WAZ– ownership of fifty per cent of the shares of the Austrian Mediaprint also represents one of the most interesting foreign capital investments.

The economic press sector in Europe has grown in the environment of an internationalised economy (table 2.7). Its evolution and structure depend on world economic events and the impact on stock markets, which must be covered quickly and accurately. Perhaps because the great engines of the world economy hail from the Anglo Saxon world, it is usually said that in economy English is spoken. *The Wall Street Journal* and *The Financial Times* represent the peak of the economic news sector, characterised by a high level of concentration. In Europe, the leaders with the lowest market share –Greece and Turkey– reach almost 50 per cent of the total sales. Knowledge of the business, the prestige of the brands of reference, financial capacity and the availability of trust-worthy sources and exclusives promotes deals between international suppliers of economic news and local partners. This sector, within the traditional media, is one of the most influenced by globalisation. Pearson, for example, is leader in Spain, France, United Kingdom and Portugal.

TABLE 2.7
Economic & Financial Press Leaders and Foreign Capital Investment (2000)

Country	Company	Market share (%)	Foreign capital (%) – Country
AT	Wirtschaftsblatt	100	0
BE (Fl)	Tijd Nv	100	0
BE (Fr)	Editeco	100	5,6 (Socpresse) – FR
DE	Handelsblatt	72,6	22 (Dow Jones) – US
DK	Erhvervs Bladet	66,4	0
ES	Recoletos	60	71 (Pearson) – GB
FI	Alma Media	82	0
FR	Les Echos	58,8	100 (Pearson) – GB
GB	Financial Times	87	0
GR	Bobolas	38	n. a.
IR	Sunday Business Post	90	0
IT	Il Sole 24 Ore	90	0
NL	Sijthoff	100	0
NO	Dagens Neringsliv	78	0
PT	Económica	100	50 (Pearson) – GB
SE	Bonnier	n. a.	0
TR	Dunya	48	0

Source: authors' own research

A similar phenomenon occurs with consumer magazines, where Bertelsmann (Germany) and Hachette (France) are leaders in the European market (table 2.8). In this sector a need has arisen which has become a strength: the creation of synergies in contents, advertising and technology with other foreign groups, in order to optimise resources and diversify risks. Always in need of attractive contents, technological innovations and international contacts in culture, cinema, sports and society, magazines usually belong to international chains which exploit them in different markets. Germany, France and Holland own distribution networks of consumer magazines with an international presence. Hachette Filipacchi (France), G + J –Bertelsmann’s subsidiary– and Bauer (Germany), VNU (the Netherlands) and RCS (Italy) are some of the strongest companies.

The consumer magazine market has absorbed high investments of foreign capital because of the rapid expansion of demand in specialised sectors. For the companies, growth provides them with advantages typical of scale economies: the same titles are edited in different countries and savings are made in the marketing, contents production or research and development costs. The geographical areas with close cultural ties also encourage the creation of chains of editorial circulation of great magnitude, such as VNU for the Netherlands or Bonnier for the Scandinavian area.

The strategy of some groups that publish pan-European products, both magazines such as *Time*, *The Economist* or *Business Week*, and daily newspapers such as *International Herald Tribune* or *Wall Street Journal Europe* contrasts with groups that opt for a multi-regional presence: they form alliances with local partners to bring out local versions of international brands⁷⁵ (Hachette, G + J, IPC, EMAP).

75 See Paul Kanwar (XI.2001), *Bordercrossing*. “M&M Europe” (Pocket guide).

TABLE 2.8
Magazines Leaders and Foreign Capital Investment (2000)

Country	Company	Market share (%)	Foreign capital (%) – Country
AT	Die ganze Woche	20,7	0
BE (Fl)	Mediaxis (VNU)	48,2	100 (Stock Exchange)*
BE (Fr)	Test – Achats	n. a.	0
DE	Bauer	22,2	0
DK	Aller	13,8	0
ES	Hachette Filipacchi	16,7	FR
FI	Yhtyneet Kuvalehdet	29	0
FR	Hachette Filipacchi	20	33 (Stock Exchange)
GB	IPC Magazines	n. a.	100 – US
GR	Liberts	n. a.	n. a.
IR	RTE	n. a.	0
IT	Mondadori	34,7	0
NL	VNU	56	78 (Stock Exchange)
NO	Se & Hor	15,2	100 – DK
PT	Impresa (ACJ)	n. a.	36,4 (Stock Exchange)
SE	Aller	29	100 – DK
TR	Dogan Burda Rizzoli	45	40 (Burda – DE y Rizzoli – IT)

* Only weekly circulation. VNU is listed in the Stock Exchange: 30% GB, 16% NL, 18% US, 12% BE, 7% DE, 11% others.

Source: authors' own research

In order to follow the trail of foreign capital flow, it is essential to take a close look at book publishing (table 2.9). Unlike other communications sectors, the publishing industry in Europe has had no curbs on the presence of foreign investors. For this reason, the chief publishers had already begun to acquire publishing houses in other countries almost half a century ago.

Most of the large European publishing companies are the offspring of strategies of vertical integration, so that press, editorial production and distribution are grouped together. Bertelsmann in Germany, Portugal and Spain, Havas in France, Sanoma-WSOY in Finland, Mondadori in Italy, Schibsted in Norway or Bonnier in Sweden represent significant examples of publishing companies with a strong presence in the newspaper publication sector. Bertelsmann's dominion crosses German borders reaching the United Kingdom and Portugal, also as leader of the publishing market and almost always among the most important in every country in the magazine market.

In latter years, some of the great international publishers - Macmillan, McGraw Hill, Random House, Penguin Books - have brought their busi-

nesses closer to the new technologies. Some bought virtual book shops or created joint ventures (Bertelsmann - *barnesandnoble.com*) –encouraged by the premature success of *amazon.com*– in order to gain a new window from where it could distribute its huge catalogues. Others experimented with electronic publishing, which has still not discovered a clear business model and has been affected by technological uncertainty. Despite all of this, most part of the publishers believe that the future of their companies lies in being present in electronic publishing⁷⁶.

TABLE 2.9
 Publishing Industry Leaders (Books) and Foreign Capital Investment (2000)

Country	Company	Foreign capital (%) – Country
AT	Uster, Bundesverlag	n. a.
BE (Fl)	Wolters – Kluwer	100 – (NL)
DK	Pyldendal	0
DE	Bertelsmann	0
ES	Planeta	0
FI	WSOY / Sanoma	0
FR	Havas (Vivendi)	0
GB	Random House	100 (Bertelsmann) – DE
GR	Patakis	0
IR	Gill & Macmillan	49 (Macmillan) – GB
IT	Mondadori	0
NL	Wolters – Kluwer	65
NO	Aschehoug	0
PT	Bertelsmann	100
SE	Bonnier	0
TR	Rcmzi Kitabevi	0

Source: authors' own research

2.2. Television Companies

The television sector in Europe has undergone perhaps more changes in the last decade than at any other time in all of its previous history. The deregulation of the sector at the end of the eighties permitted the creation of new private channels which transformed the audiovisual world. If, then, we witnessed the rise in the number of commercial channels and the slight increase in consumption time, now what is

⁷⁶ See Jim Milliot and Calvin Reid (I.2002), *E-Publishing*, "Publishers Weekly", No.2.

most worthy of note is the massive rise in television offers, audience fragmentation and the internationalisation of television groups.

In 2000, the world audiovisual market presented a healthy image, characterised by the rise in profits of the main television companies and the increase in advertising investment and of pay television subscription, especially in the European market, thanks to the development of digital television⁷⁷. At the beginning of that year over 580 channels with the capability of national coverage were broadcast via satellite, terrestrial or cable, which meant an increase of 170 per cent from 1996⁷⁸.

The trans-border development of European television has led to many small States that share the same language as more densely populated States receiving signals from foreign channels, especially via satellite and cable. There are over fifty television channels that are mainly targeted at markets different to the one in which they are established, such is the case of CLT in Luxembourg. Industrial concentration is also one of the main tendencies in the market⁷⁹.

From the legislative point of view, some writers propose the need for Community legislation to adopt a tougher approach towards concentration⁸⁰. The giant groups' strategies are aimed at maintaining their growth speeds, ensuring access to the most popular contents, minimising risks by means of collaboration agreements and protecting their market shares. *Size* is the key: on the size achieved depend the possibilities of creating scale economies of their products or of their activities.

77 See "IDATE NEWS" (15.3.2001), *The World film and television market*, No. 175. http://www.idate.fr/maj/qdn/an-01/IF175-20010315/index_a.html

78 *III Report from the Commission to the Council, the European Parliament and the Economic and Social Committee* COM (2001) 9 end, Brussels, 15 January 2001.

79 See Philip Crookes (1996), *Convergence and alliances: the shape of things to come*. "The Bulletin", No. 2.

80 See Gillian Doyle (1998), *Towards a pan European Directive? 'From Concentrations and Pluralism' to 'Media Ownership'*, "Communications Law", Vol. 3, No. 1.

National television fiction is still at the top of prime time in every country in the European Union; however, in the rest of programme scheduling North American series and films predominate⁸¹. Indeed, in 1998 the commercial television balance with the United States revealed a deficit of 2,900 million dollars for the Europeans, 14 per cent up on 1997. The global audiovisual deficit was calculated to be in the region of 6,600 million dollars. This deficit is, first and foremost, the result of the commerce of films, television fiction and cartoons between the United States and Europe⁸².

In table 2.10 it can be observed that in most countries daily television consumption has risen. However, there was greater growth in the eighties; towards the end of the twentieth century consumption seemed to have stagnated both because of the extremely high levels reached and also because of demographic trends and the development of Internet. Since 1990 the number of television viewers has grown in Turkey, Sweden, Portugal, Holland, Italy, Spain, Greece, the United Kingdom, France, Denmark and French-speaking Belgium. Audiences have fallen only in Austria and Flemish Belgium.

81 See Teresa la Porte et al. (VI.2001), *Globalisation in the Media Industry and possible threats to cultural diversity*, working document for the STOA Panel, Brussels, PE 296.704/Fn.St.

82 See European Audiovisual Observatory (2000).

TABLE 2.10
Television Audience (In Millions)

Country	1990	2000
AT	4,7	4,5
BE (fl)	4,5	5,5
BE (fr)	2,9	3,9
DE	33,1	46,6
DK	2,5	3,6
ES	27,7	30,9
FI	5,1	5,1
FR	35,9	44
GB	44	46
GR	5,8	6,1
IR	3,1	3,6
IT	44	47
NL	12	12
NO	2,9	3,0
PT	7,6	8,9
SE	5,5	6,5
TR	55	61,7

Source: authors' own research

The rise in television consumption has coincided with the stagnation of the more traditional media, such as radio and press; some sectors, such as consumer magazines have undergone a slight drop in circulation in several markets. The process became more pronounced at the end of the eighties when many countries liberalised television broadcasting. The main threat to the hegemony of television in the homes is Internet. In spite of this, as many analysts had forecast, the mass access of the public to Internet has not led to a significant fall in the time spent watching television by viewers on a daily basis.

With the emergence of new operators⁸³ –hundreds of channels via satellite and cable– and the massive increase of local broadcasters, audiences have become fragmented, and the distribution of the market quota is less stable than in the print media. The new digital channels have brought about a break in television consumption habits, with the launching of programme packets and the specialisation of the contents.

The time that European citizens spend watching television is main-

83 See David Brown (IV,1999), *European cable and satellite economics*, "Screen Digest", London.

tained within levels of between 140 minutes a day –Austria– and 230 –Italy and Greece–. Almost every home in the European Union has a television set and there has been a considerable increase in penetration of the remote control, video machines and digital reception equipment. With such high audience quotas, television attracts the greatest amount of advertising investment: in most markets more advertising is invested in television than newspapers which had previously occupied first place in the ranking for advertising expenditure per media (table 2.11).

TABLE 2.11
 Advertising Expenditures (2002 Projected)

Medium	USA	Japan	Germany	United Kingdom	France	Italy
TV	38	46,1	24,3	29,8	24,3	52
Newspapers	32,9	27,3	43,5	40,3	43,5	22
Radio	14,2	4,6	3,8	4,6	3,8	5
Magazines	11,2	9,6	23,5	17,5	23,5	16

Source: Adageglobal (April, 2002)

The main source of revenue for television companies in the European Union is advertising. Following years of continued growth, in 1999 the brute market in advertising in television channels –private and public– was estimated to be 23.200 million Euros, 13.8 per cent more than in 1998⁸⁴. However, an increasingly greater percentage of revenue proceeds from direct payment from citizens (pay-TV, pay per view and video on demand).

European television channels' profitability has improved, owing both to the increase in advertising investment as well as greater penetration of the pay system. The proliferation of new digital channels, via satellite or cable, has also brought into being new audiovisual production companies.

Communications groups, with the aim of safeguarding contents access, have carried out a policy of takeovers of the most successful production companies. If in the United States it was the giant production companies –Walt Disney, Viacom, Warner, News Corporation– that bought

84 See The European Advertising and Media Forecast (2000), *Forecast for advertising and mass media in Europe*, London.

channels –ABC, CBS, CNN, Fox– in order to distribute their contents, following the model of downward vertical integration. In Europe an opposite phenomenon has occurred: Bertelsmann, Vivendi, Kirch, Admira or Mediaset have bought the rights to the most popular fiction or sporting products, or the companies which produce them.

Audiovisual groups cross over their country borders to gain in size and create scale economies, to exploit to the full their products in other windows for display and to enhance the company's attraction for advertising commercialisation or investments in the stock exchange. In this decade, the number of companies that have been floated on the stock exchange has risen considerably. With this strategy, audiovisual groups have sought additional resources to finance their expansion plans and a greater transparency and professionalism in management⁸⁵.

Public television leadership in audience levels stands out as one of the most salient facts of the sector in the European Union (table 2.12). Private channels head audience quotas only in Turkey, Greece, Flemish Belgium and Portugal. Most of the leaders have suffered a drop in market quotas in the last decade, as a result of the increase in the number of channels (tables 2.12, 2.13 and 2.14).

⁸⁵ See Richard A. Gershon (2001), *Telecommunications Management*, LEA, Mahwah (New Jersey).

TABLE 2.12
Television Market Leaders (Audience) (%)

Country	1990		2000	
AT	ORF	94	ORF	56
BE (fl)	VTM	40	VMM	34,5 *
BE (fr)	RTBF	25,8	RTBF	25
DE	ARD	41	ARD	27
DK	TV2	47	TV2	36,4
ES	TVE	56	TVE	32,4
FI	YLE	47	YLE	43
FR	TF1	41,9 *	France Télévision	43
GB	BBC	49,5	BBC	38,5
GR	ERT	61	Antenna TV	22,4 *
IR	RTE	68	RTE	48
IT	RAI	45,7	RAI	46,1
NL	NOS	58	NOS	39
NO	NRK	75	NRK	39
PT	RTP	86,5	SIC	45 *
SE	SVT	82	SVT	44
TR	TRT	100	Show TV	17,2 *

*Companies with private capital.
 Source: authors' own research

TABLE 2.13
Second Largest Television Companies (%)

Country	2000	
AT	ATV*	
BE (fl)	VRT	31,6
BE (fr)	RTT, Tvi	23
DE	RTL	24
DK	DR TV	31,7
ES	Telecinco	22,3
FI	MTV 3	40
FR	TF1	33
GB	Granada	14,6
GR	Mega Channel	21,2
IR	TV3	6
IT	Mediaset	46
NL	Holland Media	28
NO	TV2	31
PT	Portugal Global	33,8
SE	TV4	27
TR	Kanal D	15,5

* Only cable
 Source: authors' own research

TABLE 2.14
Two Largest Television Companies' Market Share (%)

Country	2000	
AT	n. a.	
BE (fl)	66,1	
BE (fr)	48	
DE	51	
DK	68,1	
ES	54,7	
FI	83	
FR	76	
GB	53,1	
GR	43,6	
IR	54	
IT	92,1	
NL	67	
NO	70	
PT	78,8	
SE	71	
TR	32,7	

Source: authors' own research

Public channels have many years of experience behind them, their brands, to a certain extent, are associated with the idea of public service and their funding is stable through State aid or special taxes paid

by viewers⁸⁶. Some of these companies are also financed by advertising revenue, such is the case, for instance, in Belgium, Denmark, Spain, Italy and Sweden. The European Union's regulatory bodies currently question the legality of "dual funding", heavily criticised by private companies⁸⁷.

At the beginning of the nineties, Austria, Switzerland and Turkey were the last strongholds of the public television monopolies system. Of the three countries, Turkey and Austria have legally liberalised their television broadcasting. Switzerland receives signals via satellite from other countries.

In Germany, the constitution itself stipulates that regulation of the television sector is the responsibility of the lender. Public regional corporations are grouped together in the ARD, market leader, as shown in table 2.12. In the mid eighties, commercial competition in the audiovisual space was initiated with the arrival of RTL from Luxembourg and Sat1, in the hands of Leo Kirch until 2002.

Bertelsmann controls 89 per cent of the RTL Group. In January 2000, it bought the German television channel VOX from News Corporation. The sale of Rupert Murdoch's company was carried out after the Australian impresario had signed an agreement with the Kirch group, Bertelsmann's rival, to acquire 22% of the digital television, Premiere.

The strategic moves of these giant audiovisual groups set the standard for the trends and main innovations of open and pay television. The French Canadian company Vivendi Universal –owner of Canal +– and the Anglo-American BSkyB dominate the pay television sector.

In less than five years, Jean Marie Messier has transformed an old and

86 See Jan Wieten, Graham Murdock and Peter Dahlgren (2000), *Television across Europe*, SAGE, London.

87 See III Report of the Commission to the Council, the European Parliament and the Economic and Social Committee. COM (2001) 9 end. Brussels, 15 January 2001.

respectable water company, Generale des Eaux, into a multimedia group on a global scale which combines the film industry, music, production and television broadcasting, publishing and the new technologies. In 2000, it made a profit of 46.1 billion dollars, beating the bigger groups: AOL Time Warner, Bertelsmann, News Corp., Viacom and Walt Disney⁸⁸. It has managed to break into the North American market with the recent purchase of the cable company, USA Networks, which will enable it to distribute its wide catalogue of products⁸⁹. Vivendi's partners in the rest of Europe are leaders in eight national markets in pay television.

In Holland, the production company Endemol has taken part in one of the most striking audiovisual phenomena of the last years of the decade. This company operates in fourteen European countries and has a catalogue of over four hundred formats, such as the well-known *Big Brother*. In March 2000, Admira, the media division of the Spanish telecommunications company (Telefónica), launched a takeover bid to gain 100% of the production company. With this operation, the Spanish company was guaranteed a contents supplier for its television companies –such as Antena 3 and Vía Digital– and for the services of its Internet provider - Terra -.

In Belgium, worthy of note is the high penetration of cable in homes. The public channel, RTBF, located in the French speaking part, has maintained the same market quota as in 1990. Its competitors are the channels RTL-Tvi and French television stations. In the Flemish area, in contrast, since the arrival of VYM in 1987, the private channels have dominated. VTM controlled, then –as table 2.12 shows– 40 per cent of the market. The SBS group, leader in Scandinavia, launched a second channel, VT4. VTM, created Kanaal 2 to reinforce its position.

⁸⁸ See Bruce Crumley and Thomas Sancton (6.VII.2001), *Master of the universe*, "Time".

⁸⁹ See Jo Johnson and James Harding (17.XII.2001), *Wall Street blesses Vivendi-USA Networks deal*, "Financial Times".

Together they form the company VMM, current leader in the Flemish television market with 34%.

In Sweden, the public channel SVT dominates the market, in spite of competition from the commercial channels which emerged at the beginning of the eighties. The commercial television stations, TV4 and TV3 are its chief competitors. SVT has gone from controlling 82 per cent of the market in 1990 to 44 per cent in 2000. In Finland, YLE, the public broadcasting service, is market leader. Since 1997 its main commercial competitor has been MTV3, of the Finnish giant Alma Media. Sanoma-WSOY, leader in the print media sector, also entered the audiovisual market in 1997 with the launching of Channel Four Finland ("Nelonen")⁹⁰.

In Norway, the public channel NRK controls 30 per cent of the market, which means that it has lost over half its audience in the space of only ten years. In the eighties, its only commercial competition was limited to the Sky signal via satellite. But the appearance of the Pan-Nordic Swedish channel in 1998 and the arrival of the first commercial television station –TV2– in 1992 has fragmented the Norwegian television audience⁹¹. In Denmark, the public channel TV2 is also market leader. The main foreign presence among the leaders of Danish television is that of the Swedish channel, TV3. In spite of this, in Denmark the public corporations' market quota reached 67 per cent.

In Spain, after the economic recession in 1993, the private television channels undertook restructuring plans, which in later years have led some of them to achieve the highest profit margins in Europe, such as the case of Tele 5 in 2000. RTVE still maintains its leadership, with the

⁹⁰ See Eva Harrie (2000), *The Nordic media market*, "Nordicom" (*Nordic media trends* No. 5), Goteborg.

⁹¹ See Ole Prehn (2000), *La concentración de empresas de comunicación en Escandinavia*. Archives DEIUN.

sum audience total of its two channels, TVE1 and TVE2⁹². The two main private television stations, Tele 5 and Antena 3, changed owners and strategy in 1995 and 1997 respectively. In Tele 5, the entry of the Correo Group signalled the beginning of multimedia diversification of the Basque company, leader in the press sector in Spain. Two years later, Admira, media subsidiary of the Telefónica Group became the chief shareholder in Antena 3. In Spain, investments of foreign capital are mainly concentrated in the television sector. Mediaset and Kirch (until 2002) in Telecinco, Canal + France in Sogecable –owner of Canal Satélite Digital and Canal + España– and Bertelsmann –through the RTL group– in Antena 3.

In Italy, worthy of note is the presence of one of the chief European television groups, Mediaset, company owned by Silvio Berlusconi, the Italian prime minister. The Italian audiovisual system is characterised by duopoly: Mediaset and the public company RAI share almost equally between them the television market. The private company owns Canale 5, Italia 1 and Rete 4, which jointly obtain 46 per cent of the market quota. The RAI also has three channels and slightly exceeds Mediaset.

In the United Kingdom, the BBC has become one of the classic models of public television, both because of the quality of its channels as well as its traditional independence and funding which excludes advertising. Despite this, in the last decade it has lost more than ten per cent of its market quota owing to the appearance of new commercial channels –such as Channel 5– and the greater penetration of pay television⁹³.

Greece and Portugal liberalised their respective television markets in 1992. Portugal gave an enthusiastic welcome to the arrival of the first

92 See Miguel Carvajal (2000), *La concentración de empresas de comunicación en España*, Archives DEIUN.

93 See Peter Humphreys (2000), *Concentración de empresas de comunicación en el Reino Unido*, Archives DEIUN.

commercial channel, SIC, of the Impresa company, controlled by the former prime minister, Francisco Pinto Balsemao. One year later, Media Capital, another leading Portuguese group, began broadcasting its channel TVI⁹⁴.

The dominance of public television explains the limited presence of foreign capital in the leaders of commercial television. Thirteen of the countries studied have a public channel as leader. None of the leading companies receives foreign capital, with the exception of Antenna TV in Greece and Impresa in Portugal, which has a third of its capital on the stock market (table 2.15).

TABLE 2.15
Television Leaders and Foreign Capital Investment (2000)

Country	Company	Market share (%)	Foreign capital (%) – Country
AT	ORF	56	0
BE (Fl)	VMM	34,5	0
BE (Fr)	RTBF	25	0
DE	ARD	27	0
DK	TV2	36,4	0
ES	RTVE	32,4	0
FI	YLE	43	0
FR	France Télévision	43	0
GB	BBC	38,5	0
GR	Antenna TV	22,4	14,1 Bank of NY – US
IR	RTE	48	0
IT	RAI	46,1	0
NL	NOOS	39	0
NO	NRK	30	0
PT	SIC	45	36,4 (Stock Exchange)
SE	SVT	44	0
TR	Show TV	17,2	0

Source: authors' own research

In contrast, the European pay television market presents a very different picture: in new businesses requiring developed technology and heavy capital investment the trend is for large foreign companies to be present (table 2.16). Especially worthy of note is the predominance of the Vivendi Universal (France) and BSkyB (UK) groups. These two companies have terrestrial and satellite channels, and thanks to strate-

⁹⁴ See Nobre Correia (2000), *Concentración de empresas de comunicación en Portugal*, Archives DEIUN.

gic moves –such as joint ventures, takeovers and mergers– their contents are in high demand.

TABLE 2.16
Pay Television Leaders and Foreign Capital Investment (2000)

Country	Company	Market share (%)	Foreign capital (%) – Country
AT	Premiere World	100	100 (22% de BSkyB) – GB
BE (Fl)	Canal + Belgium	100	100 (Canal +) – FR
BE (Fr)	Canal +	100	100 (Canal +) – FR
DE	Premiere World	n. a.	30,2 (22% de BSkyB) – GB
DK	n. a.	n. a.	n.a.
ES	Socecable	84	20 (Canal +) – FR
FI	Canal +	n. a.	100 (Canal +) – FR
FR	Canal +	78,5	0
GB	BskyB	52,2	38 (News Corp.) – US
GR	Filmnet	n. a.	100 – NL
IR	BSkyB		(Sky) – GB
IT	Tele +	70	100 (Canal +) – FR
NL	Canal +	90*	100 (Canal +) – FR
NO	Canal +	n. a.	100 (Canal +) – FR
PT	SporTV	n. a.	33,3 (PT Telecom)
SE	MTG	n. a.	0
TR	Cine 5	70	0

Source: authors' own research

Vivendi, through Canal +, holds a hegemonic position in the Belgian, Spanish, French, Finnish, Dutch, Norwegian and Italian markets. BSkyB has been leader in Germany and Austria by means of Premiere World and directly in the United Kingdom and Ireland. News Corporation controls most of BSkyB's capital and Universal has found in Vivendi the perfect partner for transmitting its fiction contents through its different platforms.

Financial capacity, know how and exclusivity of contents, marketing and scale economies are the main strengths of these giant companies⁹⁵. The ownership structure of pay television in Europe reflects the difficulty of making a strong internal market –able to compete with North America and Japan– with the favourable climate for cultural diversity in the area of audiovisual contents of quality⁹⁶.

95 See David Brown (IV.1999), *European cable and satellite*, "Screen Digest", London.

96 See Arnaud Gerber (1996), *Independence and Convergence*, "The Bulletin", vol. 3.

2.3. Radio Groups

The mass media usually compete against each other on three fronts. The first battle is generated by the dispute for attracting audience's time. Secondly, there is the fight to gain the largest slice of the budget spent by the public on the consumption of news and entertainment. And, lastly, there is the battle to attract a high share of advertising investments⁹⁷.

Radio's chief strength lies in its complementarity. If the massive increase in television entertainment offers and the consolidation of the Internet represents a threat for reading newspapers and magazines, this is not the case for radio audiences. Radio will find itself barely affected by the development of other media because its consumption is compatible with other activities; driving, walking, working, doing housework, etc. With an increase in offer and improvement in sound quality the trend will be for radio audiences to grow.

TABLE 2.17
Daily radio listeners (in millions)

	1990	2000
AT	4,7	5,9
BE (fl)	4,5	3,8
BE (fr)	3,2	3,6
DE	39,1	50,4
DK	3,1	3,8
ES	15,4	18,1
FI	2,6	2,6
FR	33,6	39,8
GB	34,3	43,4
GR	3,9	2,7
IR	2,2	2,6
IT	26,1	34,9
NL	2,4	3
NO	2,6	2,6
PT	6,5	7
SE	5,5	5,9
TR	30	41,6

Source: authors' own research

⁹⁷ See Facultad de Comunicación de la Universidad de Navarra and Arthur Andersen (2001). *El futuro de la televisión en España*. Pamplona-Madrid.

Crossed ownership between television and radio presents some advantages: it permits the joint sale of advertising time, it is helpful for the crossed promotions of certain programmes, it generates savings in costs, for instance in news sources and infrastructure, and strengthens the companies' negotiating position with governments.

Technological innovation under way in the audiovisual sector and the interactive media has still not substantially modified the radio sector. There are still a few years to go before digital radio becomes an accessible offer for the public, since –for the moment– the investment required for obtaining new sets is disproportionate.

Most of the markets find themselves in a vicious circle: companies with a digital radio licence do not invest in contents because the penetration of digital radio sets is extremely limited. The lack of attractive contents generates a low demand so scale economies are not produced in the radio set manufacturers sector, a necessary requirement for prices to be reduced which would then cause a rise in the penetration of the sets on the market. In this technological context, total variations in audience levels are insignificant, except in countries where the audience tracking system has changed.

With the deregulation of radio broadcasting in Europe and the massive increase in local transmitters in the Member countries, the granting of new digital radio frequencies has promoted a new area of industrial concentration. If, in the nineties, we witnessed a takeover process of local transmitters, with the change of the century, most of the big radio companies have used their negotiating power to obtain a digital radio licence⁹⁸.

One of the most noteworthy phenomena of the European radio broadcasting sector, as was the case for television, is the domination of the public corporations. Except in French-speaking Belgium, Spain, Por-

⁹⁸ See Miguel Carvajal (2000), *La concentración de empresas de comunicación en España*, Archives DEIUN.

tugal and France, the public companies hold leading positions in all of the European markets. Their experience, consumer habits and, in many cases, their dominant position in the area of distribution, constitute the chief strengths of the public radio companies in Europe.

Of the eighteen markets studied, thirteen are dominated by a public company. The Contact Group (French-speaking Belgium) allows one company of German ownership, Bertelsmann, the entry of foreign capital through RTL. Worthy of note are the high audience quotas controlled by the main radio groups (table 2.18). Most of the leading public companies have experienced a fall in their market share with respect to 1990, as a result of the appearance of new private broadcasters (tables 2.19 and 2.20).

TABLE 2.18
Radio Market Leaders (Audience) (%)

Country	1990		2000	
T	ORF	92	ORF	
BE (fl)	BRTN	72,6	VRT	83,8
BE (fr)	RTBF	40	Group Contact	24,5 *
DE	ARD	72	ARD	50,7
DK	DR	53,8	DR	66
ES	SER	38 *	SER	41 *
FI	YLE	63	YLE	60
FR	RTL	22,5 *	NRJ	30,1 *
GB	BBC	68	BBC	51,4
GR	ERT	25	n. a.	n. a.
IR	RTE	62	RTE	49
IT	RAI	45,7	RAI	16,8
NL	Radio 3	36	NOS	49
NO	NRK	53	NRK	58
PT	Radio Renascença	36 *	Radio Renascença	26,9 *
SE	SR	98	SR	55
TR	TRT	100	TRT	19,9

*Companies with private capital
Source: authors' own research

TABLE 2.19
Second Largest Radio Companies (%)

Country	2000	
AT	Antenne Steiermark	15*
BE (fl)	VMM	5,9
BE (fr)	TVi	19,5
DE	Hir Radio	3,3
DK	The Voice	4
ES	COPE	22,4
FI	Suomen	11
FR	RTL	25,7
GB	GWR	9,4
GR	n. a.	
IR	Radio Ireland	8
IT	Grupo L'Espresso	7
NL	Sky Radio	17
NO	P4	29
PT	Media Capital	26,5
SE	RIX FM	9
TR	Show Radio	9,8

*Only regional radio.

Source: authors' own research

TABLE 2.20
Two Largest Radio Companies' Market Share (%)

Country	2000
AT	95
BE (fl)	89,2
BE (fr)	45
DE	54
DK	70
ES	63,4
FI	71
FR	55,8
GB	60,8
GR	n. a.
IR	57
IT	23,8
NL	66
NO	87
PT	80,3
SE	64
TR	29,7

Source: authors' own research

TABLE 2.21
Radio Leaders and Foreign Capital Investment (2000)

Country	Company	Market share (%)	Foreign capital (%) - Country
AT	ORF	80	0
BE (Fl)	VRT	83,8	0
BE (Fr)	Group Contact	24,5	35 (RTL, Group) - DE
DE	ARD	50,7	0
DK	DR	66	0
ES	SER	41	0
FI	YLE	60	0
FR	NRJ	30,1	0
GB	BBC	51,4	0
GR	n. a.	n. a.	n. a.
IR	RTE	49	0
IT	RAI	16,8	0
NL	NOS	49	0
NO	NRK	58	0
PT	Radio Renascença	26,9	0
SE	SR	55	0
TR	TRT	17,6	0

Source: authors' own research

2.4. Internet, Entertainment and Advertising

As well as the traditional media supply –television, radio and press– new digital broadcasting services (terrestrial, via satellite and cable) and services on the Net, mainly those distributed via the Internet, have joined them. In this way, the entertainment supply has been considerably extended. Digital convergence in an economic framework characterised by globalisation means, in practice, joint ventures and mergers between media, telecommunications operators and computer firms. The European communications groups have not remained on the sidelines of these international alliances which seek to be well placed in the entertainment industry.

In Internet, Microsoft (MSN) and Yahoo are the leaders in several countries (table 2.22). In spite of the difficulties of unifying criteria for audience tracking on the Internet, the presence of these giant North American companies is clear to see in the whole European market. In some countries, however, the telephone operators –which are also Internet service providers– bought national portals which enjoyed huge popularity among end users and compete for the top place in the ranking with the giant international providers. The biggest portals on a “national” scale are re-launched by means of investments made by their parent companies, interested in creating value added products. The cases of Spain (Telefónica-Terra), France (France Telecom-Wanadoo), Great Britain (BT-Arrakis), Italy (Telecom Italia-Seat Pagine Gialle) and Germany (Deutsche Telekom-T-Online) represent examples of national companies that have raised a small entry barrier to the North American multinationals. The new technologies companies in Europe have also sought partners with financial capacity to take on their larger North American competitors⁹⁹.

⁹⁹ See Hubertus Hoffmann (1996), *Venture capital: where are Europe's new media entrepreneurs?*, Intermedia vol. 24, No. 6.

Currently, after the stock market crisis of the new technologies and debts run up through heavy investments in the mobile phone market, some telecommunications companies find themselves at a crossroads: these companies face the choice of either specialising or integrating their businesses¹⁰⁰. In such innovative and changing sectors, competitors' strategies increasingly require the combination of imagination and discipline¹⁰¹.

TABLE 2.22
 Internet Leaders and Foreign Capital Investment (Selected Countries)

Country	Company	Market share (%)	Foreign capital (%) – Country
BE (Fl)	Skynet (Belgacom)	21	49 (various)
DE	T-Online	49,3	0
DK	Jubii	56,4	Lycos – EIS
ES	Terra	66,6	0
FR	Wanadoo	63,3	0
FI	Sonera	58,3	34 (various)
GB	Yahoo	42,1	100 (Yahoo) – US
IR	Yahoo	55,2	100 (Yahoo) – US
IT	Seat Pagine Gialle	58,4	0
NL	Ilse (VNU)	n. a.	78 (various)
NO	SOL	n. a.	0
PT	PT Telecom	37	75 (various)

Source: Nielsen NetRatings y Jupiter MMXI (april 2001)

The offer on Internet could be grouped into four general fields: information; entertainment; electronic commerce; and communications services (chat, e-mail, newsgroup, video conferencing). The most recent surveys reveal that European consumers use Internet as a tool for searching for information on products and services and not so much as a support for making purchases¹⁰². The Internet service providers (ISP) usually integrate several of the offers mentioned from their own Internet portal. According to the monthly reports of the most respected Internet audience tracking companies, the highest places on the ranking of each country are usually held by portals offering general informa-

¹⁰⁰ See Josep Isern and María Isabel Ríos (2002), *Facing disconnection: Hard choices for Europe's telcos*, "The McKinsey Quarterly", No.1.

¹⁰¹ See Gabriel Szulansky and Kruti Amin (2001), *Learning to make strategy: balancing discipline and imagination*, "Long Range Planning", No. 34, 537-556.

¹⁰² See *European Internet surfers in their attitudes to online privacy*, (XII.2001), "Media and Marketing Europe".

tion, services and entertainment. Users also visit online versions of the leading conventional media when they demand quality general information, but they do not hold highly relevant places in the ranking of Internet consumption.

From the business point of view, the global entertainment conglomerates such as AOL-Time Warner, Vivendi Universal, News Corporation, Walt Disney or Bertelsmann have altered their business approach. If a decade ago these companies usually made films, television programmes, music or publications, now they create brands¹⁰³. Business uncertainty is combated with a strategy of commercial exploitation of each link of the value chain. The brand of a product generates revenue in films, television, music, publications, merchandising, theme parks and the Internet. This strategic model requires decentralisation, team work and confidence to innovate. Owners' personal aspirations have also been crucial in the activities of these giant corporations: personal rivalries, and –occasionally– the desire to gain media power¹⁰⁴.

The globalisation of entertainment has become more accentuated especially in businesses related to music and films, which usually create a homogeneous demand in markets with different cultures¹⁰⁵. The proliferation of television platforms in Europe has provided many business opportunities for global companies, which have exported channels such as MTV, Nickelodeon or CNN. The balance between being global and seeming local has produced deals between national firms and international entertainment companies. Recently, some multinational entertainment companies have made a fundamental leap with their entry into markets with great potential which until only a few years ago were heavily restricted by politics and legislation¹⁰⁶.

103 See "The Economist", (19.XI.1998). *A brand new strategy*. (survey).

104 See "The Economist" (19.XI.1998), *Elbow power*. (survey).

105 See McChesney, R., (1999), *Rich Media, Poor Democracy*, University of Illinois Press, Illinois.

106 See "TBI" (November/December 2001). *AOL Time Warner targets Asia*.

The film sector represents the extreme case of the United States' dominance over Europe. The Buena Vista, Warner Bros., United International Pictures and Fox Films distributors hold extremely important positions in European box-office takings. Batch distribution, syndicates between the majors, the huge size of the Hollywood industry and the absence of a strong business fabric in Europe present problems for the competitiveness of the European film industry. With inadequate funding, marketing and distribution, European companies have failed to redress the commercial balance with the United States in the audiovisual sector (table 2.23).

TABLE 2.23
 Film Distribution Leaders and Foreign Capital Investment (2000) (Selected Countries)

Country	Company	Market share (%)	Foreign capital (%)— Country
DE	UIP	21,7	100 (UIP) — US
ES	Buena Vista	16,4	100 (Buena Vista) — US
FR	Gaumont Buena Vista	18,8	50 (Buena Vista) — US
IR	UIP	25	100 (UIP) — US
SE	Fox Films	27	100 (Fox) — US

Source: authors' own research

Over the last decade, there has been a drop in the audiences of films produced in Europe, despite the increase in the number of productions. The single market favours the export of North American films which have the backing of extremely efficient distribution and marketing systems. The North American star system has not found an equivalent in the European industry and beyond their national borders productions are rarely box office hits. The EU's' intervention—with subsidies granted by the Media Programmes and the Television without Frontiers Directive— has not proven itself to be particularly effective up to now.

Market fragmentation restricts the competitive capacity of the European production sector. Germany and Great Britain represent 50% of the audiovisual market. With France, Italy and Spain the figure rises to 86%. Of the rest of the EU countries not one of them reaches 2% of the market. For less populated European markets it is even more difficult to keep a check on the dominance of the North American audiovisual industry. In the last decades the imbalance has become worse: in the sixties, European films in a foreign language took 5% of box-office re-

turns in the United States. Today the figure is around 0.5 per cent. In 2000, the total revenue from films in a foreign language in the United States only came to 29 million dollars. Even though it was a year when there were more new films premiered than ever, there had not been such poor revenue figures since 1995.

Europe continues to be the main destination for the North American audiovisual contents: it contributes 57% of the revenues of the North American companies outside their own market¹⁰⁷. This percentage means that the chief Hollywood producers make their audiovisual works increasingly with European consumers in mind.

In music distribution, Napster's initiative on the Internet has caused the record companies to re-think a change in their traditional business model. Universal and Sony will place their record portfolio at the public's disposal in Pressplay, Microsoft's MSN web page, in Yahoo and in MP3.com. Its rival, MusicNet, a conglomerate of the record companies EMI, BMG, and Warner, will have its dotcom dominion in the alliance with RealNetworks. In this sector, in which five companies monopolise the world market, technological uncertainty is accentuating concentration through alliances.

The online music market looks promising. Napster managed to have 80 million users exchanging up to fifteen thousand million musical archives. But it remains to be seen how the public will react to the change from free usage to subscription charges.

In the European music industry the presence of foreign capital in the leading companies is highly significant. Warner, Sony and Universal are the giant distributors and control a good part of the market (table 2.24). The German company Bertelsmann Music Group (BMG) holds first position in its national market and an important position in the other countries.

107 European Audiovisual Observatory (2000), *Statistical Yearbook: Cinema, Television, Video and New Media in Europe*, Strasbourg.

TABLE 2.24
Music Industry Leaders and Foreign Capital Investment (2000) (Selected Countries)

Country	Company	Market share (%)	Foreign capital (%)— Country
DE	BMG	n. a.	0
BE (Fl)	Universal	25,6*	100 (Vivendi Universal) – FR
ES	Universal	n. a.	100 (Vivendi Universal) – FR
FR	Universal	35	100 (Vivendi Universal) – FR
FI	Warner Music	14	100 (Warner) – US
NL	Universal	27	100 (Vivendi Universal) – FR
NO	Polygram	21	100 (Vivendi Universal) – FR
PT	Universal	21,8	100 (Vivendi Universal) – FR
SE	Sony Music	20	100 (Sony) – JP
GB	Universal	24	100 (Vivendi Universal) – FR

* 1999 figures.

Source: authors' own research

The commissioner for the defence of competition for the European Union, Mario Monti, has often acted to prevent abuses of a dominant position in the sector. The merger attempts of the British EMI, first with Time Warner and then with Bertelsmann, were averted in order not to create situations of excessive domination.

The advertising sector is also characterised by a high degree of concentration and by the presence of foreign capital in most of the leading companies of each country. Concentration in the advertising market had its beginnings in the sixties and has increased in the last decade. The world corporations dominate the market (table 2.25). Buying advertising space in the media increasingly requires a strategy of connecting agencies from different countries with transnational media groups. Small companies tend to be absorbed by the larger ones, so that the world scene is dominated by a dozen of macro-corporations such as Ogilvi & Matter, Saatchi & Saatchi, Omnicom, McCann or Grey Advertising.

The advertising market's heavy dependence on the economic situation is another factor favouring concentration. In moments of recession consumption falls and companies are forced to cut back on advertising spending¹⁰⁸. Internationally diversified companies are better placed to

108 See "The Economist" (25 October 2001), *Sucked into the quicksand*.

deal with those economic ups and downs than the small national agencies.

TABLE 2.25
Advertising Industry Leaders and Foreign Capital Investment (2000) (Selected Countries)

Country	Company	Foreign capital (%) – Country
BE	O&M Group	100 (Ogilvy) – US
DE	BBDO	100 (BBDO) – US
DK	Grey Com.	100 (Grey) – US
ES	McCann Erickson	100
FR	Havas Advertising	80 (Stock ex. 44 de Snyder y Putnan)
FI	S&G & Grey	22 (Grey) – US
GB	Abbott Mead Vickers	100 (BBDO) – US
IR	McCannells	0
IT	Armando Testa	0
NL	BBDO Netherlands	100 (BBDO) – US
PT	McCann Erickson	100 – US

Source: authors' own research

The full picture, then, of the concentration of the communications industry in Europe is an extremely varied one. Some sectors, such as newspapers, radio or commercial television are dominated by home-grown companies. Others, in contrast, have seen their capital pass into international ownership: pay television, the film and music industries, advertising and Internet. The degree of concentration has fallen in radio and commercial television as a result of the liberalisation of the two sectors. However, the leaders usually attract high market quotas in music, film and pay television. The regulatory authorities will have to remain vigilant in order to prevent abuses of dominant positions in those sectors.

3. Strategies

The main task of the most senior managers in any company lies in determining how their organisation will compete in the market: what will be done to exploit its strong points and the opportunities that arise as well as neutralising its weaknesses and threats; if the top managers are right in their strategic decisions, companies can obtain a competitive advantage sustained over time¹⁰⁹: they are able to offer something that has value for the public and cannot be easily imitated by their rivals.

Strategy always involves establishing priorities, backing some objectives at the expense of others. For instance, a regional newspaper can start up a policy of local editions, bringing it closer to its readers; and a radio station or television channel can specialise in pop music, with the aim of presenting a particularly attractive programming schedule for young audiences. But in any of those situations, other possibilities will have to be precluded: perhaps in the first case it may not be possible to designate much in resources to international news, and an older audience may not be interested in pop music radio stations.

Strategy is not about reaching a fixed point, a point of arrival: each company's strategic plan should be modified at the same pace as the changes that take place in external circumstances (the market) and the internal ones (available resources, staffing, company prestige, etc.) Strategy, then, is rather a moveable point located on the horizon, providing light so that companies' basic decisions are coherent and are not taken solely on the consideration of immediate needs. As some writers have pointed out¹¹⁰ that focal point on the horizon changes place with increasing speed because markets are becoming more and more dynamic.

¹⁰⁹ See Michael Porter (1985), *Competitive Strategy*, The Free Press, New York.

¹¹⁰ See e.g. Gary Hamel (2000), *Leading the Revolution*, Harvard Business Press, Boston.

There does not exist an “ideal” strategy, which adapts itself to any organisation: the decision on how to compete is taken after the internal and external analysis; and no company ever finds itself in an identical situation to another one which means that we can conclude that it is only by chance that strategies limited to imitating one of the rivals, perhaps the market leader, are successful.

The first strategic decision refers to the size: managers ask themselves if their company should a) grow, b) stay as it is or c) cut back. After deciding on one of those options, they will have to decide when and how they can put their plans into practice.

But those possibilities only exist on a theoretical level; in practice, no company can reject the chance to grow. Indeed, maintenance and cutting back strategies are almost always considered as provisional: sometimes companies understand they cannot grow until they solve certain internal problems (normally economic, financial or labour matters) and they give more time to the reorganisation of their structure, staff, financial resources and material assets.

Any choice different to growth is really a way to recognize that, at least for the time being, the company is not able to increase its size; this is confirmed by how companies fare on the stock exchange: investors chiefly reward profitability and forecasts of growth, so that companies with substantial profits may be penalised by investors if their growth rate falls.

The pressure of value markets and other economic, political and psychological factors on managers are the reasons why there is a general obsession with increasing company size¹¹¹; however, –as we shall analyse in the first section of this chapter– growth poses many problems.

¹¹¹ A critical vision of this tendency in the communications industry can be seen in Dean Alger (1998), *Megamedia: How Giant Corporations Dominate Mass Media, Distort Competition and Endanger Democracy*, Lanham, Littlefield Publishers.

3.1. The Risks of Growth

When companies grow there is a greater risk of them becoming less specialised and, as a result, less efficient in their activity; moreover, corporate culture can suffer as a consequence of the difficulties of internal communication which tends to have an adverse effect on staff motivation; increase in size usually brings in its wake self-sufficiency, less experimentation and the impetus for innovation is lost.

Also, some executives are well able to manage small companies but are not so good at directing large corporations: the same type of skills are not required for motivating a small team of writers on a local radio station as for organising 85,000 employees from AOL-Warner and explaining to them the advantages of the merger of the two companies. In those cases when media groups grow and managers keep their posts the characteristic situation of the "Principle of Peter" can occur, according to which employees tend to rise in their companies until they reach their level of incompetence.

Large sized companies usually become bureaucratic organisations with high costs in coordination between departments and are slower off the mark to respond to changes in the prevailing climate. Christensen, in his widely read book¹¹², argues that the giant firms are expert in serving their clients but that same orientation limits their capacity to take advantage of the possibilities offered by the new technologies.

Even more critical of the gigantic size of firms is Peter Chernin, in charge of the Fox television and film empire for News Corporation: "In the management of creativity, size is your enemy"¹¹³: one person managing 20 movies is never going to be as involved as one doing five movies. This leads to the tendency to break down large businesses into small independent units or to initiate "cannibalization" strategies,

¹¹² Clayton Christensen (1997), *The Innovator's Dilemma. When New Technologies Cause Great Firms to Fail*, Harvard Business School Press, Boston.

¹¹³ Cit. in *Fear of the Unknown* (4. XII. 1999), "The Economist", 73.

one of the most striking examples of this is Jack Welch's Internet initiative at General Electric called "Destroyyourbusiness.com".

Most concentration operations pose problems of a financial nature: takeovers usually involve an increase in debt, because they have either been financed by bank loans or because the acquired firm has substantial debts. Many of the worldwide takeovers on a large scale in the last few years have produced giant sized companies but they have also been burdened with huge debt commitments. One way of neutralising that problem is to sell off part of the assets acquired as Vivendi did with Universal's division of alcoholic beverages¹¹⁴.

Many multimedia groups have not been able to generate meaningful synergies. On paper –that is, in assessments prior to the decision to take over a company or launch a new medium in the market– the integration of several communications media in one group offers advantages; advertising exchanges, joint use of news sources and other resources, sales and purchases en bloc, etc. However, those plans are not always put into practice, among other reasons, because any type of coordination requires managers from each business unit to be capable of accepting different points of view and to play a less prominent role; and, if egomania is an illness quite commonly found amongst executives, in the media world it seems to have reached epidemic proportions.

Another classic difficulty of growth strategies stems from the extent of the geographical area where companies are present: frequently, one of their most valuable assets has been an excellent knowledge of their market, and after penetrating other territories they have discovered –with a higher or lower cost to their income accounts– the negative effects of being unaware of the new rules of the game. This was the case, for instance, for most of the companies that acquired communications media in Central and Eastern Europe in the nineties.

114 See *Risks abound in Vivendi's convergence strategy* (3.VII.2000), in "Variety Deal Memo", 8.

A similar phenomenon occurs when groups specialised in the management of one type of communications media become owners of another sort of product. After the liberalisation of the European audiovisual sector, a good number of companies owning print media have, with reasonable success, ventured into the television industry¹¹⁵. In contrast, this has not been the case of the traditional communications companies' initial experience in Internet¹¹⁶; indeed, many takeovers in that sector have been the result of the wish to incorporate new know-how—rather than new brands or new material assets— as far as the elaboration and distribution of on-line contents are concerned.

The growth of companies means that managers become unfocused, finding themselves forced to give their time and attention to many activities; thus they are less able to take on specific problems, put forward ideas and motivate employees.

Rupert Murdoch's career may illustrate this problem. The story of his communications group began with a newspaper inherited from his father, the "Adelaide News". The owners of the top newspaper in Adelaide threatened in writing to drive 22 year old Rupert and his mother out of business unless they sold out at a bargain price.

Forty five years later Murdoch explained his reaction: "I published our opponent's offer on the front page under a headline that screamed, Bid for Press Monopoly! And I included in the story a photograph of the confidential letter to my mother. That ruined any chance I might ever have had of being invited into the better clubs of Adelaide"¹¹⁷. But he won the ensuing newspaper war and later gobbled up his rival.

¹¹⁵ This explains that between 1990 and 2000 1000 new cable and satellite television channels have been launched in Europe. See "Screen Digest" (III.2001), *Over 100 New European Channels Each Year*, 85-86.

¹¹⁶ An analysis of the causes of the failures of investments in Internet can be found in Michael E. Porter (III.2001), *Strategy and the Internet*, "Harvard Business Review", 63-78.

¹¹⁷ Cit. in Marc Gunter (26.X.1998), *The Rules according to Rupert*, in "Fortune", 92-97.

In contrast, Murdoch failed in his repeated attempts to become one of the leading players in the television market in several European countries, such as Italy, Germany or Spain. In every one of those cases, the investments carried out in the nineties were not followed up by an important personal presence of the President of News Corporation, given that in that period his priorities were aimed at consolidating the position of Sky in Great Britain, Fox in America and gaining ground in the Asian television market.

The difficulties pointed out explain how the evolution of many companies can be mapped out as follows: in a first phase, the impetus of the promoters and the boldness of all of the members of staff allow them to “enter” the market and to challenge, to a certain extent, bigger rivals; later, the company gains competitive production instruments and distribution systems, enabling it to reinforce its position in the market and improve its profitability; this is followed by a period of expansion into new markets or by the greater variety in offer in its own market; at this point, the problems previously mentioned which are characteristic of large corporations can emerge: growth crises. For some companies, that signals their end; in contrast, others manage to recover –which means they are forced to review their structure and strategy– and they continue to progress until a new crisis arises¹¹⁸.

As organisations grow they take on new challenges and carry out tasks which require the ability to adapt and learn quickly. All change –particularly if it affects size– involves risk; but, despite this, most companies decide that their best strategy –and often the only decision possible– lies in increasing their size.

118 A systematic analysis of these processes can be found in Larry E. Greiner and Virginia E. Schein (1989), *Power and organization development: mobilizing power to implement change*, Addison-Wesley, Reading (MA).

3.2. Advantages of Growth Strategies

Companies attempt to grow because they consider that they will be able to neutralise the disadvantages of increasing their size¹¹⁹ and they believe that stagnation is even worse, proving unsatisfactory to investors and employees: the former, because lack of growth would imply a drop in the value of their shares, and the latter, because their chances of getting on and developing professionally within the firm would be extremely limited.

The relationship between business growth and personnel policies is, in a certain way, paradoxical: as we previously pointed out, the success of creative businesses does not depend so much on the size of the organisations as on the ability to build excellent teams; but people with talent –who make up those teams– want to work in innovative companies which, because of their culture of meeting new challenges, tend to grow more quickly than their rivals.

Moreover, in some communications sectors, creativity in the elaboration of contents requires a strong complement of distribution and, in this latter aspect, size provides fundamental advantages. The record industry is a good example of this situation: the five giant companies in the sector: Universal, Sony, EMI, Warner and BMG–each one of them with an extraordinary distribution network, monopolises 77.4% of the world market. The rest of the companies, without a competitive distribution network, between them divide up the remaining 22.6% of the market¹²⁰.

Other reasons exist for why communications companies have carried out growth strategies: a) to combat the concentration of the advertising

119 "The last few years have seen more and more large firms trying to imitate the flexibility of their smaller rivals. Some have contracted out all but their core businesses. Others (...) have organised themselves into semi autonomous teams and then treated those teams as business units". *Does size matter?*, "The Economist" (11.VI.1994). 68.

120 See Music Business Industry (2000), *World Report*.

industry; b) to make the most of the advantages inherent in scale economies and synergies; c) to diversify business risk; d) to seek “opportunities” in particularly attractive markets and businesses; e) to keep up their market share and privileged relationships with suppliers and distributors; f) other causes which are more psychological and emotional than economic in nature. We will now proceed to analyse each one of those causes.

The changes undergone by the advertising industry at the close of the twentieth century are one of the main reasons for the growth of the communications firms. Increase in investment, distribution of a more varied range of supports and the concentration of purchase orders of advertising slots and times places small media businesses in a weak position, because they lack negotiating strength with the giant advertising intermediaries (agencies and media buying services)¹²¹.

The traditional relationship between advertisers and media was established in conditions of a certain balance. The only intermediaries –the advertising agencies– confined themselves to devising the campaigns, negotiating the media plan and retained a fixed rate commission of 15% of the advertiser’s budget investment, but they did not take part in decision making on tariffs and discount policies. That contracting system has been replaced by a more complex, and frequently less transparent relationship.

Hardly any of the main advertising groups has escaped the wave of mergers and takeovers that have been typical in this industrial sector, as shown by the commercial names of many important agencies and buying services, whose acronyms are often the initials of acquired or merged companies. The increase in size has been due both to the aim of achieving bigger discounts from the media as well as the necessity to meet the needs of the multinational corporations which tend to com-

121 “Already, 20 companies control three-quarters of worldwide advertising revenue. In America, eight companies control 97% of television advertising revenue”. *Star turn*, “The Economist” (11.III.2000), 79.

mission agencies and media buying services present in the most developed countries to take charge of their worldwide advertising campaigns.

Faced with the increased negotiating strength of the intermediaries, the media most dependent on advertising have been forced to group together and to operate in a more coordinated way. The most effective response has been to carry out concentration processes similar to those carried out in the advertising sector.

Other companies that –for diverse reasons– were not able to increase their size have sought other ways to mitigate the advertising intermediaries' position of dominance. For instance, some regional French newspapers have set themselves up as advertising sales services; in that way, they can negotiate with national advertisers and media services from a less vulnerable position.

The search for size, credibility and scale economies is another determining factor in the growth strategies of communications businesses. As they increase in size these companies gain some advantages unrelated to the commercial activity carried out: firstly, they are more able to exert influence on the political system; they can, for instance, condition decisions relating to the labour framework, tax rates or legislation on free competition¹²². But, above all, they exert their lobbying function on aspects directly linked to the communications industry: awarding licences to radio stations and television channels, concession of direct or indirect aid to print media, regulation of media content, advertising, etc.

In latter years, many regional companies have sought to have a greater presence in the capital city of their national market with the aim of becoming part of the small group of communications companies that act as regular negotiators with the governments of their respective countries. This situation also occurs in smaller geographical areas with re-

¹²² See M.E. Beesley (ed.) (1996), *Markets and the Media. Competition, Regulation and the Interests of Consumers*. Institute of Economic Affairs, London.

gional governments and larger markets such as Europe with the giant corporations which influence political and economic decisions of the Commission of the European Union.

Another advantage in size lies in the ability to establish alliances and joint ventures with privileged partners. Many cooperation agreements between companies of two or more countries correspond to the following model: a company provides their know-how of the business (contents, marketing plan, type of relationship which is established between suppliers and distributors, etc.); the other company contributes its knowledge of the market and its power to influence the government of that country, if the commercial activity to be carried out requires prior authorisation or administrative concessions.

This strategy was followed, for instance, by Canal + and its international expansion into pay television, Fininvest and Kirch in open commercial television, Pearson in economic and financial news, Bertelsmann and Hachette in books and magazine publishing and RTL in the radio industry. In each country, those companies usually partner up with the leading communications group in their respective market, benefiting from the brand name, the know-how and the financial capacity of the previously mentioned multinational corporations.

Company growth also provides advantages particular to scale economies¹²³. The increase in units sold brings down the unitary cost of the products because the fixed costs are distributed between a greater volume of units produced. In this way, in businesses with very high fixed costs –such as in the daily press, in the management of cable and satellite television systems and audiovisual production– the big companies tend to monopolise a growing part of the market.

Also, the growth of companies has made the possibility of generating synergies greater; these are achieved when the company's structure

123 See Alan Albarran and John Dimmick (1996), *Concentration and economies of Multiformity in the Communications Industries*, "Journal of Media Economics" 9 (4), 410-450.

acts as a multiplier effect on the efficiency of its assets: in several departments –for instance, contents production, distribution, technology or marketing– different media of one company join forces to get the most out of their resources.

In the area of contents, newspapers make savings by some sections being prepared by centralised editorial units. They can thus have a greater number of foreign correspondents, offer their readers column writers of prestige and own a great variety of news sources which would be impossible if they had to face the costs alone¹²⁴.

Something similar occurs in the radio and television broadcasting industries: radio and television join together to share the production costs of news and fiction programmes, although in some countries legislation does not permit simultaneous broadcasting of those contents in several geographical areas¹²⁵.

In contrast, communications companies located in very small markets –with little ability to generate scale economies and synergies– are at a disadvantage in competing with the giant communications groups. In the European audiovisual sector, American companies have obtained a dominant position: for instance, in most European countries the screen share of national films is between 10% and 30% whilst American productions reach figures of between 60% and 85% of the total sales¹²⁶.

In the print media industry, the latter years have seen a greater presence of French publishers in Belgium and German companies in Austria and Switzerland. Medium-sized and small companies have reacted in different ways to combat the competitive advantages of corporations

124 See Nicholas Coleridge (1993), *Paper Tigers. The latest, greatest newspaper tycoons*, Carol Publishing, New York. Also see Robert G. Picard et al. (1988), *Press Concentration and Monopoly: New Perspectives on Newspapers Ownership and Operation*, Ablex, Norwood (NJ).

125 See Colin Hoskins, Stuart McFayden and Adam Finn (1997), *Global Television and Film: An Introduction to the Economics of the Business*, Oxford University Press, Oxford.

126 "Screen Digest" (VI.2000), *US dominates fragmented Euro film market*, 188-190.

with greater resources: in Austria and Ireland, governments have favoured the consolidation of two large groups –Mediaprint and Independent Newspapers– which dominate their respective markets; in Switzerland there have been mergers of prestigious names such as “Journal de Geneve” and the “Gazette de Lausanne” or the “Luzerner Tagblatt” and the “Vaterland”; as far as Scandinavian countries are concerned, they have continued with their traditional subsidy system, initiated in the late nineteen sixties, aimed at curbing the disappearance of titles.

Those measures have only partly mitigated the disadvantages of companies in small markets; the best solution has been put into practice by highly specialised companies –such as the Dutch Elsevier in the area of scientific news–, which have been able to penetrate other countries and have thus become competitive.

Company growth is also the result of the aim of diversifying risks. Corporations owning media of the same kind (for instance, television channels, production companies, or magazines, etc.) located in the same geographical zone accumulate a high business risk; at the opposite extreme are the companies present in highly varied markets, grouping together print and audiovisual media, and whose business units depend, to a differing degree, on advertising revenue.

Up until the nineties, a regional economic crisis, the rise in the price of newsprint in the international markets, a change in the legal framework of the audiovisual sector or inflation in the prices of television programmes could cause the main groups in each country to founder. However, the largest communications companies in the world increasingly obtain an ever smaller percentage of their revenue in their home market whilst, at the same time, tending to amass media of a widely diverse nature.

In this way, the giant international corporations have erected powerful protective barriers against any possible crisis: only if there were recessions at the same time in many countries or if there were a worldwide drop in the demand for news and entertainment could there be any risk

for the survival of the well managed highly diversified, giant communications companies¹²⁷.

Frequently, the management of those companies decide to penetrate new markets and take part in new businesses not so much to diversify their assets as to benefit from investment “opportunities”. The ideal situation for a company to successfully introduce itself into a new country follows this model: a) it possesses the know-how that other companies are unable to imitate; b) there is political and economic stability and a high level of consumption in the country; and c) by means of joint ventures with local partners its lack of knowledge of the new market does not prove to be an insuperable obstacle.

This type of situation does not usually arise because in the most attractive markets –developed and with legal frameworks protecting free enterprise– there is a strong level of competition and, therefore, many companies try to innovate and incorporate technology, contents production and distribution systems and marketing plans that have been successful in other countries.

The only exception to that phenomenon occurs in “maturing” markets which are still not attractive enough –lack of economic development or political stability–, but can overcome this situation in a short space of time. Those cases bring together two crucial aspects for foreign investors: vulnerable local companies and good prospects for profit in the short or mid term.

127 The multimedia strategy is more effective for diversifying risk than for increasing profits; such is suggested by Doyle in his analysis of the British market: “The suggestion that common ownership of television and newspapers creates specific cost-efficiencies or other tangible economic benefits is comprehensively challenged by the findings of this study”. Gillian Doyle (2000), *The Economics of Monomedia and Cross Media Expansion: A Study of the Case Favouring Deregulation of TV and Newspaper Ownership in the U.K.*, *Journal of Cultural Economics* (24), 23.

This is the case, for instance, with the recent wave of investments of Spanish communications companies in Latin America¹²⁸; from the early nineties an analogous phenomenon has taken place with some German, British and French companies which have increased their presence in the Central and Eastern European markets.

A different option –taken, for instance, by Bertelsmann, News Corporation and Vivendi– lies in choosing a market with greater entry barriers –the United States– but which is crucial for reaching global dimensions. In contrast, European companies –for legal, cultural and linguistic reasons– have scarcely invested in Japan, which is the second communications market in the world.

Growth strategies also serve to neutralise the strength of rival companies. The increase in sales and assets of other companies present in the same market brings with it the deterioration in the position of the organisations that have stayed at a standstill. Market leadership provides extremely valuable competitive advantages: it favours the company's prestige and its commercial brands; it enables it to maintain privileged relationships –for instance, exclusivity contracts– with suppliers and distributors: it confers a predominant role for establishing prices and other “rules of the game” of the market; and, as has been pointed out, it facilitates the establishment of pacts with prestigious corporations from other geographical areas¹²⁹.

In the communications industry, newspaper companies figured as perhaps the first examples of those defensive strategies: in order to maintain their predominant position in the offer of current news and advertising information in their respective markets, they offered free publi-

128 A detailed analysis of this tendency can be found in Mercedes Medina (VI.2001), *Algunas claves de la expansión de los grupos de comunicación españoles en Latinoamérica*, “Comunicación y Sociedad”, Vol. XIV, 71-99.

129 “There is generally a strong and positive correlation between the market share and the operating profitability of firms involved in either television or radio broadcasting or newspaper publishing”. Gillian Doyle, *ibid.*, 1.

cations; later, –when the legal framework permitted it– they acquired shares in other media providing similar contents aimed at the same audience: radio stations, television channels, on line news services, etc.

Similarly, television channels attempted to hold on to their ability to win most of the public’s leisure time by their penetration into the interactive contents industry. In most industrialised countries the average television viewing time per person is between three and four hours; but, at the end of the nineties, the development of Internet posed a threat to television channels, especially in attracting the free time of young people. At that time, the main television companies began to make deals with companies specialised in the elaboration of content for on line media and large corporations manufacturing software with the aim of holding on to their lead as suppliers of entertainment to households¹³⁰.

Also, many telephone companies –and, to a lesser extent, water, gas and electric companies –have diversified into the contents industry and have become cable television operators in order to maintain their predominant positions as suppliers of basic services in the home. These corporations have enormous financial resources at their disposal, with the result that in some markets in very few years they have gone from a position of not owning any communications medium to becoming one of the leaders in the sector.

In practice, the communications companies grow because their management seek to simultaneously obtain several of the advantages signalled. For this reason, the mergers, takeovers, joint ventures and launching of new media are usually owing to “offensive” and “defensive” reasons at the same time; they attempt both to maintain the market share as well as taking advantage of investment opportunities; and, often, they are also the result of the wish to become bigger and the need to diversify business risk.

¹³⁰ See Ian Thompson (1999), *Convergence in Television and the Internet* (2nd edition), Informa Media, London.

There are also non economic reasons behind companies' growth strategies: frequently, owners and executives have acted out of personal reasons: attracted by a new professional challenge or out of a desire for greater professional prestige or power through increasing company size¹³¹. The risk inherent in these motivations is that the executives' interest or preferences may not coincide with the best decisions for the companies and their shareholders.

3.3. Vertical and Horizontal Integration

After analysing the advantages and disadvantages of the growth of communications groups, we will study the ways of putting those corporate strategies into practice: by means of processes of integration (vertical and horizontal) and diversification (geographical and multi-media).

Vertical integration assumes that a corporation controls the production and commercialisation process of a business, either in order to avoid dependence on suppliers and distributors or with the aim of increasing profits. The first of these two objectives is necessarily attained when the level of vertical integration is raised: if a company produces or manufactures the raw materials, transforms, packages, sells and distributes them no intermediary can impair the quality of the products or services made available to the public.

But, in practice, organisations are unable to reach complete vertical integration because they do not have at their disposal the experience, know-how and financial capacity to be able to take part in each phase of production and commercialisation of their business: in one way or another, they always depend on other firms.

The other priority aim of vertical integration –raise company's prof-

131 A detailed analysis of this phenomenon can be found in Jeremy Tunstall and Michael Palmer (1991), *Media Moguls*, Routledge, London.

itability— is based on a logical premise: the same company could retain for itself the total sum of the profit margin earned by all of the intermediaries present at the different stages of the production and commercialisation process.

However, that argument does not take into consideration a key problem: vertical integration implies loss of specialisation¹³², it means a growth in fixed costs and leads to greater organisational complexity in companies: the most well known supporters of the “reengineering” processes used the weight of those negative factors to promote the subcontracting of services and tasks in the nineties¹³³.

The most advisable degree of vertical integration for each organisation depends, above all, on the interest for companies in controlling one part or all of the production and commercialisation process. In the print media industry, that control brings very limited advantages: companies do not become strong in their markets by owning the raw material or efficient printing presses, or by possessing exclusive news sources or by owning the best distribution channels.

In many markets, publishers do not compete in distribution (because they share the same channels) or in raw materials (they are acquired from the same manufacturers): their competitive strategy—their ability to achieve sustainable advantages—is concentrated in the elaboration of news products. In those cases, vertical integration presents more problems than advantages.

Some governments encourage vertical disintegration of the print media: for instance, in the Scandinavian countries, where citizens indirectly fund the press through a subsidy system, legislation encourages newspapers to share works premises so as to prevent high printing and circulation costs which could be a cause for public complaint.

132 See C. C. Markides and P. J. Williamson (1994), *Related diversification, core competences and corporate performance*, “Strategic Management Journal” 15, 149-165.

133 See Michel Hammer and James Champy (1997), *Reengineering the corporation: a manifesto for business revolution*, Nicholas Braley, London.

In contrast, some of the large publishers from other European countries still maintain a high level of vertical integration: Bertelsmann owns print works, publishes books, newspapers and magazines and distributes its publications through “book clubs” in Germany and other markets; Hachette publishes and prints newspapers and magazines and is the main shareholder of the “Nouvelles Messageries de la Presse Parisienne”, which distribute most of the Parisian newspapers; Rizzoli and Mondadori have followed similar strategies in Italy, as have Independent Newspapers in Ireland or Mediaprint in Austria.

In any case, the print media usually reach a moderate or limited vertical integration and, for the reasons pinpointed, that level of integration is on the decrease¹³⁴. The appearance of new print media and advertising outlets and the fall in newspaper readership in many countries may favour the processes of vertical disintegration.

However, in the audiovisual industry a rising level of integration can be detected: unlike the case of the print media, in this sector it is of utmost importance to ensure the supply of key products and the control of distribution, to such an extent that –as Grover and Lowry point out– a company’s survival can depend on those factors¹³⁵.

In Europe, Latin America and Japan the television channels have dominated the audiovisual industry; therefore, those companies have led the processes of vertical integration. In contrast, in the United States channels have, to a large extent, handed over their leading role to the giant production companies.

134 See Robert G. Picard (1997), *The Newspaper Publishing Industry*, Allyn & Bacon, Boston.

135 Ronald Grover and Tom Lowry (30.VII.2001), *For Media Giants, How Big is Big Enough?*, “Business Week”, 32. Also see William McCavitt and Peter Pringle (1996), *Electronic Media Management*, Focal Press, Boston.

In the audiovisual industry, vertical integration can articulate itself in two ways¹³⁶: a) “Up-stream”: distributors of films and owners of broadcasting rights acquire television channels, and radio stations and television companies break into the production sector. B) “Down-stream”: producers acquire or start off new television channels, and the latter acquire shares in companies which are cable and satellite operators.

The most complete vertical integration implies that a company is present along the whole chain, from the production of the instruments (television sets, transistors, aerials, etc.), to the sale of advertising broadcast by the channels. The control of some stages of that process provides companies with few advantages; for instance, the manufacturing of appliances and technical infrastructure business; in contrast, the channels which control the production of successful programmes and occupy a predominant position in distribution –terrestrial, cable or satellite– will very probably gain a high market share, whilst at the same time establishing an impassable entry barrier for their rivals.

In Europe, from the birth of television, state corporations have achieved a high degree of vertical integration. With deregulation in the eighties and nineties private companies have followed that model.

Some owners of channels with access to terrestrial broadcasting networks (Fininvest in Italy, TF 1 and Canal + in France) and companies with broadcasting rights of the most popular programmes (Beta-Taurus in Germany until 2002) have achieved privileged positions in their respective markets. In other cases, such as Great Britain, Holland or the Scandinavian countries, anti-concentration regulation has restricted vertical integration, so preventing companies reaching dominant positions.

¹³⁶ Timothy Todreas (1999), *Value Creation and Branding in Television's Digital Age*, Quorum Books, Westport, 100-104. Also see The Economist (19.VIII.2000), *One house, many windows*, 68-70.

The evolution of the degree of integration between producers and broadcasters depends, to a great extent, on legislation: some governments determine that channels must acquire a percentage of their broadcasting time from independent producers and have set up mechanisms to encourage the vertical disintegration of state corporations.

Horizontal integration implies the decision to manage a certain type of business, situated at a specific stage of the commercial process¹³⁷; in a certain way, its advantages and disadvantages are opposite to those of vertical integration, because it promotes specialisation and permits the generation of synergies and scale economies, but does not give simultaneous control of supply and distribution.

Communications companies integrated horizontally own the same type of media in one or several markets: radio stations, or "real time" information services, or free publications, etc. With these growth strategies, corporations attempt to introduce a product which has been efficiently managed in its territory of origin into new markets.

Some factors favour the success of the processes of horizontal integration:

- a) Executives are experienced in the management of the business they are to initiate: the new tasks do not require specific additional training and they do not distract them from their usual activity.
- b) The problems of getting to know and penetrating a new market can be solved through joint ventures with local partners.
- c) If the communications medium to be incorporated into the group is not located in a remote market, it can benefit from the commercial relations that the corporation has established with suppliers and advertisers.

137 P. Very (1993). *Success in diversification: building on core competence*. "Long Range Planning" 26, 80-92.

- d) The increase in size and specialisation generates savings in the purchase of raw material (newsprint) and elaborated products (programmes, news services, etc.)
- e) With the incorporation of a new communications medium, the group can establish an organisational and accounting system which contributes to the development of this new medium: for example, it facilitates access to the general services of the company (data banks, reporting services, consultancy study reports, specialist advice in design, programming or marketing, etc.) at very low prices.

The classic strategies of horizontal integration occur above all in the print media sector¹³⁸: as has been pointed out, television companies have preferred to have simultaneous control over production and broadcasting of audiovisual contents; in contrast, publishers have placed more emphasis on amassing titles: they have put less effort into controlling the printing and distribution stages.

In most cases, horizontal integration is usually accompanied by other growth models: companies acquire more media of the same kind and penetrate other countries whilst diversifying their activity towards new businesses and acquiring shares in companies that supply and distribute their products.

By means of those investment policies “in all directions”, communications groups are made up of extremely complex structures which attempt to integrate the advantages of each one of the growth models.

3.4. Multimedia and International Diversification

Up until the eighties and nineties, private corporations attained a moderate degree of “multimedia” diversification: their activity was con-

¹³⁸ See Francisco Iglesias (2001), *Marketing periodístico*, Ariel, Barcelona, 33.

centrated on one type of communications media. The first diversification processes were carried out by newspaper and magazine proprietors who also began to publish books and free publications. However, both legislators as well as the general public considered that those growth strategies were a “natural development” of newspaper companies, and did not generate an excessive concentration of the power to influence opinion.

From those years, “multimedia” diversification processes gained momentum which meant that, in a strict sense, the corporations were owners of print and audiovisual media at the same time¹³⁹: the technological innovations and the liberalisation of the audiovisual industry enabled the groups with greater resources to acquire or set up radio stations, television channels, cable and satellite broadcasting systems, services distributed by Internet, and other news and entertainment media.

Therefore, fewer legal barriers and the impetus of technology have been necessary in order for companies to diversify their business in the communications sector. Having overcome those obstacles, corporations have almost unanimously followed those growth strategies.

“Multimedia” diversification generates basically three types of advantages for communications groups:

- a) It allows company risk to be diversified: when a company only owns one type of media, any external factor that may have serious effects for the profitability of that sector jeopardises the future of the whole company.
- b) It means going into new sectors with the potential for growth: in many markets in which the sale of newspapers and magazines has stagnated, publishers have invested in the audiovisual industry

139 See Juan Carlos Miguel de Bustos (1993), *Los grupos multimedia: estructuras y estrategias de los medios europeos*, Bosch, Barcelona.

which attracted a growing percentage of advertising revenue¹⁴⁰; at the same time, owners of publications, radio stations and television channels have acquired shares in companies owning interactive media.

- c) It leads to the generation of synergies: with the integration in one group of different publications, radio stations, television channels and other media, some can lend support to others, to the extent that a medium's survival may depend on the fact that it is backed up by a large, highly diversified company.

The media owned by "multimedia" groups benefit from the synergies that appear in several areas: they share news and information sources; they achieve greater work efficiency, for example because they produce information or sell advertising for several distribution channels; the prestige of the more consolidated media is transmitted –at least in part– to the more recent initiatives: a corporation's commercial relationships with its suppliers and distributors smoothes the way for a favourable reception of their media in the market, including of those in a weak competitive situation; the group's research services provides valuable information –regarding audiences and the economic climate– for all its business units; and, in some cases, several media can make use of the same installations and production systems, and make the most of the technological innovations that occur within each corporation.

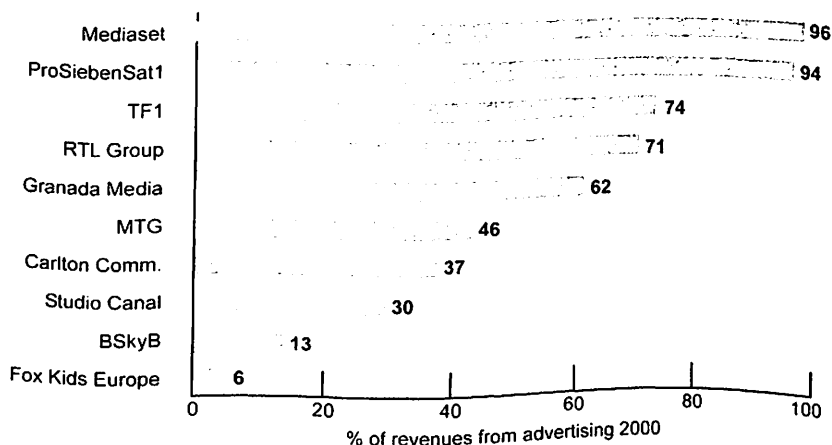
Despite the advantages pointed out, most of the companies that have followed "multimedia" diversification strategies have encountered more problems and difficulties than they had calculated on: often, they have not been able to meet the deadlines forecast for the assimilation of the new acquisitions and the recoupment of investments.

140 A case analysis of the economic effects of the diversification of newspaper companies can be found in Robert G. Picard and Tonny Rimmer (1998), *Weathering a Recession: Effects of Size and Diversification on Newspaper Companies*, "Journal of Media Economics" 12 (1), 1-18.

Another problem of multimedia diversification is that, on occasions, it does not limit the business risk as much as the owners and executives would wish: as shown in table 3.1, companies owning several media which are apparently businesses bearing little relation to each other may depend on one predominant source of revenue – advertising – which could have serious consequences for those corporations if that sector were to go through a period of difficulties ¹⁴¹.

Multimedia diversification requires company executives to widen the scope of their knowledge; companies that carry out the same type of activities increase their efficiency through experimentation: failure as

TABLE 3.1 European Media Groups' Dependence on Advertising



Source: Merrill Lynch

well as success provides highly valuable information, permitting processes to be improved upon and higher quality of the supply.

In contrast, when corporations go into new businesses bearing hardly any relation to their traditional activities, there is very little possibility to benefit from this type of “gradual learning”; therefore, executives

¹⁴¹ TV International (5.II.2001). *Report roundup*, 3.

tend to make more mistakes, especially if they have a limited ability to learn or if their way of thinking is highly determined by the professional tasks carried out in the past¹⁴².

In this last aspect, the difficulty of the giant communications companies to understand the “game rules” of Internet is significant; the leading players of most of the success stories of the nineties within the on line sector have been companies which were not present in the communications sector: small, flexible companies unencumbered by bureaucracy and with the capacity to understand the logic of non linear contents have devised the most visited portals and the most successful businesses on the Net.

Joint ventures and collaboration pacts are the quickest and most efficient way to preventing mistakes and loss of competitive capacity in multimedia diversifications when corporations venture into unfamiliar sectors: in this way, to the financial capacity and the value of the brand names and the material assets of the traditional companies are added the innovative spirit and the know-how provided by other partners.

As we have seen, multimedia and multisectorial growth presents advantages and disadvantages, so that each communications company must detect the most appropriate degree of diversification in accordance with their internal and external characteristics. In contrast, almost all the companies –or, at least, the most successful ones in their respective markets– aim to broaden the geographical area in which their messages are distributed.

The only examples of leading communications groups in their countries that have not penetrated into other markets are state radio and television companies: very few of these companies undertook internationalisation processes when they could have benefited from situations of monopoly in their internal markets because their mission was re-

142 Chris Forrester (2000), *The Business of Digital Television*, Focal Press, Oxford, 240-261.

stricted to guaranteeing pluralism and the quality of the radio and television contents within the boundaries of their national borders.

The globalisation of markets has meant that at the end of the nineties, a good part of those public corporations –like the BBC, the RAI or TVE– had initiated their international development¹⁴³; their managers have discovered that they need sources of additional income in order to provide quality products attractive to the public, because otherwise they will find themselves at a competitive disadvantage faced with much larger rivals.

In the growth of communications companies several stages can be distinguished: strengthening of the competitive position in their own internal market, first sortie abroad, consolidation of the international presence and configuration of “transnational” groups.

At least two causes impel those growth processes: legislation and technological innovations. The legal framework acts in a dual sense: firstly, each country establishes mechanisms for preventing an excessive concentration of media, so that the companies which reach the established limits must invest in other markets if they wish to continue their growth strategies; secondly, in many countries the protectionist barriers preventing investments by foreign companies become less stringent.

Technology drives communications companies to be present in more markets because the coverage of a good part of the contents transmission systems goes beyond national borders, as is the case with Internet and satellites relaying radio and television programmes. This phenomenon affects –although to a lesser extent– newspapers and magazines, which can use satellites for sending pages to their printing works.

143 About the British case. See *The Economist* (20.V.2000), *Greg's big ideas*, 49-50.

As Pearce points out, the processes of international development pose new challenges and problems¹⁴⁴. The first obstacle arises from the difficulty of knowing and adapting to the “game rules” of new markets. Often, the organisational systems, production processes, contents and distribution channels cannot be transferred from one country to another: the differences in consumer habits and public preferences, economic and cultural climate, labour legislation and other aspects of the industrial fabric present serious problems of adaptation for exporting firms.

Almost all communications companies have examples of expensive and spectacular failures in their processes of international development, caused by ignorance or underestimating the differences between their domestic markets and those of other countries. This type of danger is averted by a more careful analysis of the new markets, experimentation and by means of joint ventures with local partners.

As we have pointed out, there do not exist “ideal” geographical areas, degrees of media diversification or types of integration: all combinations have advantages and disadvantages, risks and possibilities. Each company should be aware of this fact and choose the best option for their internal and external circumstances, with the aim of reaching and preserving a sustainable competitive advantage.

3.5. The Versatile Organisation

Irrespective of the strategy chosen, the dynamism of the market requires increased flexibility, greater anticipation of contextual changes and more innovation from communications companies. Directors of the best managed European communications groups attempt to swiftly gain an in-depth understanding of the sector’s new challenges and to lead change in their organisations.

¹⁴⁴ Robert D. Pearce (1993), *The growth and evolution of multinational enterprise: patterns of geographical and industrial diversification*, Edward Elgar, Aldershot.

A company is only innovation driven when its managers are realistic in their perception of the difficulties that any proposal for change must face¹⁴⁵. Innovative proposals will encounter internal obstacles even if companies identify deficiencies in the distribution of newspapers and magazines they publish, discover that the programming schedules of their radio stations are elaborated by imitating competitors or realise that the brand names of their television channels have lost prestige and are second-rate.

Innovation is hindered by corporate cultures focusing on short term results, by paralysing bureaucratic structures, by a low level of trust and staff integration, the lack of team work, arrogant attitudes of executive directors, the absence of leadership and the human fear of the unknown.

Traditional business thought used to conceive organisations as machines prepared for carrying out productive functions. That mentality explains in part the role played by engineers in business management: their task lay in designing and controlling the system. Precision and efficiency were the classic aims of those companies.

As Turner explains¹⁴⁶, the new language of innovative organisations is different: federalism, pacts, voluntary teams, commitment, passion for new discoveries and “ad hocery” have taken the place of excessive rules and regulations and inflexible structures.

In the past, business thought was based on the idea that human decisions are carried out mainly by rationalistic calculations pursuing individual self-interest. However, there is sufficient evidence to show the reductionism of that anthropological basis; in institutions in which there prevails a climate of trust, most employees accept decisions which they neither like nor are beneficial to them: they are aware that

145 See John P. Kotter (1996), *Leading Change*, Harvard Business School Press, Boston.

146 Rodney Turner (1997), *The Versatile Organisation: Achieving Centuries of Sustainable Growth*, “European Management Journal”, (15) 509-522.

all work requires commitment and effort which is justified for the good of the company and their work colleagues¹⁴⁷.

Traditional communications companies are discovering that their classic advantages are losing ground: experience in the elaboration of news and entertainment programmes, good reputation and privileged relations with suppliers and distributors. These strengths cannot prevent the success of the new competitors who are "intensive in know-how", and have a greater culture in innovation.

More and more companies owning print and audiovisual media are focusing on models of people management characteristic of more innovative and versatile organisations: in the selection of new staff managers place much more value on the candidates' energy and capacity of commitment: also some communications companies that are over-encumbered by bureaucracy have created small pockets of innovation and generation of know-how, with the aim that they will become bridge-heads for more generalised cultural changes: this is the case with the on-line editions of some newspapers and new products launched by the publishing companies.

This change in the business paradigm has brought about a secondary positive effect - the greater the internal culture of the organisations, the less structure is needed to ensure coordination: as a consequence, bureaucracy is reduced and rapid response and flexibility in a company are promoted.

The drawing up and communication of some clear, intelligible and inspiring aims -the "mission" of the company- helps to promote the culture of internal learning and innovation¹⁴⁸. The mission is not a slogan, an advertising ploy, a new strategy or a declaration of good intentions.

¹⁴⁷ See Frederick F. Reichheld (VII-VIII.2001), *Lead for Loyalty*. "Harvard Business Review", 76-84.

¹⁴⁸ See Alfonso Nieto (1988), *Cartas a un empresario de la información*, Fragua, Madrid (especialmente Carta XI, "Los nuevos gerentes", 89-105)

On the contrary, a clear mission fulfils several interesting functions: a) it guides, because it promotes a long term vision and helps to establish priorities; b) it is a reminder of principles and reasons for decisions; c) it inspires new possibilities, it encourages challenging targets to be tackled; d) it controls, because it permits the resolution of conflicts of interpretation or competences; e) it provides a greater share of freedom, because it renders rigid structures and niggardly regulations unnecessary, and means that no initiative is paralysed before meeting the supervisors' approval.

Companies cannot obtain competitive advantages by amassing islands of information and closed pockets of experience, which do not benefit the rest of the departments and areas of work. In practice, the main source of synergies of the big communications groups comes from the capacity to share and transfer ideas and knowledge. This occurs, for instance, with Pearson, in the field of economic and financial news, with G + J in the magazine market, with VNU in the sector of computing publications, with RTL in commercial radio and television, or with Canal + in pay television.

Growth, therefore, can lead to self-complacency and bureaucratization; but it can also promote dynamism and innovative capacity in companies. The future, of communications companies, in good measure, lies in the choice they make between one strategic and organisational model and another.

4. Legal Framework

Up until the end of the eighties, the mass media in Europe were regulated by the governments of each country. In this period national frontiers still constituted barriers difficult to break down: most of the leading companies in the communications sectors were made up of national capital; each State faced different problems of concentration and attempted to deal with them without looking too much to their neighbouring countries.

In this way, a tradition which had emerged with the first press laws of the seventeenth century was continued. High court jurisdiction, legal regulations and the anti-monopoly commissions had a “national” geographic scope.

At the beginning of the nineteen forties a similar phenomenon occurred in the European audiovisual industry; the Governments of each country played a fundamental role: they set up public radio and television bodies which, faced with the technical difficulty of providing the public with a varied offer, attempted to guarantee plural contents¹⁴⁹. In countries with a greater democratic tradition, those public monopolies tried to meet the citizens’ interests; in contrast, in other cases, the political aims –the preservation of power– were given precedence over the mission of public service.

However, certain political, economic and technological events have modified the “status quo”: national Governments have handed over a large part of their leadership to Brussels; the principal companies compete on a global scale; and technical innovations have given rise to the emergence of new communications media. For those reasons, in the

149 Karen Siune, Claude Sorbets and Asle Roland (1986), “A framework for comparative analysis of European media policy-making”, in D. Mc Quail and K. Siune, *New Media Politics: Comparative Perspective in Western Europe*, Sage, London, 13.

last decade new problems and controversies over the regulation of concentration have emerged. The first section of this chapter summarises the most recent changes of the legal framework of the communications media in Europe.

4.1. Historical Perspective

Two legal texts in 1989 represent, to a certain extent, the beginning of the European Union's regulatory activity in the area of concentration of communications media. In that year the directive referred to as "Television without Frontiers"¹⁵⁰ and the Council's regulation on concentration operations were passed¹⁵¹. The directive's aim was to achieve two priority objectives: the free circulation of television programmes between Member States and the promotion of the broadcasting of a greater percentage of programmes of European origin. Regulation attempted to give the Commission a capacity for manoeuvre to be able to veto concentration operations of a "community dimension" that implied a risk of abuse of dominant positions in the market.

Those two legal texts came into force in a very characteristic economic context: firstly, at the end of the eighties and beginning of the nineties a wave of mergers and takeovers was initiated on a global scale which would continue until the change of century giving rise to the growth of giant communications groups; secondly, as Machet explains, in those years "the burning issue was the emergence of satellite and transfrontier broadcasting, but the European broadcasting landscape was still characterised by the predominance of public service

150 Council Directive of 3 October 1989 on the coordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the pursuit of television broadcasting activities, Official Journal of the European Communities, 17 October 1989.

151 Council Regulation No. 4064/89 of 21 December 1989 on the control of concentrations between undertakings.

broadcasters. In 1982, Europe had only four commercial television channels. By January 1996, this number had soared to 217¹⁵².

From the political perspective, the European Union was making strides in its integration process. In 1986 with the Single European Act, the member countries had committed themselves to establishing an internal market by 31 December 1992, with common initiatives in aspects which until then had been the reserve of national governments, such as fiscal, monetary, social and environmental policy. European integration would receive a definitive boost with the signing of the Treaty of Maastricht in 1993: the single currency was approved and a harmonisation of budgetary policies to achieve greater convergence between markets was decided on.

Later, the Treaty of Amsterdam, which came into force in 1999, would extend the European Parliament's power by establishing the system of co-decision: Parliament had the right of amendment and veto over several aspects, such as the internal market or consumer protection, although it could not by itself promote the passing of legal provisions. Finally, in 2000 the Treaty of Nice was approved, which attempts to adapt the political system of the Union to the entry of new countries in coming years.

With the progressive strengthening of the Community's institutions, the weight of regulation referring to concentration and pluralism in information has passed, in part, from the national Governments to the Commission and Parliament of the EU. This evolution involves power sharing, in which a third type of actor also takes part: the regional communities which, in some European countries, have certain regulatory powers.

However, with the exception of the States with a federal structure, the power of regions to generate their own communications policies is limited to the degree of power ceded by the central governments to re-

¹⁵² Emmanuelle Machet (VI.1999), *Regulation report*, "The Bulletin", 36.

gional governments. The latter bodies demand greater power to act and put forward two basic reasons: a) a large number of the problems of concentration are raised in local and regional areas so it would be logical that those types of concentration operations were supervised by the regional authorities; b) moreover, already from the first talks which concluded in the signing of the Treaty of Rome, European unity was not conceived as a recipe to promote uniformity but rather as a political framework which would guarantee peace and the pluralism of European cultures¹⁵³.

However, there does exist a legal subordination of the regional governments' action to the legal initiatives of the Member States and the Community institutions. The national governments have been more willing to cede part of their regulatory power to Brussels rather than to their regions.

One of the biggest innovations of the legal framework of concentration in the last decade lies in the growing interdependence between some markets and others. Policies cannot be decided in isolation, without analysing the legal changes passed in other countries. The evolution of European legislation, for instance, is only explained by the modifications introduced in the legal framework of the North-American communications market.

In 1996 in the United States the Telecommunications Act was passed, the main legal reform of the audiovisual industry since 1934. The law, among other liberalising measures, eliminated some restrictions referring to the maximum number of radio stations that a company could own: until then, the limit had been seven radio stations on FM and seven on AM in the whole country; with the new law the only condition resided in that more than a certain number of radio stations could not

153 The Commission, the Council and the European Parliament have constantly insisted on that principle from their foundation until the present. See e.g. European Parliament (16.XI.2000), *Resolution on Community Policy in the audiovisual sector in the digital era*, DOCE C 14.

be owned in the same locality; between two and eight, according to the size of the market.

That decision generated several knock-on effects: a) it sparked off a wave of mergers and takeovers in the sector¹⁵⁴; b) the degree of market concentration grew¹⁵⁵; c) the companies' scale economies permitted a reduction in costs and the big channels increased their advertising turnover, because they began to attract the interest of the large advertisers; d) between 1995 and 1998 radio companies' shares increased their value by 35% against the 21% of the Standard & Poor 500 Index.

A few years later, in 1999, the Federal Communications Commission reduced the restrictions established for the ownership of television stations which had remained in force –with very few modifications– since the forties. The new regulations established that a company, in certain conditions, could own two television stations in the same metropolitan area; the limitations on the control of cable systems and vertical integration between the areas of production and the broadcasting of audiovisual programmes were also relaxed¹⁵⁶.

The new legal framework of communications in the United States has permitted the growth of the giant North-American groups which, with a strong position in the most prosperous market in the world, have strengthened their international development strategies. The necessary response from the other side of the Atlantic has been to promote a similar relaxing of the rules and procedures that regulate the concentration of communications companies.

154 "According to Paul Kagan Associates, out of 10,000 radio stations some 4,000 have changed hands since the act was passed, in deals worth around \$ 32 billion". "The Economist" (24.I.1988), *Cable's hold on America*, 67.

155 The seven largest radio companies, which gained 17% of total revenue in 1995, went on to reach 40% in 1998. See Veronis, Suhler & Associates (1999), *Communications Industry Report*, New York.

156 For Tom McQuaide, "the rule changes by the FCC reveal enthusiastic support of corporate growth". (I. 2000), *US Report*, "The Bulletin", 42.

The priority aim of those who have taken part in the modification of the “rules of the game” has been to promote the growth of large European companies, which can stand up to the giant North-American corporations, whilst trying to avoid situations of a predominant position. This criterion has been present both in the decisions of the national regulatory bodies as in those of the Community institutions.

Despite agreement on the general aims, the practical application of those ideas has been the cause of frequent controversies in the last decade; among others, the following can be highlighted:

- a) Is it more effective to establish highly detailed rules or legislate only on general aspects at the same time as allowing the commissions and tribunals charged with watching over the proper functioning of the free market a wide capacity for manoeuvre? Legal texts may not be flexible enough but commissions pose other risks such as a lack of independence, arbitrary decisions and a certain unreliability for companies.
- b) What is the ideal number of competitors in a market? It might seem that pluralism is directly proportional in relation to the number of existing companies; but if there were thousands of car-makers in the world, very few people would be car-owners: if scale economies disappeared, the rise in price would be exorbitant. As the world market is in the hands of about twenty manufacturers, companies are big enough to build cheap cars; and, at the same time, there is just enough amount of competition for there to be innovation and drive to offer an ever better quality-price to potential buyers.
- c) Should the authorities act when there is a risk of a position of dominance or when that risk is confirmed and continues over a period of time? To a certain extent, the answer to this question involves

taking the side of either the market or the State in order to solve quickly and efficiently problems caused by monopolies¹⁵⁷.

- d) How is the audience calculated of a company owning minority shares in communications media? For instance, if it possesses 5% of the capital of a television channel should that audience share reached by the channel be added irrespective of the real control exerted by the company?
- e) How should we deal with concentration operations regarding new media –such as Internet– whose business model is still unfamiliar?
- f) Is the transition, which is taking place in most European countries, from the shareholding approach to the market share approach appropriate¹⁵⁸? The shareholding approach does not present serious problems of interpretation or applicability; but the proliferation of media means that the control of each one of them is tending to be less and less significant.

In contrast, the market share approach poses a practical problem: technological convergence – which weakens some of the traditional barriers between the communications industry sectors – generates new channels and new types of contents hard to classify: interactive television programmes, online editions of newspapers and magazines, radio programmes broadcast on the Internet, etc. To this can be added the growing complexity of the market and debate about the reliability of the audience measurement systems.

- g) What are the real “bottlenecks” in each communications sector? Which bodies should be in charge of keeping a lookout for the possible distortion of competition exerted by the “gatekeepers”, espe-

¹⁵⁷ For instance, “The Economist” (30.IV.1998) suggests that “governments should stop worrying about size and ask only whether a firm can exert market power (...) Even if a firm gains market power, the effect will usually be temporary, because high profits will attract new competitors”. *The trustbusters' new tools*, 64.

¹⁵⁸ A detailed analysis of this issue can be seen in Thomas Gibbons (1998), *Regulating the Media*, 2nd. ed., Sweet & Maxwell, London.

cially in the audiovisual sector?

- h) Finally, should we accept that the relevant function of the media in democratic societies means that there should be a stricter regulation of concentration than in other sectors? This is, at heart, the great issue posed in the Green Paper on Concentration and Pluralism published by the EU Commission in 1992, which, as Doyle explains¹⁵⁹ has still not found an appropriate answer.

In the following sections we shall look at how these controversies have been dealt with in the last decade and which debates have still not been resolved. Firstly we will analyse the activity of the Community institutions and we will then go on to study the protection systems of the free market in European countries.

4.2. The Legal Framework of the European Union

The Community institutions' power to intervene in problems generated by the concentration of communications firms hinges on two pivotal elements: the laws on free competition and audiovisual policy, developed by the EU especially from the eighties onwards. The defence of the pluralism of information could have acted as a third element which regulated concentration; but, as we shall see later, the proposals of the Community directives on pluralism were never passed.

The Treaty of Rome¹⁶⁰ constitutes the legal document establishing the basis for the policy of competition of the Union. Its main provisions applicable to communications companies are the following:

¹⁵⁹ Gillian Doyle (1997), *From 'Pluralism' to 'Ownership': Europe's emergent policy on Media Concentrations navigates the doldrums*. "The Journal of Information, Law and Technology" (3). http://elj.warwick.ac.uk/jil/commsreg/97_3dyl/

¹⁶⁰ Treaty of Rome of 25.III.1957, modified by the Single European Act of 17.II.1986. The articles are referred to according to the already revised text. See La Documentation Française (1992), *L'Union Européenne. Les traités de Rome et de Maastricht. Textes comparés*. Paris.

- Article 81 forbids agreements contrary to competition: for example, pacting the selling prices, as some pay televisions have occasionally attempted to do.
- Article 82 prevents the abuse of a dominant position in the market, for example, limiting production or imposing extremely unequal conditions on third parties for similar services (as has occurred with some cable operators with channel suppliers).
- Articles 31 and 86 oppose the existence of state monopolies and monopolistic rights, although they permit some exceptions. This issue has affected, above all, the duration of sporting rights contracts.
- Articles 87 to 89 try to prevent state aid from distorting free competition. Some private television channels, on the basis of these articles, consider “dual funding” (advertising and subsidies) of public television as contrary to free competition.

The second key document of the policy of competition of the European Union is the EU Council Regulation of 1989¹⁶¹, which permits the Competition Directorate General to analyse and, where necessary, to ban or establish conditions for approving mergers, takeovers or agreements between companies which reach a “Community dimension”. Table 4.I. sums up the legal basis of the Community action and its areas of action.

161 Council Regulation No. 4064/89 of 21 December 1989 on the control of concentrations between undertakings. This Regulation has been modified by the Council Regulation 1310/97 of 30 June 1997, establishing a new threshold for the total business volume of companies involved so that takeovers or mergers have a “Community dimension”.

Table 4.1 EU's Competition Policy: Fields of Action

Area	Legal Basis	Examples in the audiovisual sector
Restrictive Agreements	Art. 81 of the TCE	Approval to create a united company, UIP, consisting of 3 majors (1989) Ban of any agreement between UIP and pay per view stations
Power Position Abuses	Art. 82 of TCE	Sentencing of Radio Televis Fircann and Independent Television Publications for denying third party companies licenses to publish their weekly program schedules
State Monopolies and Monopolistic Rights	Art. 31-86 of the TCE	Ban of exclusivity in television advertising rights granted to commercial TV station VTVM in Flanders
Regulation of Concentration Practices	Recl. 4064/89	Premiere's Ban (1998) Approval of CEE-CEA merger (1996) and merger of Vivendi Canal + Universal (2000)
State Funding	Art. 87-89 of TCE	Approval for funding of the Portuguese public television station RTP (1996)

Source: Carles Llorens (Concentración de empresas de comunicación y el pluralismo, p. 277-278)

The companies that carry out a concentration operation of Community dimension are bound to inform the Commission which usually notifies the competitors and any company that may be affected, so that they can present any objections. This information constitutes work material of great interest for the Commission.

In a first stage, which may be no longer than a month, the Competition Directorate General must decide whether it approves the merger or takeover because it poses no problems for the internal market or whether it must initiate a second stage of analysis which may be no longer than four months. After this time period has elapsed, the Commission may a) approve the concentration operation, b) approve it subject to conditions or c) ban it.

As table 4.2 shows, the Commission analysed 1908 concentration operations until 31 December 2001. Of these, 18 were banned. In almost every year the number of mergers and takeovers analysed has risen : from 63 in 1991 (first complete year in which the Regulation came into force) to 345 in 2000.

Of the 18 concentration operations banned by the Commission, five involved the communications sector: MSG-Media Service, Nordic Satellite Distribution, Holland Media Groep, Cablevisión and Premiere.

TABLE 4. 2 Statistics about the Enforcement of the Council Regulation 4064/89

I. NOTIFICATIONS	90	91	92	93	94	95	96	97	98	99	00	01	Total
Number of notified cases	12	63	60	58	95	110	131	172	235	292	345	335	1908
Cases withdrawn – Phase I			3	1	6	4	5	9	5	7	8	8	56
Cases withdrawn – Phase II				1			1		4	5	6	4	21
II. FINAL DECISIONS	90	91	92	93	94	95	96	97	98	99	00	01	Total
Article, kind of decision...													
6.1 (a) out of scope Merger Regulation	2	5	9	4	5	9	6	4	6	1	1	1	53
6.1 (b) compatible	5	47	43	49	78	90	109	118	207	236	293	299	1574
6.1 (b) comp with commitments	3	4		2	3				2	12	19	28	86
Total 6.1 (b) + 6.2	5	50	47	49	80	93	109	120	219	255	321	312	1660
9.3 partial referral to M. S. (ph. I)			1		1			6	3	1	4	6	22
9.3 full referral to Member States				1			3	1	1	3	2	1	12
Total 9.3 (ph. I)			1	1	1		3	7	4	4	6	7	34
Phase I	7	55	57	54	86	102	118	131	229	260	328	320	1747
9.3 partial referral to M. S. (ph. II)										1		0	1
8.2 compatible		1	1	1	2	2	1	1	3	0	3	5	20
8.2 comp. with commitments		3	3	2	2	3	3	7	4	8	12	10	57
8.3 prohibition		1			1	2	3	1	2	1	2	5	18
8.4 restore effective competition							2					0	2
Total 8		5	4	3	5	7	7	11	9	9	17	20	97
Phase II		5	4	3	5	7	7	11	9	10	17	20	98
Total final decisions	7	60	61	57	91	109	125	142	238	270	345	340	1845
III. Phase II. Proceedings initiated	90	91	92	93	94	95	96	97	98	99	00	01	Total
Article, kind of decision...													
6.1 (c)		6	4	4	6	7	6	11	12	20	19	22	117
IV. OTHER DECISIONS	90	91	92	93	94	95	96	97	98	99	00	01	Total
Article, kind of decision...													
6.3 (a) decision revoked										1		0	1
8.5 (a) decision revoked												0	0
14 decision imposing fines									1	4	1	0	6
22.3				1		1	1	1				0	4
9 request rejected by decisions		1								1		0	2
7.4 derogation from suspension	1	1	2	3	1	2	3	5	13	7	4	5	47

Source: European Commission
(<http://europa.eu.int/comm/competition/mergers/cases/stats.html>)

The first refusal affected the German telecommunications sector: in 1993, Bertelsman, Deutsche Telekom and Taurus (company owned by Leo Kirch) planned to merge in the consortium MSG-Media Service to commercially exploit a pay television service. The Commission decided that that agreement should not be permitted because it considered that the “relevant market” corresponded to the pay television in Germany and not to the television sector as a whole¹⁶²; MSG-Media Ser-

¹⁶² Commission decision 94/922/EC of 9.11.1994, MSG Media Service, DOCE L 364/1, of 31.12.1994.

vice might prevent competition by means of vertical integration in which the main audiovisual operators were involved: Deutsche Telekom (cable and telephone systems), Kirch (production and programme rights) and Bertelsmann (commercial television).

One year later, Norsk Telekom –the largest cable operator in Norway, TeleDanmark– which had 50% of the cable television market in Denmark –and Kinnevik– one of the giant communications companies in Sweden - founded the company Nordic Satellite Distribution; their aim was the distribution of television programmes by satellite both to cable television operators and homes equipped with a satellite dish. Again, the Commission opposed a concentration operation which brought about vertical integration in the audiovisual sector, in this case, in the Scandinavian countries¹⁶³.

In 1996, the Commission opposed the creation of Holland Media Groep (HMG), in which the television channels 4 and 5 of the RTL, Veronica – a channel that had just been privatised – and Endemol which was then the independent production company with the highest turnover in Holland were involved. The Competition Directorate General opposed the creation of HMG because it considered that it would have control of at least 40% of the open television market in the Netherlands and 60% of the television advertising market¹⁶⁴.

In 1996, two Spanish companies, PRISA –chief communications company in the country and sole pay television operator– and Telefónica –main telecommunications operator, which had just been partially privatised– agreed to carry out a joint venture in order to commercially exploit cable television in Spain. The Commission did not authorise the concentration operation because it considered that the two companies could gain a dominant position in three sectors: pay television

¹⁶³ Commission decision of 19.VII.1995, Nordic Satellite Distribution, DOCE L of 2.3.1996.

¹⁶⁴ Commission decision 96/346/EC of 20.9.1995 (HMG), DOCE L 134/32, of 5.6.1996.

contents, management of the systems of cable television and telephone¹⁶⁵.

In 1997, the two main television companies in Germany –Kirch and Bertelsmann– together with Deutsche Telekom decided to share the control of the pay channel Premiere, whilst Leo Kirch gave the undertaking that he would cease in his efforts to set up his digital television platform, DFI. This project was banned because, in the Commission's opinion, it meant too great an amount of vertical integration of the television sector in German speaking countries (programmes, management of subscribers and technology)¹⁶⁶.

In contrast, the Commission has approved other concentration operations such as the agreement between Kirch and News International to develop pay television in Germany, the merger of AOL and Time Warner or the takeover of Universal by Vivendi. These three concentration operations, which took place in 2000, in the Commission's view, did not imply a risk of a dominant position or a degree of vertical integration which could distort free competition.

After analysing the key aspects of Community policy on free competition, we will study the other basic instrument for Commission action: audiovisual policy, whose beginnings can be traced to 1989, with the passing of the Directive of television without Frontiers¹⁶⁷.

Even though from the nineteen sixties the Commission and other institutions such as the European Parliament and the Council of Europe showed interest in the European audiovisual market, until the nineties the regulation of the sector was in the hands of the governments of the Member States. With the Directive of television without Frontiers the Commission began to be able to make use of an instrument to achieve one of its priority aims: the harmonisation of the legal framework of

¹⁶⁵ See European Commission, *Report on competition policy*, Brussels, 1996.

¹⁶⁶ DOCE C 374 of 10.XII.1997, 5. See also press release IP/98/477, of 27.V.1998.

¹⁶⁷ Council Directive of 3 October 1989. DOCE L 298 of 17 October 1989. That legal provision has been modified by the Directive 97/36, DOCE L 202 of 30 July 1997.

television in Europe in order to correct the excessive fragmentation of the market.

Also, the Directive attempted to avoid vertical integration of television companies, for which it established that Member States should guarantee that channels reserve “at least a 10% of their programming budget for European works created by independent European production companies” (art. 5). It also established broadcasting quotas for European works (art. 4) and limits on advertising on television (art.17).

In a document of 2000, the Commission evaluates the level of fulfilment of the independent production quotas indicated in the Directive of 1997: “the results found in the national reports are globally satisfactory”¹⁶⁸. In any case, in the negotiation prior to the passing of the Directive it was clear that only a “compromise agreement of minimum requirements” could be approved, so that its compliance neither guarantees the creation of a real European audiovisual market nor the strengthening of the independent production sector.

The European audiovisual sector has been completed by two other lines of action: the establishment of technological standards, such as high definition television and the 16:9 and digital television standards; and the European distribution of audiovisual contents, articulated through the MEDIA programmes.

The legal provisions referring to technological standards, whose aim was to neutralise Japanese and North American dominance in this field, have not achieved the set aim¹⁶⁹. In contrast, the three MEDIA programmes –as we shall see in the last section of this chapter– have

168 European Commission (2000), *Fourth communication from the Commission to the Council and the European Parliament on the application of articles 4 and 5 of the Directive 89/552/EEC “Television without frontiers” in the period 1997-1998*, E. C. (COM 2000) 442, Brussels.

169 Such has been the case, for instance, with the *Directive 95/47/EC of the European Parliament and the Council of 24 October 1995 on the use of norms for the broadcasting of television signals*: the market has had greater force than the legal norm for the establishment of technological standards in the sector.

been slightly more effective.

The Commission of the European Union has spent much of the nineties exploring the possibility of passing a specific Directive on information pluralism. In 1992, it published the Green Paper¹⁷⁰, which attempted to open up debate on that issue. The Green Paper put forward three possible options: a) No regulation, so that the phenomenon of concentration would continue to be under the vigilance of the Member States and the Competition Directorate General of the EU. b) Establishment of special measures in order to guarantee the transparency of communications companies, above all in the area of ownership. c) Passing of specific legislation on the concentration of communications media in Europe.

As Llorens explains, the industry agreed on reforming the legal provisions on concentration: "the state regulations, based on the number of channels, or on the percentage of shares that the same owner could hold, were becoming obsolete with globalisation and the new technologies of distribution. Disagreement arose out of how the changes should be brought about-whether on a national or European level and along liberalising or harmonising lines"¹⁷¹.

In January 1994, the European Parliament urged the Commission to follow the third option, through the passing of a Directive which would increase the Union's power to intervene. The Economic and Social Committee agreed with the opinion of the Parliament, but the Commission was reluctant to pass a Directive which did not meet with the support of the industry and was viewed with misgivings by the Governments of several Member States.

170 European Commission (1992), *Green Paper of the Commission. Pluralism and concentration of the mass media in the domestic market. Evaluation of the need for Community action*, E. C., Brussels.

171 Carles Llorens (2001), *Concentració de empreses de comunicació y pluralismo: la acció de la UE*, Doctoral thesis, Universitat Autònoma de Barcelona, Barcelona.

Finally in 1996, the commissioner Mario Monti presented a “Proposal for a Directive of the European Parliament and the Council relative to the protection of pluralism within the control of the media”. The proposal established maximum market shares for “monomedia” concentration (the 30% of television or radio audiences) and other levels for “multimedia” concentration (the 10% of the joint audience of daily newspapers, radio and television). Mario Monti’s proposal met with more detractors than he expected: in part, the opposition to Monti’s text stemmed from the fact that he did not specify the concept of “control” of a company, he did not clearly define which was the relevant market in each case, and the application of market shares in small countries was unfeasible. In order to overcome this last difficulty, Monti proposed a flexibility clause, which would allow Member States to authorise companies to go beyond the limits established in the Directive proposal, as long as those percentages were exceeded in only one national market. But this idea did not meet with the necessary consensus either.

In 2000, the European market, aware of the political unviability of Monti’s thesis, dropped the passing of a specific Directive. A document of that year states that “the competition policy must be a suitable and efficient instrument for the prevention of the formation of dominant positions both in relation to the concentration of ownership of communications media in the new digital environment as well as in relation to the safeguarding of pluralism”¹⁷².

Therefore, the concentration of communications companies in Europe continues to be subject to the vigilance of the Competition Directorate General –which makes use of the Treaty of Rome and the Regulation on mergers and takeovers of 1989– and the legal framework established by the member States. This last issue –the peculiarities and tendencies common to each country– is analysed in the following section.

¹⁷² European Parliament (2000), *Resolution on Community policy in the audiovisual sector in the digital era*, DOCE C 14, 16.11.2000, 114.

4.3. Regulation in the Member States

In regulating the concentration of mass media governments pursue two aims, in some respects mutually antagonistic: to promote the development of companies in the sector and to guarantee pluralism or variety in differentiated offers. When the first of these two goals finds itself to be particularly under threat, legislation tends to be more permissive with concentration operations; if, in contrast, national companies are strong and there are few voices in the market, public powers are usually more restrictive.

The aspect of the legal framework of each country also depends on other factors: the ideological standpoint of the political party in government, legal and cultural tradition, strength of the public radio and television system, trade-union pressures and the power of influence of large communications groups¹⁷³.

As occurs in the European Union, the States can make use of two types of instruments to limit concentration. In the first place, they use general legislation on competition, which they apply to mergers, takeovers and joint ventures between companies of any type; secondly, they establish some specific legal mechanisms for the communications sector.

Legislation on free competition in each country bears a certain parallelism to the legal texts on the subject in force in the European Union: the Member States act –with similar criteria to those of the Competition Directorate General of the EU– when the concentration operations do not reach a “Community dimension”.

In almost every country there are Tribunals for the Defence of Competition which inform the Ministry of Finance or the Exchequer when

¹⁷³ One of the most well-known cases in reference to this last issue took place in Italy in 1995: in a referendum, the majority of the citizens voted against the ban on a company owning more than one television channel; obviously, Berlusconi's three channels campaigned against the Italian government's proposal. See Giampietro Mazzoleni and Nicoletta Vitadini (2001), *The Italian Media Landscape*, European Journalism Centre, www.ejc.nl/jr/emland/italy.html.

a takeover or merger might generate abuse of a dominant position; that risk may exist because a company has attained a high level of the market share, or because vertical integration is produced which hinders the entry of other competitors.

In almost every country, companies are required to inform the Tribunal of concentration operations; this occurs, for instance, in Holland, when mergers and takeovers affect companies whose joint business figures are in excess of 113 million euros; in Germany, the minimum figures are of DM 1000 million of joint business figures and DM 50 million in more than one of the affected companies¹⁷⁴.

In some countries, the bodies that regulate free competition are very technical; in contrast, in other cases, decisions are highly influenced by political interests. These opposing elements of technical versus political are also reflected, to a certain extent, in geography: the North (with a greater tendency towards technical application)/South (where control of competition is usually more discretionary)¹⁷⁵.

Specific legislation on mass media clearly distinguishes between the print media and audiovisual media. In the former there are no technical limitations which prevent the existence of as many as the market can accept; in contrast to the licensing system, typical of the audiovisual industry, the press sector is completely open to private initiative.

In the regulation of newspapers three options may be distinguished, of lesser to greater public interventionism: a) in some countries – such as Belgium, Spain or Germany, specific legal regulations on newspaper ownership do not exist; b) in other cases –such as France, Norway or

174 Legislation on free competition and on mass media in Europe is very extensive. In this chapter we will not quote the legal texts from each country, except when it is a particularly significant law. A good compilation can be found in Howard Tumber (ed.) (2000). *Media Power, Professionals and Policies*. Routledge, London. See also Emmanuelle Machet and Serge Robillard (1998), *Television & Culture: Policies and Regulation in Europe*. The European Institute for the Media, Düsseldorf.

175 Jesús Mota (19.III.2000). *Control discrecional de la competencia*. "El País", 20.

Sweden—, public intervention is restricted to aid systems for publishing companies, which attempt to promote a degree of greater pluralism than could be guaranteed by market forces; c) finally, some Governments establish specific measures: rules on crossed ownership between newspaper companies and audiovisual companies (Holland, Turkey and Great Britain) or on the need of public organisms to intervene to approve certain mergers that affect the daily press (Ireland and, again, Great Britain).

In practice, the ownership of daily press in Europe is almost completely subject to general legislation and the market laws. For instance, Great Britain in theory has one of the most interventionist systems, with rules on crossed ownership and the need of ministerial approval for mergers or takeovers that generate companies with sales of over 500.000 copies a day (Fair Trading Act of 1973); but that legal framework has not prevented News International from reaching a high degree of market concentration —above all in the London press— and becoming one of the giant operators of the British audiovisual industry.

Legislation of the audiovisual industry is the result of special historical circumstances: until 1975, public television in Europe was dominated by public monopolies, with the exception of Finland, Luxembourg and Great Britain; in the next fifteen years a deregulation process was initiated of almost every market, with the appearance of new private radio stations and television channels. This process involved the passing of laws which included limits on the ownership of audiovisual media¹⁷⁶.

Until 1975 it was incumbent on the monopolies of each country dedicated to public service to provide pluralism. With the appearance of radio stations and private television channels, legislators established the number of channels that the same owner could acquire (in almost

¹⁷⁶ A good summary of that legislation can be found in André Lange and Ad Van Loon (1990), *Multimedia Concentration Regulation in Europe*. IDATE and Institute for Information Law, Montpellier-Amsterdam.

every country the limit was one, although in Italy three were permitted) and the maximum amount of capital share in each company (which ranged from 100% to 25% of each channel).

The limits on ownership established in the laws of private radio and television were soon shown to be inadequate, confusing and ineffective¹⁷⁷ and posed the following problems, among others:

- a) The development of private radio and television coincided with the entry into force of the Directive on Television without Frontiers in 1989, which attempted to promote the construction of a European audiovisual space. That objective could hardly be achieved if the legal framework of some countries –like France and Spain, which did not allow an owner to possess more than 25% of a channel– was twelve times more restrictive than others, such as Italy, where Berlusconi was the owner of three private national channels. The competitive difficulty of some companies as opposed to others was clear.
- b) The limit on shares contemplated often did not mean in practice “shared control” but the share of sleeping partners. The only problem for the company that managed its channel well lay in that it only obtained the part of profits corresponding to their share in the capital; therefore, successful management meant profitability for the sleeping partners, but, often, managers could not amass enough resources to be able to export their model of the radio or television to other markets.
- c) Companies in the sector were unused to complying with transparency requirements; neither were appropriate ways set up for the prevention of indirect shares, through family members or instru-

177 See Natascha Just and Michael Latzer (2000), *EU Competition policy and market power control in the mediamatics era*, “Telecommunications Policy”, 24, 395-411.

178 Runar Woldt (2000), *op. cit.*, 4.

mental companies. These facts –together, in some cases, with the absence of a system of sanctions– hindered the application of the laws.

- d) Lastly, the number and variety of stations and channels have continued to grow. In that new context, was it reasonable, for instance, that a proprietor could not own more than 49% of a television channel, whose market share did not reach 5%? Did a general channel or news channel or a music or cartoon channel merit the same treatment?

The proliferation of radio stations and television channels, with the resulting audience fragmentation, has brought about a legal change, which some authors succinctly describe as the change from the “ownership model” to the “audience share model”¹⁷⁸. Great Britain and Germany from the beginning of 2001¹⁷⁹ did not impose limits on channel ownership whilst an owner did not gain “undue power of opinion-making” (“vorherrschende Meinungsmacht”). This situation arises when a person or owner company achieves or exceeds 30% of the audience. If the degree of control is slightly less than 30% but the company holds a position of similar strength in a neighbouring market then its power to influence can also be considered as excessive.

When a company exceeds the limit of 30% or holds an equivalent influence, it has three options: a) sell its share of television channels until it holds a share of less than 30%; b) it can reduce activities in relevant neighbouring markets until its overall power is regarded as equivalent to an audience share below 30%; c) it can apply measures which enhance the level of diversity in its programmes or organisation (providing airtime for independent third parties or establishing an independent “programme advisory council”).

¹⁷⁹ Rundfunkstaatsvertrag vom 31. August 1999, in der Fassung des fünften Rundfunkänderungsstaatsvertrags.

¹⁸⁰ Broadcasting Act (1996), HMSO, London.

Legislation on television in Great Britain¹⁸⁰ does not allow an owner with more than 15% share of the total audience time to do any of the following: a) hold two or more licences for Channels 3 and 5, domestic satellite, non domestic satellite, licensable programme or digital programme services; b) hold one licence and have a 20% interest in two or more licensees for such services; c) hold one licence and have a 20% interest in another such licensee; d) provide a foreign satellite service and hold such a licence or have a 20% interest in such a licence; e) hold a digital programme services licence providing two or more of those services. For these purposes, half the audience time which counts for a service in which a company has a 20% interest or more is attributed to its primary audience share.

Other measures relative to concentration of the audiovisual industry refer to the independent production quotas. Governments consider that the presence of production companies with enough size and experience, and with no links to the broadcasting companies of audiovisual programmes are an added element for pluralism. For this reason, some countries, such as France, establish more stringent quotas for independent production than the Community ones¹⁸¹.

In any case, quotas have not had the expected effect: in most European countries, production companies do not maintain broadcasting rights after the first transmission; also, many of the most successful production companies have been bought up by the television companies. If the public authorities studied with greater attention the direct or indirect participation of the television companies in production companies they would discover that often the independent production quotas are not complied with.

181 A decree of 17.1.1990 which sets out the Act of 30.IX.1986 relating to the audiovisual industry establishes that land channels must devote 15% of the net business figure to the acquisition of "independent" productions; the broadcasting channel may not have a direct or indirect share higher than 15% of the capital of those production companies. After between 3 and 5 years, broadcasting rights are handed back to the production company's ownership.

The most recent legal texts try to avoid the existence of “bottlenecks” in the new terrestrial, cable or satellite digital distribution systems. The model of the “must carry” rules is applied to digital technology with the qualification that technology allows for a much greater number of channels to be distributed than a decade ago.

As a basic idea, the public bodies try to prevent whoever controls the technology –cable systems, satellites of terrestrial broadcasting networks– from arbitrarily determining which channels have access to those distribution systems. Often the conditions for approval of some mergers and takeovers include agreements to that effect so that competition is not distorted.

The legal changes over the past decade are explained by several political, technological and economic factors: a) the need to adapt national legislation to the new Community framework, increasingly decisive in the regulation of concentration; b) the search for balance between the strength of the audiovisual industry and the upholding of different voices in the market¹⁸²; c) the wish to find another type of balance; the strengthening of European identity and respect for the plurality of the cultures of regions and small countries; d) the liberalisation of the regulation of the United States - introduced by the Telecommunications Act of 1996 - which has allowed North American groups to grow and seems to require a similar response from Europe; e) the development of new forms of distribution of radio and television programmes; e) the loss of the specific weight of public radio and television; f) the globalisation of markets.

These factors have meant that the communications markets have become extremely changeable which poses problems for the stability of legal frameworks. In the following section we will look at some of the

182 French communications companies complain that they put up with one of the most complicated and restrictive legal frameworks in Europe. See e.g. TV International (11.VI.2001), *French free TV giant faces challenges as regulations limit room to manoeuvre*, 10-11.

EU's and European countries' decisions which attempt to promote pluralism without using anti-concentration legal measures. We will also take a brief look at the main problems and issues still unresolved by the legal frameworks –Community and European countries– currently in force.

4.4. Other Measures for the Promotion of Pluralism

Besides the regulations limiting the concentration of the mass media, both the EU and –especially– the European countries have put into practice different mechanisms for the promotion of pluralism. As we have pointed out, the concentration of the market does not directly depend on the growth of groups but on the number of independent offers which citizens have access to. Therefore, some promotional measures may facilitate the emergence of new communications companies and the survival of others whilst simultaneously the most successful companies in the market carry on with their plans for expansion.

In that sense, the main action carried out by the EU has been the MEDIA Programme: although another priority aim was put forward –the development of the European audiovisual industry– it has promoted independent production for television and the film industry.

The first version of the MEDIA Programme¹⁸³, which was implemented between 1991 and 1995, included, especially, aid for the distribution of audiovisual works. The MEDIA II Programme, in force from 1996 to 2000, was aimed mainly at the pre-production and post-production stages of audiovisual works, because in that way it created a favourable environment for small and medium-sized companies. MEDIA II, as well as funding production and distribution –through loans,

¹⁸³ MEDIA was passed by the Decision 90/685/EEC of the Council, 21 December 1990, relative to the application of a programme for the promotion of the European audiovisual industry.

reimbursable loans and subsidies— has also provided aid for vocational training.

With the conclusion of the MEDIA II Programme, MEDIA Plus came into operation, which will be in force until the end of 2005. This new Programme tries to adapt itself to the changes which digital technology is introducing into the production and distribution of audiovisual works. MEDIA Plus's funds are allocated to vocational training and the production, distribution and promotion of audiovisual contents.

There is a certain controversy on the effectiveness of the MEDIA programmes, to the extent that the last one encountered numerous obstacles for it to be passed. Their lack of impact on the industry, the extremely complicated procedures to apply for aid and the grants criteria have been criticised. In any case, a good number of audiovisual works would not have been made if they had not received the help of MEDIA.

In European countries, the procedures for promoting pluralism in the media have been numerous and frequently no less controversial. Among others, the following are worthy of note:

- a) The existence of public radio and television, as a counterweight to private radio stations and channels. Public media do not only mean there is one more voice in the market, but that—as a recent study by McKinsey shows—they can influence the way the private channels act¹⁸⁴: in the attention given to news programmes, in the type of fiction programmes broadcast, standards of quality, etc.
- b) Aid to newspapers, radio stations, television channels and film companies. Direct and indirect aid to the press was introduced in several European countries in the sixties. As Smith writes, “it con-

184 Adrian D. Blake et al. (1999), *Keeping Baywatch at Bay*, “The McKinsey Quarterly”, No. 4, 18-28.

cerns a strange Robin Hood type of mechanism"¹⁸⁵, by means of which the taxes on extremely profitable activities go towards keeping newspapers in business and avoiding local press monopolies. Direct aid is in force in Finland, Norway and Sweden and –to a lesser extent– in Austria, France, Holland, Portugal and Italy.

Aid for the radio is mainly for non commercial stations or those with cultural aims. In France, for instance, the "Fonds de soutien à l'expression radiophonique" (FSER) are still applied which provide for subsidies for the setting up and functioning of associative radios whose advertising revenues are less than the 20% of total turnover. A similar Fund exists in Holland, with the aim of promoting radio and television productions reflecting Dutch culture. In other countries, such as Denmark, local radios can receive local subsidies.

Occasionally, aid to commercial television channels is linked to the broadcasting of programmes in minority languages: such is the case of TG4 in Ireland, which receives a state subsidy for broadcasting programmes in Gaelic.

In the film industry, the high market share of North American productions –which varies from between 64% in France and Italy to 90% in Holland¹⁸⁶– has led to an aid policy in all of the European countries. Those subsidies, compatible to and complementary with MEDIA, have taken on several forms: aid depending on box-office returns, support for projects of a cultural nature and tax incentives. The greatest efforts for the promotion of the film industry have come from those countries with a longer-established tradition in this field: France, Italy, Great Britain, Germany and Spain.

¹⁸⁵ Anthony Smith (1980), *Goodbye Gutenberg. The Newspaper Revolution of the 1980's*, Oxford University Press, New York, 44.

¹⁸⁶ Statistics from Eurostat, referring to 1998. In that year the American cinema's market share in Europe was 82%.

- c) The criteria for the granting and renewal of radio and television licensing, which –in many cases– prevents companies with the greatest presence in the relevant markets from accumulating media. In Greece, the audiovisual legislation –both that referring to commercial radio and television, and pay television– establishes that concessions must not promote an excessive concentration of ownership; in Germany, the federal states usually award private radio stations to entities with little or scarcely any presence in each one of those markets; in Spain, the commercial television companies have been unable to take part in the first terrestrial digital television license tendering; and in France and Sweden a licence quota is reserved for non-profit community radio stations.
- d) The councils and authorities charged with ensuring the plurality of media. Most European countries have one or several regulatory bodies with different functions: granting and renewing frequencies, issuing reports on concentration operations affecting the media, dealing with complaints from the public, etc.

In some countries –such as Norway and Italy– councils have authority over all the media. In other cases –such as France and Great Britain– there are different bodies for the print and audiovisual media¹⁸⁷. In general, the effectiveness of these regulatory bodies depends on their credibility, which is usually inversely proportional to their dependence on political power. Some institutions enjoy great prestige: “The Independent Television Commission” and the “Radio Authority” (Great Britain), “The Independent Radio and Television Commission (Ireland), the “Alta Autoridade para a Comunicação Social” (Portugal), the “Conseil Supérieur de l’Audiovisuel” (France), “Commissariat voor de Media” (Holland) and the recent “Kommission zur Ermittlung der Konzentration im Medienbereich” (Germany).

187 Jens Cavallin (11.II.998), *European Policies and Regulations on Media Concentration*, unpublished paper.

- e) Development of infrastructures which contents suppliers can benefit from. In some countries, such as Germany and Turkey, the old telecommunications monopolies have taken upon themselves the construction of the cable network for television. A similar phenomenon has occurred with the States intervening in the setting up of Internet connections in homes, schools and universities.
- f) The establishment of requirements for transparency. Almost all the European countries, following the Council of Europe and the European Union's recommendations, apply specific measures for favouring the transparency of communications companies¹⁸⁸. In some countries, newspapers are required to publish the names of the publisher and the editor, although this information may not reflect the political, ideological or economic interests of the proprietors. In the granting of licences for radio stations and television channels stricter requirements for transparency are usually included, such as the obligation to state the name of the shareholders in a specific register.

Neither the legal systems nor the other measures for the promotion of pluralism we have described can avoid conflicts of competition of power, the failure to comply with some legal provisions and the undesired effects of the intervention of public entities.

One of the most serious problems of concentration regulation refers to the relations between communications companies and the regulatory bodies. Governments have several systems at their disposal to put party benefits (favourable public opinion) before the public good (pluralism): discretionary use of public aid; granting radio stations and television channels licences based on criteria of political affinity; and the lack of internal pluralism in the public media. The governments' greater or lesser "orientation towards public service" appears to depend more on the historical, political and cultural will and tradition than on the contents of the legal texts.

¹⁸⁸ See Philippe Mounier and Serge Robillard (1994), *La transparence dans le contrôle des médias*, European Institute for the Media, Düsseldorf (report submitted to the European Commission).

Another difficulty arises from the lack of transparency and in certain cases, of the ineffectiveness or the non-existence of a system of sanctions. Despite the requirements for transparency pointed out, occasionally, the owners of communications companies avoid the established limits through instrumental companies. Some laws lack regulations which make them operative; and, in general, the sanctions stipulated - except in the case of the EU Commission - do not act as a deterrent for those who do not even consider abiding by the law.

The conflicts in jurisdiction originate in the clash between the legal frameworks and the action of Community authorities with the legislation and regulatory bodies of each country. Also the new technologies - such as Internet or satellite channels¹⁸⁹ - make it difficult to determine who has regulatory power. Other times the conflicts in jurisdiction arise in the country itself; the market's changeability has meant that some laws have been given preference over others, without there being a clear framework covering the whole sector. Holland represents an extreme case of that problem: the communications sector is regulated by three specific laws and supervised by four control bodies.

Over the next years, the regulatory bodies of each country will have to gain a greater degree of co-ordination with the Competition Directorate General in the EU; they will also have to mark out their relevant markets and the balance which they wish to achieve between the strength of the communications companies and market pluralism; and they will find themselves forced to give up party interests and improve the technical procedures for the application of laws if they wish to establish a coherent and efficient regulatory framework, making commercial objectives compatible with the public interest.

189 For instance, the VT4 channel is broadcast from Great Britain for the Belgian market. As the Belgian legislation on television advertising is more restrictive than the British, the VMM Group, VT4's competitor, considers that this channel has an unfair competitive advantage.

5. Conclusions and Recommendations

Before listing the conclusions and recommendations to be inferred from this monograph, it would be appropriate to make an evaluation of the effects of media concentration. Consumers, political systems, journalists and the communications companies themselves are passive and active subjects of concentration. For some writers, this phenomenon has predominately negative consequences, as the critical school's studies indicate. For others, concentration is the result of the free play of the market economy, where the strongest and the one that better meets the public's demands wins, as defended by the liberal school. Between both extremes can be found a sizeable number of intermediate positions.

The mass media's function is to serve society. But also, as companies, they need to manage certain resources, assess supply and demand, apply new technologies and improve the quality of their services. Communications companies' growth, vertical and horizontal integration, diversification, internationalisation, segmentation and specialisation are appropriate tools for enhancing profitability and ensuring their survival in highly dynamic markets.

Industrial concentration is perceived by companies as a way of increasing in size, creating scale economies, making savings on production costs and competing to advantage with the rest of the companies in the sector. Industrial concentration does not necessarily require the disappearance of an independent voice from the market, because the launching of new products can generate growth. From a European viewpoint, industrial concentration favours the consolidation of groups competing on an international scale against foreign companies. In the European film market, for instance, the consolidation of a vertically integrated industry with the presence of strong companies on an interna-

tional level would help to restore the audiovisual trade balance with the United States¹⁹⁰.

Of the negative aspects, concentration accentuates the control of a broad number of channels by the same company and, consequently, the risk of the loss of pluralism in information. Mass media concentration lends force to the opinion of a few to the detriment of the freedom of expression of independent actors and new communications media. Concentration can be the cause of the appearance of markets in a situation of oligopoly or monopoly. Occasionally, global concentration processes generate more and more entry barriers for new companies with weaker media groups deprived of the chance to develop, a fact which can be interpreted as a threat to freedom of expression and pluralism¹⁹¹.

The giant companies enjoy greater independence and have more resources on hand in order to criticise decisions made by political institutions; but, conversely, the democratic quality of a country can be impaired when a party or government exerts a decisive influence on communications groups in dominant positions in their markets.

The levels of political participation and the public's opinion on political activity depend, to a great extent, on the information transmitted by the media. In the last twenty-five years, numerous scientific studies have been published which attempt to analyse the correlations between the media's dominant messages, the issues which attract public interest and their political decisions¹⁹². It seems to have been demonstrated that the media influence the agenda of the issues which attract public attention and become subjects for debate; in contrast, it is not so clear that they can substantially modify public opinion.

190 See C. Hoskins, S. McFadyen and A. Finn (1997), *Global television and film*, Oxford University Press, Oxford.

191 See My von Euler (1998), *World communication report*, UNESCO, Paris.

192 See Noelle-Newman (1974), *The Spiral of Silence, a theory of public opinion*, *Journal of Communication*, (45-51).

If a high number of companies have the ability to “mark the agenda”, giving more importance to some news items and undervaluing others, certain groups’ power is neutralised by the activity of others. In contrast, when a company dominates the market, it can strike off certain relevant issues from the agenda and introduce others. It can also reinforce its negotiating position with the political powers.

The risks of an excessive accumulation of political power and the mechanisms used to avoid this are well known. In contrast, when that power falls to the communications companies we do not know what the maximum degree of reasonable influence is and how to limit excessive concentration.

In Europe, over the last decade there have been numerous debates on pluralism and mass media concentration¹⁹³. Legislation has been modified in every country and the sharing out of authority between the Commission and the Member States is still the cause of frequent debate. The key issue lies in finding the balance between the two types of interests: the public’s which wishes to have access to a variety of information sources and the companies’ which wish to reach sufficient size to be able to compete on an international scale.

Often, legislation has ensured a variety of media available to the public but at the cost of an excessively fragmented industry. Other times, companies have encountered few restrictions to their growth plans, but monopolies and abuses of a dominant position in the market have arisen.

There are numerous factors related to the impact of media concentration on the public: the geographical situation of the product, if the offer can be substituted for another, the company’s composition, the journalists’ degree of independence in each company, how the compa-

¹⁹³ See Cares Llorens Maluquer (2001), *Concentració de empreses de comunicació y pluralismo: la acció de la UE*, doctoral thesis, Universidad Autónoma de Barcelona, Barcelona.

ny is managed, the public as receptor, the information offer from other geographical markets, etc. The risk of monopolising information is inversely proportional to the size of the market where the communications group operates. For example, a greater degree of concentration is generated in regional and local markets than in national markets.

The impact of concentration can also be due to the mercantilisation of the media: contents are increasingly determined by owners and managers in detriment to journalistic criteria. The excessive market quota of a few groups can form an entry barrier for innovative media that propose a different news or entertainment model. The self-sufficiency of leaders can involve a loss of creativity and of quality in contents. In preventing the abuse of a dominant position governments promote diversity, the creation of market niches, fragmentation and the plurality of information. In another way, competition for audiences will mean that the contents will become uniform to the detriment of quality. But the homogenization of media contents is more the consequence of "imitation strategies" than of the concentration of communications companies.

The critics of concentration usually point to negative situations which are not always the direct consequence of the growth of companies: the absence of a critical attitude on the part of journalists, the homogenization of the contents, less attention given to local interest issues, the trivialisation of information¹⁹⁴.

As a recent study shows, the heavy dependence on advertising investment means that newspapers moderate their political messages with the aim of attracting a larger audience quota¹⁹⁵. Managers' lack of independence when faced with the pressure of advertisers can be miti-

¹⁹⁴ See Davide Croteau and William Hoynes (2001), *The business of media: corporate media and the public interest*, Pine Forge Press, Thousand Oaks.

¹⁹⁵ See Jean J. Gabszewicz, Dider Laussel and Nathalie Sonnac (2001), *Press advertising and the ascent of the 'Pensée Unique'*, "European Economic Review", No. 45, 641-651.

gated by strong groups, which reach high market quotas and are less vulnerable to pressures exerted by advertisers. On the other hand, empirical studies on the relationship between concentration and pluralism do not show that the combined ownership of newspapers implies a less critical attitude towards political power¹⁹⁶: to condemn the effects of concentration without empirical proofs is an ideological supposition but does not achieve the status of a scientific proposal¹⁹⁷.

The advance of concentration in many countries of Europe around the middle of the twentieth century gave rise to numerous studies on the creation of newspaper chains, the disappearance of independent titles and the effects of this structure on local markets. Bagdikian's classic work on the concentration of media power in the United States established the basis for the "critical theory" on the increase in power of the giant groups¹⁹⁸.

Years later, McQuail brought together the main hypotheses of the critical researchers on the situations of the press in monopolistic markets:

- a) The acquisition of a newspaper by a national chain produces a loss in local news and opinion services,
- b) The disappearance of a rival newspaper reduces diversity of information and opinion in that market and
- c) When an independent newspaper becomes part of a chain its critical capacity and editorial independence are diminished.

But McQuail is careful to specify that in spite of the numbers and the *creativity of the research*, it is difficult to avoid the conclusion that the empirical studies have been unable to *identify clear general effects*

¹⁹⁶ See David Demers (1999), *Global media: menace or messiah?*, Hampton Press, New Jersey.

¹⁹⁷ See Peter J. Humphreys (1996), *Mass media and media policy in Western Europe*, Manchester University Press, Manchester.

¹⁹⁸ See Ben Bagdikian (1990), *The Media monopoly*, Beacon Press, Boston.

on the balance of costs and benefits of concentration¹⁹⁹. In certain markets there can be at the same time a plurality in the owners of the media and a lack of variety in the contents. The opposite situation is also possible: lack of plurality in owners, but a huge variety in political standpoints. For Nieto, “pluralism is more in what the media communicate than in who controls the media”²⁰⁰.

Criticisms against newspaper chains do not only refer to contents, but also to other factors: the dominant position for the establishment of prices, the profit motive as exclusive criterion for decision-making, or a fall in quality; but these criticisms can never be proved as universally valid²⁰¹.

Concentration has positive implications for companies. With mergers, the launching of new products and the increase in the market quota, communications groups exploit their high fixed costs to the full. A communications market in free competition is characterised by the differentiation in products and the offer of different ideas and approaches. The very nature of the media market implies the differentiation of products to attract audiences. In this situation – the need to create scale economies and to differentiate the product – some markets will tend to become heterogeneous oligopolies²⁰².

As well as concentration, globalisation, in the opinion of some writers, is harmful for democracy. For Herbert Schiller, the internationalisation of the communications companies’ capital allows the creation of “cultural predatory giants”. With deregulation, concludes Schiller, the

199 See Denis McQuail (1998), *La acción de los medios: los medios de comunicación y el interés público*, Amorrortu editores, Buenos Aires.

200 Alfonso Nieto (2001), *Time and the information market: the case of Spain*, Media Markets Monographs, EUNSA, Pamplona.

201 See R.G. Picard and J.H. Brody (1997), *The Newspaper industry*, Allyn and Bacon, Boston.

202 See J.V. Cuilenburg in R.G. Picard (ed.) (2000), *Measuring media content, quality and diversity*, Turku School of Economics and Business administration, Turku.

State's ability to intervene and socially manage the system has diminished²⁰³. Concentration, the construction of macro-conglomerates and hiper-commercialisation are –from the critical perspective– the greatest blemishes on the face of the mass media²⁰⁴, and represent the biggest threat to the democratic system²⁰⁵. Many of the analysts who defend these standpoints urgently demand a stricter regulatory policy to curb the growth of global multimedia conglomerates²⁰⁶.

But other researchers continue to have a more optimistic view of the situation: the free play of supply and demand does not guarantee that markets are always open to competition, but, in practice, the proliferation of media means that there are increasingly fewer cases of a lack of pluralism; for that reason –they add– excessive State intervention generates negative side effects which are more serious than the problems they attempt to correct.

As we have already shown, the communications market in Europe poses three types of basic problems:

- The situation of domination of the leading companies in pay television, the music industry and film distribution: in these areas, the main companies obtain high market quotas in the greater part of the Community countries. In contrast, in other sectors, such as the daily press, radio or commercial television, audience leadership is always in the hands of the companies of their own country, with the exception of the French-speaking area of Belgium, Austria and United Kingdom. The financial press, magazines and the publish-

203 Cr Howard Tumber et al. (2000), *Media Power, professionals and policies*, Routledge, London.

204 See R.W. McChesney (1999), *Rich Media, Poor Democracy*, University of Illinois Press, Illinois.

205 See Robin Andersen and Lance Strate (ed.) (2000), *Critical studies in media commercialism*, Oxford University Press, Oxford.

206 See Leo Bogart (2000), *Commercial culture: the media system and the public interest*, Transaction publishers, New Jersey.

ing industry are found to be in an intermediate position as far as the existence of large companies with a dominant position on a European scale are concerned.

- The dominant presence of North American capital in some sectors: such is the case in advertising (through the European subsidiaries of the large multinationals), film distribution (concentrated in companies which are the property of the great “majors” of Hollywood), pay television (if we consider that a large part of Vivendi’s capital is in the hands of pension funds in the United States, and that Rupert Murdoch, the principal owner of the second largest operator –BSkyB–, has North American citizenship) and the music industry.
- The excessive fragmentation in several markets which hinders competitiveness of European companies at a worldwide level. The small average size of the European companies produces a decisive disadvantage, for example, in the production of audiovisual works.

In this report, after analysing the quantitative statistics of the European market and keeping in mind the reflection of each expert from the Member countries, we put forward several recommendations which could serve as a guide for the European Union’s regulators.

- a) Concentration operations: the continuation of a policy favouring the consolidation of big European communication companies –like the merger of Vivendi and Universal or the alliance between Ufa and CLT–, provided that this does not produce dominant positions in the market.
- b) Control over mergers and takeovers: maintain the “single authority” system in the review of these operations (the Commission of the European Union or each country’s government).
- c) Consideration of the “Community dimension” to mergers and takeovers: the threshold of minimum turnover could be lowered to 2000 million euros, so as to broaden the Commission’s

capacity to ban concentration operations. This measure would require a re-modification of the Council Regulation 4064/89, of 21 December, on Control of concentrations.

- d) Review of the laws on private radio and television: the proliferation of channels recommends the development of the “ownership model” (establishing strict limits on the ownership of each channel, even though it has a low audience), to the “audience share model” (limiting the total audience that a company can achieve through several channels), as has already been done in Great Britain and Germany.
- e) Vertical integration of the audiovisual industry: it is important the Commission continue its endeavours to prevent the distribution control systems from interfering with the contents producers’ access to the public. The “must carry” rules of the cable operators and regulation on compatible decoders are good examples of this policy.
- f) Cinema film distribution: suggest to the Member States they revise the efficiency of protective measures of free trade in the area of cinema films in order to avoid North American predominance. For example:
 - prevent block sales of films,
 - prevent Control of cinemas by large production companies.
- g) Transparency in communications markets: legislation would be worthwhile in this area in order to facilitate free trade. This decision is one of the three proposed in the Green Paper on concentration and information pluralism published by the Commission in 1992.

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