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ABSTRACT

The Media Management and Education section of the Proceedings contains the following 9 papers: "Communication Technique: How Does a U.S. Record Company Identify, Target and Reach Its Audience in an Ever-Competitive Marketplace?" (Lisa L. Rollins); "Supplier-Buyer Relationship in the Global News Value-Chain in the Internet Age" (Yong-Chan Kim); "The Relationship of Circulation Performance, Environmental Uncertainty and the Market Orientation of Daily Newspapers" (Randal A. Beam); "Viewing Motivations and Implications in the New Media Environment: Postulation of a Model of Media Orientations" (Jack C. C. Li); "Black Newspapers: In Search of an Advertising Strategy" (George Sylvie and Lucy Brown-Hutton); "Opening the Umbrella: An Economic Analysis of Online Newspaper Geography" (Hsiang Iris Chyi and George Sylvie); "New Entrant, Competitive Strategy, and Consumer Welfare in the Cable Television Industry" (Kuo-Feng Tseng); "History of a Business Decision: Ralph Ingersoll II Decides to Create the 'St. Louis Sun'" (James E. Mueller); and "The Myths and Realities of Newspaper Acquisition Costs: Fiduciary Responsibilities, Fungibility of Assets, Winners' Penalties & Excess Cash 'Problems'" (Dane S. Claussen). (RS)

Proceedings of the Annual Meeting of the Association for Education in Journalism and Mass Communication (82nd, New Orleans, Louisiana, August 3-8, 1999): Media Management and Education.

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Submitted to: Media Management and Economics Division of AEJMC
for the 1999 Convention in New Orleans.

Abstract

Communication Technique: How does a U.S. record company identify, target and reach its audience in an ever-competitive marketplace?

This is a case study of the methods and strategies employed by a U.S. record company, Arista/Austin, to introduce its prerecorded music products and artists to a target segment. Findings indicate that the media company's concentrated marketing focus upon a particular demographic is resulting in the exclusion of other potential consumers.

Because of the eclectic nature of rock 'n' roll, many characteristics should be considered before a marketing campaign is created and then implemented for a target audience. Thus, if Arista/Austin is to achieve optimum returns from its investments, it is crucial that the organization utilize effective internal communication techniques so that its external communication and marketing efforts are strategically aligned with the proper segmentations.

Although many theorists view the genre as simply another form of mass communication, often researchers suggest rock 'n' roll is a cultural event of many complexities that may be entered into in many different ways depending upon its segmentation. This study illustrates the current communication and marketing techniques employed by a Nashville-based rock label to identify and reach its audience.

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Statement of Purpose

As advertising and marketing costs continue to climb, it has become increasingly crucial for companies, if they are to be successful, to first identify and then properly market to the appropriate internal and external audience segments. No matter the nature of their business, organizations employed to garner a profit must effectively reach only those most interested in receiving the message that they wish to send,[1] if they wish to remain commercially competitive.

Nonetheless, such audience/market segmentation[2] is not always clear cut, especially when it comes to genres of music. While natural media venues are obvious for certain tastes (country music, for example, boasts two national cable television networks, *The Nashville Network* and *Country Music Television*; many commercial radio stations; and numerous market-specific publications such as *Country Weekly* and *Country America*, to name but two), others are not as easily targeted. Rock 'n' roll, in fact, as a mass communication, is inseparable from its audiences. Moreover, in its creation of a culture, it is devoted to providing an escape or temporary distraction from the often-oppressive realities of our world.[3] This study, then, will consider the marketing of rock music, a music genre which--due to its eclectic nature--makes it difficult for music promoters to cost efficiently reach their potential audience.[4]

[1] James S. Ettema and Dr. Charles Whitney, eds., *Audiencemaking: How the Media Create the Audience* (Thousand Oaks, CA: Sage Publications, 1994), 182. It should be noted that the lack of fit between audience and market is intentional at times, especially within commercial media organizations, where executives are concerned only with those audience members who have appeal for potential advertisers. Thus, in some instances media researchers may not be interested in measuring certain parts of their audience.

[2] Ettema and Whitney, *Audiencemaking*, 11-12. The actual receivers of media-created messages influence power within an organization only if they have been designated by a media company to be a desirable market segment. However, the means by which these receivers come to be constituted as measured, segmented audiences that have an effect within the media groups are technically and organizationally complex.

[3] Lawrence Grossberg, "Rock and Roll in Search of an Audience," in *Popular Music and Communication*, ed. James Lull (Newbury Park, CA: Sage Publications, 1987), 176.

[4] Deborah Evans Price, "Artists, Labels Forge Tour-based Marketing Strategies," *Billboard*, 8 November 1997: 34. According to a recent article in *Billboard*, a leading publication and information source for the music industry, during the past few years it has become increasingly difficult to market new music in all genres due to a surplus of artists and diminishing radio playlists.

Using a case-study approach, this paper will consider the marketing strategies of Arista/Austin,[5] a rock record label with its headquarters in Nashville, Tenn., and an office in Austin, Texas.[6] It will probe the difficulties in reaching this hard-to-target audience and will offer suggestions. Additionally, as a new record company within one of the world's most successful music organizations,[7] the application and findings surrounding Arista/Austin will have generalizable implications for those seeking to first identify and then communicate a message to a taste-specific audience.[8] More specifically, the results of this study will be directly applicable to record labels and artist-related organizations involved in the day-to-day public relations, press agentry and marketing of the music industry--from publicity/media services and promotion teams to those directly concerned with product or artist marketing.

The Competitive Environment

Because Arista/Austin is owned by the BMG, one of the six major entertainment companies which concern themselves with record activity and distribution, the new rock label has the advantage of being backed by a global industry leader.[9] Furthermore, in spite of the fact that some

[5] BMG Entertainment North America: Music Labels/Arista Nashville [On-line]. Available: http://www.bmg.com/labels/arina.html. Arista Nashville, a division of the publicly held BMG Entertainment, launched Arista /Austin, along with Arista/Texas and Arista/Latin, in 1993 to expand its presence in rock and Tejano/Southwestern music, respectively. To date, Arista/Austin's artist roster comprises Robert Earl Keen, Abra Moore, Sister 7, Radney Foster, and Jeff Black.
[6] Austin Record Labels [On-line]. Available: http://eunuch.ddg.com/AMW/Labels/labels.index.html. Arista/Texas, including Arista/Austin, is the first major label to establish a headquarters in Texas.
[7] Paul Verna, "Arista To Follow Up Strong Fiscal '97: Upcoming Releases To Continue Successful Strategy," *Billboard,* 26 July 1997: 6. According to a statement issued by Arista Records, for the year ending June 30, 1997, Arista Records logged record sales and closed its latest fiscal year slightly ahead of the comparable period the year before. Although the company does not disclose earnings, the statement notes that '97 was its best-ever fiscal year and that Arista's combined singles-market share, including sales of its distributed labels, "surpasses that of all other labels and distribution companies. ..."
[8] Ettema and Whitney, *Audiencemaking,* 174-175. The authors have observed that the recent lackluster performance of the popular music industry may be attributed to the musical desires of actual audiences which do not coincide with current radio formats (e.g., Album-Oriented Rock (AOR), Country, Rap, etc.) and record categories (e.g., alternative, country, R&B, jazz, etc.). In turn, categorizing constraints may serve not only to frustrate creative individuals by forcing them to shape their work, or music, to fit current conventions, but also act as "shapers" in regard to fundamental categories of expression.
[9] Charles H. Hall and Frederick Taylor, *Marketing in the Music Industry,* (Needham Heights, MA: Simon & Schuster Custom Publishing, 1996), xiii. According to the authors, almost all record activity, including labels and distribution, has been distilled down to BMG, CEMA, Sony, WEA, UNI and PGD, all of which are said to be multinational organizations with more than music as their sources of revenue.

major labels recently have closed their doors or downsized[10] due to an overabundance of competition in the marketplace,[11] not to mention lackluster sales in the industry overall,[12] Arista Records recently has managed to score annual record sales of more than $400 million.[13]

"I don't believe in emphasizing areas [such as focusing on increasing record sales within a specific genre, be it pop, rap, rock or country]," said Arista (U.S.) President Clive Davis, regarding the label's latest financial success. "When an artist excites you, you sign them if you feel that they could be significant [to the label over time, meaning that they have the potential to create a unique market niche and fan following of their own, and eventually, yield substantial record sales for the label]."[14]

Additionally, Davis credits the company's success to the fact that Arista has "taken the slow, steady route, not the glitzy route of buying major superstars and creating a staff of hundreds of people. What we stand for is internal growth, all developed from scratch, with a careful, select approach to signing artists."[15]

In turn, Roy Lott, Arista (U.S.) executive vice president and general manager, attributes the company's latest financial gains "to a decision at the very beginning of the '90s to diversify and

[10] Phyllis Stark, "Country Artists Facing A Competitive Marketplace," *Billboard,* 19 April 1997: 99. Note: Labels such as A&M Records closed their Nashville offices in late '96, for example, while many other labels, including the Nashville-based MCA, BNA, RCA, Giant, Curb, Almo Sounds, and Magnatone Records, to name but a sampling, significantly pared down their artist rosters. Among those recording artists who were released or dropped in 1996-97 from their respective Nashville-based labels are RCA's Lari White, Ty England, Jim Collins, and Jon Randall; MCA's Bobbie Cryner; BNA's Sister Morales; Giant's Chris Ward, Doug Supernaw, and Graham McHugh; Asylum's Curtis Day and Jerry Kilgore; and Epic's Ken Mellons, among others.
[11] Chet Flippo, "Universal Closes Rising Tide; Some Acts May Move to MCA, Decca," *Billboard,* 21 March 1998: 10,121. According to the author, the 2-year-old Rising Tide label of Nashville closed its doors March 10, 1998, due to the "recent proliferation of new Nashville labels"--namely, the newly formed Lyric Street and Dreamworks Nashville labels--and "the current competitive conditions" of the music industry. Rising Tide's closing left 10 artists without a label.
[12] Susan Nunziata, "Merchants & Marketing," *Billboard*, 29 March 1997: 63. According to a national music consumer study by Soundata, "music sales have been flat since 1994." The study was released at the National Assn. of Recording Merchandisers Convention in Orlando in March '97.
[13] Verna, "Arista To Follow Up Strong Fiscal '97: Upcoming Releases To Continue Successful Strategy," 6. According to a July 14, 1997, statement issued by Arista Records, for the year ending June 30, 1997, the company's annual record sales totaled more than $400 million, making '97 its best fiscal year to date.
[14] Verna, "Arista To Follow Up Strong Fiscal '97: Upcoming Releases To Continue Successful Strategy," 6.
[15] Verna, "Arista To Follow Up Strong Fiscal '97: Upcoming Releases To Continue Successful Strategy," 6.

expand the repertoire supplying entities that are part of Arista,[16] whether it be our Nashville operation or the current [rap music projects] LaFace or Bad Boy ventures. ..."[17]

Although the BMG-owned Arista--including Arista/Austin--currently leads in record sales, it is still engaged in actively competing for consumers' buying dollar, and it is a competition that never ceases. In looking at the industry as a whole, Arista/Austin's chief competitors are those labels which are owned or distributed by fellow industry giants CEMA, Sony, WEA, UNI and PGD.[18]

"We're basically competing with major rock labels," said Athena Fortenberry, Arista/Austin's manager of media and publicity, regarding the new label's primary competitors. "We're actively competing with (labels such as) Atlantic, Warner Bros., Elektra and others, and they have huge, huge rosters of artists, not to mention huge staffs ... (and) we hope we are not competing against with ourselves.[19]

"We try to have a synergistic relationship with (Arista Records') New York and L.A. Arista offices. They do have a lot (of artists), but a lot of what they work is very different from what we work ... (and) a lot of their talent has to be differentiated (from Arista/Austin's rock roster)," she added.[20]

"It's not like we don't want them to help us, but we have to distinguish ourselves from their offices because when a radio programmer gets a CD from Arista, what are they thinking right off the bat? They're thinking, 'Oh, this is a (pop artist) Whitney Houston or (rap artist) Puff Daddy.' I mean, what's going through their minds? And we want them to think that this is something that might be a little left of center," said Fortenberry. "This is coming from the

[16] Verna, "Arista To Follow Up Strong Fiscal '97: Upcoming Releases To Continue Successful Strategy," 84. According to sources quoted in the article, Arista has chosen to rely upon outside talent-finding sources such as Antonio "L.A." Reid and the Bad Boy Entertainment to find new artists. Traditionally, labels have relied upon their own artists and repertoire (A&R) staffs to discover, sign and then develop new recording acts.

[17] Verna, "Arista To Follow Up Strong Fiscal '97: Upcoming Releases To Continue Successful Strategy," 84.

[18] Hall and Taylor, *Marketing in the Music Industry,* xiii. According to the authors, in the 1970s and early '80s industry giants BMG, CEMA, WEA, Sony, UNI and PDG began to concentrate many labels and operations within the aforementioned six companies by offering small and new labels distribution deals with financing. Thus, while the number of major companies did not increase, the dominant six acquired a greater share of the independent record market.

[19] Athena Fortenberry, manager of media and publicity for Arista/Austin's Nashville office. Interview by the author, tape recording, 19 February 1998.

[20] Fortenberry, interview.

Arista/Austin end of it--this is a Sister 7, an Abra Moore, a Jeff Black. We want them to try and think like that."[21]

Nonetheless, a recent change of significant note within the music business is that independent record labels and distributors--that is, those companies that are not owed by or aligned with one of the six major industry leaders--currently account for 20 percent of the overall sales volume in the industry.[22]

Regarding industry sales by genre, alternative/rock was the best-selling genre in 1996, with 105 million units of music sold--an increase of 11.9 percent over the previous year's sales figures.[23] (Rhythm 'n' blues was alternative/rock's closest genre competitor, with sales of 74 million units, while country music came in third, with annual sales of 66 million units.)

Moreover, in spite of the fact that Arista Records is one of, if not *the* largest and most commercially successful record companies in the world, it is crucial that the organization know precisely who its target audiences are so that its staff can select appropriate and effective communication techniques for specific target groups. This is also true of fledging rock label Arista/Austin as well as any other media organization, because if a media entity does not know who it wants to receive its messages, inappropriate or incorrect audiences may be targeted inadvertently. To do so would result in wasting a considerable amount of a company's money and manpower, with absolutely no return--or generated record sales--from the investment.[24]

Audience Identification

[21] Fortenberry, interview. Note: Arista/Austin's current roster comprises Sister 7, Abra Moore, Jeff Black, Robert Earl Keen, and Radney Foster.

[22] Hall and Taylor, *Marketing in the Music Industry,* xiii. Although many independent record companies and distributors joined forces with the "big six," not all small labels could or would join forces with the six major companies. New genres of music that emerge into an independent network have been part of the business for years, but accounted for a very small percentage of sales. According to the authors, only recently have these independents accounted for 20 percent of the industry's overall volume. This is due, in part, to the fact that "a couple of 'mega hits' ... can change the order almost overnight" in the world of music business.

[23] Nunziata, "Merchants & Marketing," 63. Data reported is per a Soundata national music consumer study released by SoundScan during the National Assn. of Recording Merchandisers Convention, held on March 8-11, 1997, in Los Angeles.

[24] Starck, "Country Artists Facing A Competitive Marketplace," 99. According to a source quoted in this *Billboard* article, it costs a minimum of $150,000-200,000 to record an album. However, with video, production, shipping and production costs added in, that figure can easily be as high as $750,000 to a million dollars *before* an album's first single, or selected song for promotion, is distributed to radio stations or retail outlets

Because many people are involved in bringing a recorded product to the marketplace, it is of key importance that those involved are focused upon reaching a clearly identifiable market and the right audience segment so that the most effective communication strategy for that particular audience is utilized. Frequently, techniques such as demographic segmentation, which divides the market into segments based on demographic variables such as age, gender, sex, occupation, income, etc., are employed when attempting to target a specific audience.[25] However, in regard to reaching music buyers, more important than demography are the differences in buyer attitudes, motivations, values, patterns of usage, aesthetic preferences, self-concepts, attitudes, feelings, activities and personality traits, all of which are known as psychographics.[26] In today's music climate, demand is increasingly turning more toward elusive factors such as how a music product fits a consumer's self-concept or how it makes the buyer *feel*. Hence, psychographic tools provide music marketers with information that helps them readily identify potential consumers of music products.[27]

One of the primary shortcomings of the analysis of rock music by cultural and communication theorists, in fact, is its treatment as merely another form of mass communication rather than as a specific genre or cultural event of many complexities.[28] As such, it may be entered into in many different ways depending upon its segmentation, according to author Lawrence Grossberg, for rock 'n' roll is implicated in a struggle for not only the money of its consumers but for their minds as well. Says Grossberg: "Rock and roll ... is inseparable from its audiences. Consequently, every interpretation of the musical texts also interprets their audiences, as well as the relationship among them."[29]

Even Arista chief Davis knows that mismatching an artist with its potential audience can be fatal--not only to the music product being promoted, but to the recording talent as well. Says

[25] Hall and Taylor, *Marketing in the Music Industry,* 4.
[26] Hall and Taylor, *Marketing in the Music Industry,* 4. Psychographics is a quantitative research method that attempts to measure consumer behavior on psychological constructs as opposed to strictly demographic (e.g., age, gender, etc.) segmentation. Ideally, there are five kinds of psychographic studies that may be utilized for music-marketing purposes: the lifestyle profile, product-specific psychographic; general lifestyle segmentation; personality traits as descriptors; and product-specific segmentation.
[27] Hall and Taylor, *Marketing in the Music Industry,* 4.
[28] Grossberg, "Rock and Roll in Search of an Audience," 176-177.
[29] Grossberg, "Rock and Roll in Search of an Audience," 176.

Davis: "An artist can be extremely gifted and yet remain unsuccessful if he or she records the wrong music, or gets an image that confuses potential audiences. The best example of this was Columbia's painful inability to break Aretha Franklin. ..."[30]

Currently, Arista/Austin's artist roster comprises five rock-oriented acts or performers: Robert Earl Keen, Sister 7, Jeff Black, Radney Foster, and Abra Moore; the latter of whom is arguably the new label's most commercially successful talent, thanks to a 1997 Grammy nomination for "Best Female Rock Vocal Performance" and record sales of approximately 65,000 for her first disc titled *Strangest Places.*[31] Thus, with a rock-based alternative[32] talent roster, Arista/Austin's team must focus upon a specific consumer; namely, the music buyer who is considered to be "an active music consumer."[33]

Regarding Arista/Austin's eclectic talent lineup, Fortenberry said, "Every artist has kind of their own sound. It's very difficult to limit the scope, because they are going to all different formats of music, and we do push all different formats with a couple of different (music projects). The diversity in appeal is great, but it's also all-encompassing.[34]

"With Arista/Austin artists, we are dealing with so many different (music genre) outlets and formats,"[35] she added. "You're dealing with country, all kinds of country, alternative country, folk

[30] Clive Davis with James Willwerth, *Clive: Inside the Record Business,* (New York, NY: William Morrow & Company, 1975): 147. R&B/gospel recording star Aretha Franklin was signed to Columbia Records in 1960, where she released several singles but was unable to achieve commercial recognition or success. She later signed with Atlantic Records, where producer Jerry Wexler is credited with guiding her sound to one which was based in gospel, with infectious songs and driving melodic hooks. Upon redirecting her sound, Franklin came to be considered "one of the all-time greats,"according to the author.

[31] Fortenberry, interview. Also, it must be noted that Moore's album sales were expected to continue to increase upon the release of more singles from her debut album, *Strangest Places.*

[32] Carey Prince, manager of media for Arista/Austin's Texas office. Telephone conversation with the author, 27 January 1998. Note: Prince prefers to call the label's music "straight-ahead rock 'n' roll" vs. other tags.

[33] Nunziata, *"Merchants & Marketing,"* 63. According to a 1996 Soundata study released in spring '97, an active music consumer is one who is at least 12 years of age or older and has made at least three purchases of prerecorded music in the past six months. Per the study, there are approximately 72 million active music consumers in the U.S., with at least 48 percent of all U.S. households containing at least one person who fits this criteria; these buyers are responsible for an estimated 90 percent of all music purchased.

[34] Fortenberry, interview.

[35] Hall and Taylor, *Marketing in the Music Industry,* 170. The authors define a radio station's format as "the type of audience a station wishes to get and hold via the type of music played."

music, college radio, public radio, Triple A[36] ... and it's really crazy. And it's a lot more competitive, more difficult, than anyone would have ever told me.'[37]

Hence, because Arista/Austin's rock-oriented roster is musically diverse in that its music projects--although considered rock--tend to transcend various music genres, identifying the proper market segmentation is crucial to the success of not only the individual artists, but that of the label itself. In turn, it is crucial for companies that wish to be competitive to determine which communication strategies are best suited for a particular audience, then target that audience. It is here, then, that demographics come into play, because before a company can conceive a strategy and direct it toward a specific audience, its staff members must know not only who they are targeting but also the weaknesses and strengths of their competitors.

It is also in this arena that "coorientation" comes into play. Chaffee and McLeod refer to coorientation as the "simultaneous orientation to concepts, objects or persons.[38] Thus, understanding should be at its peak when the orientation of sources and receivers to the object of communication is clear.[39] Regarding Arista/Austin's key market segmentation, then, if the label provides its staff with only a generic overview of the rock-listening/music-buying audience, optimum results cannot be expected. Therefore, it is imperative that any label--or media firm--identify and service its key target audiences, because the end result will directly affect the position of the organization in the marketplace.

Literature Review

There are several key steps involved in achieving the organizational goals of a company. Overwhelmingly, the label--through its marketing management[40] strategies--must strive to deliver consumers' desired satisfactions more effectively and efficiently than its competitors, as must any

[36] "Triple A" represents the radio format known as "Adult Album Alternative." It is also referred to as "A-3" in music industry publications such as *Radio & Record, Gavin* and *Billboard.*
[37] Athena Fortenberry, manager of media and publicity for Arista/Austin's Nashville office (personal communication, February 19, 1998).
[38] Michael W. Singletary and Gerald Stone, "Coorientation," *Communication Theory and Research Applications* (Iowa State University Press, 1988), 108-109.
[39] Steven H. Chaffee and Jack M. McLeod, *Sensitization in Panel Design: A Coorientation Experiment,* Journalism Quarterly 45 (4), 661.
[40] Hall and Taylor, *Marketing in the Music Industry,* 10. According to the authors, marketing management involves the analysis, planning, implementation, and control of programs to create, build and maintain beneficial exchange and relationships with target markets for the purpose of accomplishing organizational objectives.

successful media firm. In short, any record company's sole hope of attracting attention with a new record is to conceive a departmentally based, unique marketing plan that meshes with an overall marketing plan conceived by product management,[41] and Arista/Austin is no exception--never mind its powerhouse connection to BMG Entertainment.

Furthermore, when *any* record company makes a commitment to release a compact disc/cassette or video by an artist, the marketing strategy generated must encompass all aspects of the exposure, promotion[42] and selling of the product.[43] Much of the activity planned will depend upon the type of music that is being presented to the public as well as whether the artist is an established talent within the public eye or a new artist that must be introduced. The latter activity involves more money, time and event-planning since "baby acts"[44] demand added attention. However, a record company's return on the investment is often greater since new artists are generally "easier negotiators" when it comes to contractual agreements between an artist and the label. [45]

In 1994, Sony Records' Nashville office flexed its creative muscles and emphasized "integrated efforts" when it came time to launch new music by country hit-making artists such as Joe Diffie, Collin Raye and Rick Trevino, among others. For example, the label created a public service announcement (PSA) with Raye for "Little Rock," a song and video dealing with alcoholism. The PSA, which aired on several video outlets and radio stations, offered an 800 number to aid people in finding their local Alanon branch.[46] That same year, Sony also initiated an 800 number called the "Joe Diffie hotline to planet Earth," which consumers could call to hear a

[41] Hall and Taylor, *Marketing in the Music Industry,* 10.
[42] Hall and Taylor, *Marketing in the Music Industry,* 167. Promotion, in regard to the music industry, may be described as an "intricate process that requires detailed radio research." Such research attempts to determine the popularity of a music product via sales to consumers, radio requests, and the movement up and down on radio stations' popularity charts.
[43] Hall and Taylor, *Marketing in the Music Industry,* 10.
[44] "Baby acts" are those performers or groups that are new signees to a label and, subsequently, unfamiliar artists to both music consumers and radio programmers during the initial stages of their recording career. Thus, it requires extra attention, time and money from a label and its staff to introduce them to the marketplace.
[45] Although established artists can garner large record sells in a comparatively short period of time, most of a label's profit results from contractual agreements with new artists, which generally have lower royalty stipulations and rates about who is responsible for "recoupable" costs. "Recoupable costs" may include marketing, tour support, and studio/engineering time, among other expenses.
[46] Maria Armoudian, "Labels Take To the Skies, Turn To Sports and Go Back To School To Market Their Country Acts," *Billboard,* 8 October 1994: 46.

sample of the music from Diffie's then-current album, *Third Rock from the Sun,* as well as a personal message from the artist and touring information. The promotion was tied to *CMT, TNN* and several other regional and video outlets, according to Connie Baer, Sony's vice president of marketing, who calls the 800-number promotion "wildly successful."[47]

Bob Freese, a former vice president of marketing for what is now Capitol Records, said, "Since our budgets are smaller here [at country labels] than at pop labels, we're forced to be more creative in our marketing. We can't buy major [advertisements for label talent in] TV and magazines month in and month out."[48]

Currently, Arista/Austin's preferred method of operation involves signing new talent versus established talent.[49] Thus, in keeping with Arista founder Davis' "slow-build" approach to company growth, the new company, seemingly, is attempting to make its mark in the music world--and its initial profits--by investing in fresh talent. Moreover, because public taste is constantly changing, it is indeed vital that a label have new artists emerging constantly. It has become increasingly difficult over the past few years, though, to "break" or introduce new artists due to a surplus of new signed talent and shrinking radio playlists.[50] Radio, however, remains an integral key--even more so than television exposure, including videoplay on *Music Television* (*MTV*)--in taking a label's new product from obscurity to the greatest number of people in the shortest amount of time.[51] And while it is not the only means by which a label takes it music to the masses, radio airplay[52] remains the "primary goal" of every record company, for consumers cannot purchase that which they have not heard.[53]

[47] Armoudian, "Labels Take To the Skies, Turn To Sports and Go Back To School To Market Their Country Acts," 46.
[48] Armoudian, "Labels Take To the Skies, Turn To Sports and Go Back To School To Market Their Country Acts," 46.
[49] Arista/Austin's five-act roster, limited as it may be, has three "baby acts" (viz., Abra Moore, Jeff Black, Sister 7) and two established acts (viz., Radney Foster and Robert Earl Keen), the latter two of which have tremendous appeal for country audiences. Overall, however, all five acts require aggressive marketing due to the competitive nature of the music industry and radio environment.
[50] Price, "Artists, Labels Forge Tour-based Marketing Strategies," *Billboard,* 8 November 1997: 34.
[51] Hall and Taylor, *Marketing in the Music Industry,* 11.
[52] Hall and Taylor, *Marketing in the Music Industry,* 170. The authors define "radio airplay" as records that are in play rotation on radio stations and being played either frequently or even infrequently, but at least on a daily basis.
[53] Hall and Taylor, *Marketing in the Music Industry,* 11.

Nevertheless, it is indeed possible for media organizations to improve the fit between their market and audience, because a major cause of such mismatches is due to the convenient but oversimplified assumption by media communicators that audiences are passive "receivers" of their "messages."[54] To the contrary, people are actually "*auto*producers" of their own cultural worlds , for they actively process and reinterpret individual communications--including music--to fit within frameworks of that which they already know and believe.[55]

Not surprisingly, rock 'n' roll, with its transitory images--both visual and musical, live and prerecorded, personal and public--is a mass communication in which such "audience-message" oversimplifications abound. Consequently, as Grossberg has noted, "Taste itself is not an answer but a set of questions. If we are to understand the importance of rock and roll to its audiences, and the significance of the audience's youth, we must begin to ask how rock speaks to its fans, in what tongue, or whether it speaks at all. Somehow, we must come to terms with both the activity and the determinateness of both the text and the audience."[56]

Research Questions

The review of previous literature indicates that Arista/Austin understands the importance of securing profits from the cost-efficient perspective of "breaking" new artists in order to achieve a maximum return on their investment. But does the organization fully realize the wide-ranging appeal that its individual artists possess? Does the company take full advantage of "niche-marketing"[57] possibilities, among other strategies? This study, then, will consider the extent to which this rock label efficiently identifies its ideal market segments as well as evaluate the communication/marketing strategies that it employs to reach the company's target audiences.

Present Practices

[54] Ettema and Whitney, *Audiencemaking*, 182.
[55] Ettema and Whitney, *Audiencemaking*, 182.
[56] Grossberg, "Rock and Roll in Search of an Audience," 179.
[57] Stephen Lacy, Ardyth B. Sohn and Jan LeBlanc Wicks, *Media Management: A Casebook Approach* (Hillsdale, NJ: Lawrence Erlbaum Associates, Publishers, 1993), 251. Marketing is described as the process of planning and executing the conception, pricing and promotion of ideas, goods and services that satisfy individual and organization objectives."

Because of evolutions in the recording industry during the past three-plus decades,[58] new approaches to exposing new music products have been created. For example, in the past it was the responsibility of distribution networks or operations[59] to handle all aspects of marketing a particular product. Today, however, the labels[60] themselves are largely responsible for the distribution marketing[61] of a product. Often the primary responsibility for doing so rests with the individual label,[62] as is the case for the subject of this case study, Arista/Austin.[63] In turn, a label's marketers[64] are dealt the responsibility of moving what the songwriter and artist have created to the

[58] Hall and Taylor, *Marketing in the Music Industry,* 124. According to the authors, in the past 30 or more years the record industry has seen record distribution evolve from distribution by companies that handled many diverse lines to company-owned distribution, where prerecorded music was the lone product. Also, among the industry's change-creating events is the rise of the independent label, with its own distribution networks, and the fact that most were forced to become part of a consolidation of distribution, where six major companies now control about 80 percent of the business in product sold to retailers, rack jobbers and one stops. As a result, these three segments of the industry, along with a few independent distributors, have become responsible for about 82 percent of all records sold to consumers.

[59] Distribution, including for purposes related to the music industry, is defined as a business or individual who participates in the flow of goods and services as they move from a producer to an ultimate consumer.

[60] In this instance, it is important to distinguish the role of the label from that of the distributor (*see above endnote*). Thus, "label" is a term that is representative of a record company and different from a distributor. Labels have artists under contract and are responsible for releasing recordings--namely, compact disc recordings, which are digitally mastered and reproduced.

[61] Hall and Taylor, *Marketing in the Music Industry,* 16. Distribution marketing, as defined by the authors, is the activity that must sell the product to retailers, distributors and others who make albums available to the consumer. As noted previously, the six major distribution organizations that market to most all of the labels with any appreciable sales volume are: WEA, Sony, BMG, CEMA, UNI and PDG.

[62] Hall and Taylor, *Marketing in the Music Industry,* 124 and 129.

[63] Dan Herrington, head of marketing and sales for Arista/Austin. Interview by the author, tape recording, 2 March 1998.

[64] A label's marketers or marketing staff comprises those people who advise and work with all aspects of the marketing chain, distribution, retail and radio to take a product to the street and potential consumers. Also, the initial impetus for a new release at all levels is provided by the label marketing staff.

music consumer--a task that is difficult at best (*see outline in footnotes*).[65] The goal is that, ideally, enough consumers will like the product and make it a hit; thus, creating a "new hit act," if the artist or group is just starting out,[66] as is the case the majority of the time with Arista/Austin's current roster.

"We are starting with a very small roster, but we want to be able to give them a bigger percentage of our time, our attention and effort," explained publicity/media manager Fortenberry of Arista/Austin's business tactics. "With the staff here, we've done that but we've not gone overboard on staff, with a huge support staff and huge overhead, in order to make something work[67]

"Instead, we started out really small and depend on a lot of outside help to get the word out and profit," she said. "And if we can prosper, then we can build up the staff and build up the roster, but do it very slowly so that it's not overwhelming and so that (the artists) never get lost. We don't want to spend everything up front and then have to close our doors a year or two later because we weren't' wise.'[68]

According to Dan Herrington, head of sales and marketing for Arista/Austin, the label's

[65] "Label to Consumer," a simplified progression in outline form, Hall and Taylor, *Marketing in the MusicIndustry,* 124.

Label
Marketing Staff
+
Distributor
Sales Organization
+
Product
New artists, established acts
+
Media
Broadcast, print, other
+
Accounts
Record store, rack jobber, one stop
+
Consumer
Buys because of desire, price, convenience

[66] Hall and Taylor, *Marketing in the MusicIndustry,* 124.
[67] Fortenberry, interview.
[68] Fortenberry, interview.

music product is aimed at those who listen to one of two radio formats:[69] Triple A and Modern A/C,[70] also known as "adult contemporary."

"Triple A and Modern A/C are the two formats, our main audiences," Herrington said. "The college audience is there in the background but college radio is so limited, the college-radio airplay is so limited. The college audience isn't limited but the college-radio audience is limited. College radio stations are very small wattage and there's not a lot of listenership to them. Our main target audience (for artists Moore and Sister 7) is pretty much the same that the radio stations are directed at which, in this case, is the 25- to 35-year-old women. Basically, that's what it boils down to for the records we're releasing.[71]

"We're releasing Triple A (and) A/C records, we're not putting out real heavy stuff or the more rockin' stuff that would be aimed at the younger, guy-oriented audience," he added. "But it's kind of hard to be specific here, because I've been referring to (Arista/Austin acts) Abra Moore and Sister 7, but Robert Earl Keen[72] is a different animal (in regard to marketing his music to radio)."[73]

Currently, the primary marketing strategy of Arista/Austin is one which focuses upon building and maintaining a strong relationship between the label's marketers and retail,[74] especially the retail chains.[75] Says Herrington: "My main focus is on marketing into the store and to the consumer. You know, your music consumer, once they get into the store, there are 20,000 records they can buy, and I want to make sure they buy mine as opposed to somebody else's."[76]

[69] A radio station's format is the type of audience a station desires in order to obtain and hold via the type of music that is played.
[70] According to the Recording Industry Association of America (RIAA), the rock format at radio includes Hard Rock, Soft Rock, Alternative, New Wave, Punk, Heavy Metal, Rock 'n' Roll, Pop Rock and other rock music, including the newer "Triple A" format.
[71] Herrington, interview.
[72] According to both Arista/Austin's marketing and publicity staffs, Robert Earl Keen's fan base is male, especially those who are 45 and older and those who are college age. Keen, a native of Texas, has a very strong fan base in his home state, especially in Austin, and he is a favorite among college-age audiences, making his demographic significantly different from that of the label's other artists.
[73] Herrington, interview.
[74] Retail may be described here as a business unit that sells directly to the consumer for personal or nonbusiness use. It includes music store chains that are national as well as regional and Mom and Pop stores, also known as single-proprietorship businesses that service a smaller consumer base.
[75] Record chains are composed of both national and regional retail and audio and video stores. Most have one central buying office and their own distribution facility and carry extensive inventories with a selection count in the thousands. Such outlets now include large national electronic and appliance chains in addition to superstores that carry all types of informational products.
[76] Herrington, interview.

As a result, the greatest marketing challenge Arista/Austin now faces is concerned with achieving the best possible positioning[77] for its artists and their product, noted Herrington.[78] In fact, more and more effort is being expended today by label marketers in an effort to "presell" their product by placing elaborate display and sales promotion materials in retail stores.[79] As a result, labels are spending huge amounts of money for posters, streamers, and "flats," or album-cover graphics that are mounted on flexible cardboard), and other promotional materials for display in point-of-purchase locations.[80]

"Making our records stick out in stores as opposed to to somebody else's on Warner Bros., RCA, Interscope or whatever is our biggest challenge right now," said Herrington, regarding the importance of in-store displays and marketing. "We do tie-in[81] with different companies on some things. (But) basically, we have limited resources to do these kinds of things, so if we can tie-in to somebody like Visa, who has a lot more expendable resources than we do, then we can use their muscle and money to position our audiences (*see Figure A*). If we can do that, then so be it.[82]

"We look at it (as a situation) where we have the entertainment talent--you know, Abra Moore[83] and Robert Earl Keen[84] or whatever--and there's a lot of advertisers out there that would like to position themselves with these artists to kind of carry their message across, and we're very happy for them to do that," he said. "But at the same time, it also spreads the word about (the artists') career, their record and those kinds of things."[85]

[77] In the music industry, "positioning" refers to assuring that a product is up front in bins and display racks which are easily seen by consumers. It is also crucial that the product not only be attractively displayed to customers but also that it be available for purchase at an attractive sale price.
[78] Herrington, interview.
[79] Hall and Taylor, *Marketing in the Music Industry,* 38.
[80] Hall and Taylor, *Marketing in the Music Industry,* 38.
[81] "Tie-ins" essentially are business agreements that are made between a label, the artist and usually a corporate business or sponsor to feature an artist in its ads. The overall view of such arrangements is that by participating in such a business relationship, all parties will benefit. That is, awareness of the corporate organization and its goods or services as well as that of the artist and his or her music product will be heightened--and the record label will save advertising dollars.
[82] Herrington, interview.
[83] Arista/Austin artist Abra Moore currently is featured in a national print campaign for Visa. See Figure A on the back page of this report.
[84] Arista/Austin artist Robert Earl Keen is currently featured in ad campaigns for Copenhagen chewing tobacco and Shinerbock, a Texas-based beer company.
[85] Herrington, interview.

Additionally, Herrington said that in order to carve a niche in the retail-chain market, it is crucial that Arista/Austin's artists remain visible within the industry so that the the promotion and positioning of their music is maximized.[86]

"When it comes to marketing them to retail, it's the airplay they're receiving, whether they have a current single, whether they're touring, whether they're receiving video airplay on *MTV*[87] -- anything that gives them a story (aids in their promotion and positioning)," he said.[88]

"Basically, the (marketing) job is convincing a few people of things. You need to convince the retailer why they need to stock your record and why they need to stock a significant amount of it. And then once you do that, you have to convince them to position and market[89] your record in their stores as opposed to doing somebody else's. And then that's everything tied together, everything from a Visa campaign to an article in *Rolling Stone* to airplay on whatever radio station in whatever market, to video play on *MTV, VH-1*[90] or whatever."

Although the Internet is rapidly invading every aspect of business, for the most part, record sales via electronic mail do not makeup a significant portion of music industry sales, Herrington said. Therefore, Arista/Austin considers the Internet to be a potential avenue for marketing and sales, but not one which requires even minimal attention at this time.[91]

"There are online retailers that do sell our records," he said. "Right now, Internet sales are only 1 percent of the overall business, so obviously, right now it's not that big a deal. But it's one of those deals that we all keep looking toward down the road, in the future, where it will be a bigger deal but it just hasn't gotten there yet."[92]

In spite of the fact that Arista/Austin artist Moore was recently nominated for a Grammy award in the "Best Female Rock Performance" category, such industry-related honors do not necessarily translate into record sales, nor does it grab the attention of the average music

[86] Herrington, interview.
[87] *Music Television*, or *MTV*, is the most popular music video-oriented cable program in its format, according to authors Hall and Taylor, *Marketing in the Music Industry,* 183.
[88] Herrington, interview.
[89] Position and price, or marketing, are necessary ingredients for the success of a music project whereby the record is where consumers can see it easily and the price is one which is attractive to the buyer.
[90] *VH-1* is a cable video-music channel that is an outgrowth of *MTV*. *VH-1*'s format caters to "softer-sounding" product.
[91] Herrington, interview.
[92] Herrington, interview.

consumer, Herrington said.[93]

"Sales-wise and to the public, no," he said. "The public, it doesn't actually mean as much to them until the artist actually wins and they see it on the TV when they are watching the Grammys. I don't think the public actually knows much about the Grammys until they see it on the show that night.[94]

"It helps in a lot of ways, but marketing to the public, it doesn't really help that much unless you are accepting an award or playing or something on the show that night, then it has a huge effect," he noted. "Other than that, it's just something that's really nice."[95]

Nonetheless, industry nominations do sometimes aid a label's marketers; specifically, with radio. Says Herrington: "Sure, it helps you within the industry and adds credibility to what you're doing. It totally helps at radio, most definitely.[96]

"Again, with so many artists out there and so many things going on, it's one additional piece to the puzzle, to the story that's going on. If (Moore) gets a Grammy nomination and the person that she's competing with for a slot at radio doesn't, then that's just an added value," he said.[97]

In regard to its relationship with industry sales-leader Arista Records, Herrington said that being associated with Arista Records, a strong parent company, does have name-recognition advantages yet when it comes to securing play or positioning for Arista/Austin's artists, the job falls solely upon the shoulders of Herrington and his Nashville-based assistants.[98]

"The Arista part of the name may get me in the door, but I've still gotta do the work once we get in the door," he said.[99]

Management's Demographics Reconsidered

Although Herrington concedes that Arista/Austin's target audience segmentation is primarily women between 25 and 35 years old, it seems likely through interviews with

[93] Herrington, interview.
[94] Herrington, interview
[95] Herrington, interview.
[96] Herrington, interview.
[97] Herrington, interview.
[98] Herrington, interview.
[99] Herrington, interview.

Arista/Austin's public relations and media personnel that the scope of the company's target segmentation should be expanded. For example, artist Moore has demonstrated an unanticipated but substantial appeal among teen females, according to Arista/Austin publicist Fortenberry.[100]

"Abra (Moore) is kind of quirky, but that's just her personality," Fortenberry said. "She's very free-spirited, light and jovial, and she jokes around a lot. She actually ... has really caught on with young teen girls. We started getting calls from the (teen-oriented) magazines about her, so that's how we found out that."[101]

Moreover, recent statistics available from the Recording Industry Association of America (RIAA) indicate that among the nation's buyers of prerecorded music, teens ages 15-19 were responsible for 17.1 percent of the music purchases made, while consumers in the ages 10-14 category accounted for 8.0 percent of the overall percentage of dollars garnered for the recording industry.[102] Combined, this age group comprises more than 25 percent of the dollars spent on prerecorded music in 1995. Thus, the total teen market is one of considerable significance and one that deserves marketing priority in this instance, especially since vocalist Moore has proven appeal among the females in this demographic.[103]

Additionally, if Arista/Austin is indeed gearing its marketing toward women ages 25-35, for the most part, as indicated by Herrington,[104] the label is overlooking a valuable demographic--the ages 20-24 category--which was responsible for 15.3 percent of prerecorded music sales in 1995, according to recent industry statistics.[105] Furthermore, by omitting the male consumer from its target segmentation, Arista/Austin is dismissing the purchasing potential of 53 percent of the industry's consumers, for males makeup the largest portion of the music-buying market, whereas

[100] Fortenberry, interview.
[101] Fortenberry, interview.
[102] The Recording Industry Association of America. (1996). *Inside the Recording Industry: A Statistical Overview 1995 Update.* Washington, DC. Note: The RIAA's consumer profiles base the percentage of money expended on prerecorded music on the dollar-value percentage of those
[103] Fortenberry, interview.
[104] Herrington, interview. Note: As previously quoted in this paper's section titled "Present Practices," Herrington has indicated that Arista/Austin primarily markets to women ages 25-35.
[105] The Recording Industry Association of America. (1996). *Inside the Recording Industry: A Statistical Overview 1995 Update.* Washington, DC.

females are responsible for 47 percent of overall music sales.[106]

Regarding Arista/Austin artists Keen and Foster, both of whom have a significant appeal within the country--albeit "alternative country"--music market, the label should consider the niche which these singer-songwriters possess outside the rock genre. Country music, in fact, was ranked as the No. 3 best-selling genre of 1996, with 66 million units sold--only rock/alternative and rhythm 'n' blues rated higher.[107] Plus, in regard to the potential for radio airplay, 18.7 percent of the nation's radio stations, as of 1994,[108] were dedicated to the country music format. By marketing to this audience segmentation, Arista/Austin could increase these two artists' potential for exposure beyond the rock format. (Note: According to the same report on radio ratings,[109] 17.7 percent of the nation's radio stations cater to the A/C radio format, which Herrington has said is a top format for Arista/Austin's artists.)

Although most of Arista/Austin's artists have wide appeal at college radio--especially Keen and Sister 7--Herrington has indicated that while the label does indeed market to this segmentation, the audience potential among this demographic is quite restricted due to the limitations posed by college radio.[110] However, according to a 1997 article in *Billboard* magazine,[111] there are options other than radio--namely, touring and media--available to music marketers who long to take their product directly to the consumer.

More frequently, in fact, labels are finding alternative ways to successfully market their artists without a dependence on radio. Specifically, live performances--including European tours--by an act have become increasingly important in making the music consumer aware of new product. Nonetheless, this method of creating artist/product awareness is not a fast process yet one that has become necessary because of the competition generated by a continual influx of new artists

[106] The Recording Industry Association of America. (1996). *Inside the Recording Industry: A Statistical Overview 1995 Update.* Washington, DC. Note: Statistics given reflect the consumer profile of music consumers from 1985 to 1989.
[107] Nunziata, "*Merchants & Marketing,*" 63. Note: Statistics are based on a 1996 Soundata study released in spring '97.
[108] Ratings report and directory: Special issue. (1994). *Radio & Record,* Vol. 1, No. 6. Note: The ratings report cited is from 1994 research conducted by the Arbitron Ratings Company.
[109] Ratings report and directory: Special issue. (1994). *Radio & Record,* Vol. 1, No. 6.
[110] Herrington, interview. Note: As previously quoted in this paper's section titled "Present Practices," Herrington has indicated that college radio stations have low wattage, limiting their broadcast range, and low listenership. However, the college audience itself is not limited, he has said.
[111] Price, "Artists, Labels Forge Tour-based Marketing Strategies," *Billboard,* 8 November 1997: 34.

and songs, report sources who contributed to the *Billboard* article.[112]

"It's a slow build, because you do it town by town, and show by show" remarked Frank Callari of FCC Management on the decision to introduce a new artist to the masses through touring. "As a manager or an artist, you're going to spend all this time (working on a performer's career) anyway, so why not maintain a slow build with a fan base that you can then utilize [to] spread the word? I always try to work with artists who can deliver live. If you have a strong live performance, you have so much in your favor."[113]

Granted, even Arista/Austin's sister company, country industry leader Arista Nashville, understands that often it is necessary to take an act and its music on the road in order to "whet the appetite" of consumers--even exposing it to audiences outside its chosen genre. A case in point is Arista/Nashville's BR5-49, an alternative country lineup, which sold 161,000 albums without a hit single, according to SoundScan,[114] before picking up support from mainstream country radio.[115]

"Arista (Nashville) was not afraid to expose us to those audiences," BR5-49 bassist Jay McDowell has said, regarding the band's live shows as the opening act for country artists Vince Gill and Tim McGraw as well as non-country acts such as the Black Crowes, Bob Dylan, and John Fogerty.[116]

As for exposure due to media, tour press complements the live-show marketing route by increasing awareness of an artist in a particular city or region.[117] Such heightened awareness may result in television appearances and print articles, further raising the public profile of a performer or act.[118] Still, such "out of the box" marketing strategies--that is, the ability to build an artist's career without reliance on radio--are not meant to completely bypass radio as an outlet but rather to complement or build toward it.[119]

Industry watchers have noted, in fact, that while there was once a time when label

[112] Price, "Artists, Labels Forge Tour-based Marketing Strategies," *Billboard,* 8 November 1997: 34.
[113] Price, "Artists, Labels Forge Tour-based Marketing Strategies," *Billboard,* 8 November 1997: 34.
[114] SoundScan is computerized reporting information that is a compilation of sales figures taken directly from the cash registers in many music-selling outlets. It gives an accurate picture the buying habits of the nation's music consumers and releases studies based on its findings.
[115] Price, "Artists, Labels Forge Tour-based Marketing Strategies," *Billboard,* 8 November 1997: 34.
[116] Price, "Artists, Labels Forge Tour-based Marketing Strategies," *Billboard,* 8 November 1997: 34.
[117] Hall and Taylor, *Marketing in the Music Industry,* 19.
[118] Hall and Taylor, *Marketing in the Music Industry,* 19.
[119] Price, "Artists, Labels Forge Tour-based Marketing Strategies," *Billboard,* 8 November 1997: 36.

personnel waited for an artist's new release to develop airplay before promotion plans were put into action, such is no longer the case.[120] Instead, opening orders for a product from record distributors may be increased dramatically by creating a "buzz" or excitement early on about an act and its music product.[121] And while television and print exposure are largely credited as the key vehicles for building product excitement, an alternate and money-saving approach toward creating product awareness is through club play.[122]

"Supplying the record pools and people who spin records in the clubs is vital to having consumers hear the product," say industry experts. "Club activity is also a great barometer of acceptance on so much of the product geared for that market."[123]

Although Arista/Austin is dedicated to supporting its artists releases with accompanying music videos, there is no guarantee such promotional tools will receive play on the video market's major national outlets--namely, *MTV, VH-1, CMT* and *TNN,* respectively. Arista/Austin, however, as well as other music producers, recognizes that music videos are indeed a valuable investment and crucial selling tool in today's ever-competitive marketplace. According to industry experts: "The video's part in making the audio a hit is still its most important function. The combination of sight and sound has changed the promotional landscape forever, and while very costly, has created another avenue to get to the consumer. The list of ways to expose product to potential buyers can never be large enough when the competitive situation is so fierce."[124]

Nonetheless, because the Triple A[125] format--which is one of Arista/Austin's primary radio audience targets--is a relatively new format, specific statistics were not readily available for this study. However, Fortenberry, the label's manager of media and publicity, has indicated that the Triple A audience--ages 30-40--is indeed a marketing priority.[126] Thus, if marketing toward this demographic is truly of key importance at the label, it is a solid move on Arista/Austin's part since the 30-39 age group accounted for 22.9 percent of the dollar volume spent on prerecorded music

[120] Hall and Taylor, *Marketing in the Music Industry,* 125.
[121] Hall and Taylor, *Marketing in the Music Industry,* 125.
[122] Hall and Taylor, *Marketing in the Music Industry,* 168.
[123] Hall and Taylor, *Marketing in the Music Industry,* 168.
[124] Hall and Taylor, *Marketing in the Music Industry,* 168.
[125] "Triple A" represents the radio format known as "Adult Album Alternative." It is also referred to as "A-3" in music industry publications such as *Radio & Record, Gavin* and *Billboard.*
[126] Fortenberry, interview.

products in 1995, while those ages 40+ were responsible for 24.4 percent of all music sales.[127] Combined, this 30+ audience composed the biggest-spending buyers of prerecorded music for that year.[128]

Moreover, Arista/Austin's decision places its focus on retail chains as the label's main "point of purchase" outlet for consumers is also a sound decision, since record retail stores account for 53 percent of sales for music products produced--especially when one considers that most of those sales are through both regional and nation record-retail chains.[129] As indicated by the label's head of marketing,[130] Arista/Austin's marketing staff is very limited, as are the staffs of most new or independent media firms, so the emphasis on the bigger-selling outlets is understood. However, when it comes to successfully "breaking" a new act, it must be noted that "one stops"[131] are a vital link in breaking new product, because the stores they service are critical to exposure and sales of new and breaking acts.[132] Also, often the one stop is a label's only conduit to the retailers in the smaller markets, where airplay usually starts.[133]

"In addition to supplying the product, the one stop is vital in terms of developing a 'hit' product and moving large quantities when a piece of product reaches a highly saleable level," say the authors of *Marketing in the Music Industry*. "This segment of the industry plays a significant role in aiding the marketing activity in creating an acceptance for a recording and then supplying the outlets that have access to the public and ultimately, the public's buying decision."[134]

Furthermore, when one considers the significance of one stops in helping to break a new act, it stands to reason that such a supplier of music product should be a priority for music marketers who are attempting to introduce a new recording talent's product to the public. Perhaps,

[127] The Recording Industry Association of America. (1996). *Inside the Recording Industry: A Statistical Overview 1995 Update.* Washington, DC. Note: Statistics given reflect the consumer profile of music consumers from 1985 to 1989.
[128] The Recording Industry Association of America. (1996). *Inside the Recording Industry: A Statistical Overview 1995 Update.* Washington, DC.
[129] Hall and Taylor, *Marketing in the Music Industry,* 61.
[130] Herrington, interview.
[131] "One stops" are companies that sell to all types of retailers, allowing them to bypass the usual distributors when a specialized product is required, or the product is needed very quickly. Also, they carry releases by a variety of record labels and from all distribution companies for sale to smaller retailers.
[112] Hall and Taylor, *Marketing in the Music Industry,* 66.
[133] Hall and Taylor, *Marketing in the Music Industry,* 66.
[134] Hall and Taylor, *Marketing in the Music Industry,* 66.

then, Arista/Austin should reconsider the product-outlet area in which its total marketing energies are currently directed. For example, rather than relying completely on national outlet chains to deliver the label's product to the consumer, Arista/Austin's marketing personnel could also focus upon the one stop when attempting to introduce new product to the marketplace--at least during the initial stages of an artist's career development. Information on the role of the one stop indicates that it is a vital and influential supplier of music product to the public that is capable of reaching even the "hard-to-get-to" consumer, making it a worthwhile distribution network for Arista/Austin's music products .[135]

Summary

The record business is an industry that is fueled by the fact that humans are creatures of needs and wants, and such desires are met through the acquisition of products that satisfy those needs and wants.[136] Arista/Austin, as a producer and supplier of prerecorded music to the public--albeit a new one with a limited roster and budget--is engaged in marketing its products and artists to their potential audience. Such is never an easy--or inexpensive--task for any media organization, however, due to the eclectic tastes of consumers and their ever-changing needs and wants.[137]

Moreover, in spite of the fact that Arista/Austin is owned by BMG, the world's leading entertainment company which concerns itself with record activity and distribution,[138] the rock label must rely upon its small staff and a limited budget, as must many media firms, in its attempts to establish its own niche within the industry.[139] Although the label is indeed associated with a global leader in the music world, Arista/Austin, for the most part, does not have the luxury of relying upon the manpower of sister labels such as Arista/Nashville, the company's country label, or industry standout Arista Records, which has offices in both L.A. and New York, for assistance in achieving its goals.[140] Therefore, it is the sole responsibility of the Nashville-based label--and

[135] Hall and Taylor, *Marketing in the Music Industry,* 67.
[136] Hall and Taylor, *Marketing in the Music Industry,* 5.
[137] Hall and Taylor, *Marketing in the Music Industry,* 10.
[138] Hall and Taylor, *Marketing in the Music Industry,* xiii. According to the authors, almost all record activity, including labels and distribution, has been distilled down to BMG, CEMA, Sony, WEA, UNI and PGD, all of which are said to be multinational organizations with more than music as their sources of revenue.
[139] Herrington, interview; Fortenberry, interview.
[140] Herrington, interview; Fortenberry, interview.

virtually every other media management organization--to determine who its taste-specific audience is, then create and implement a marketing plan to reach its target audiences, if the company is to survive in an industry that is fiercely competitive.

As a mass communication, rock 'n' roll is intrinsically involved in all the commodity and corporate/state relations with which critics of mass culture often begin. In turn, notes Grossberg, "to the extent its creation is controlled by corporate or capitalists interests, [rock] will likely reinforce the dominant ideologies. ..."[141] However, in order to identify the actual function of rock music in the lives of its fans, their strategies of resistance and evasion--as well as the "countercontrols that reorganize their lives"--must first be pinpointed.[142] Thus, theorists and those involved with the marketing of rock 'n' roll must move beyond lumping the genre into groupings of generic messages, because rock needs to be examined over time and across broad audience sections, for its limits are varied.[143]

Subsequently, rock is also very different from other mass communications in its relation to media and audiences. Grossberg has observed that:

> Unlike other cultural genres, it is presented in many different mediated forms (such as records, radio, television, films); nor can it be identified with a particular context of consumption (for instance, home, parties, bars, clubs, stadiums). Rather, its functioning depends upon the complexity and the flexibility of, and the differences among, the various possible media and contexts within which it is consumed and enjoyed in different ways.[144]

As described earlier in this study, however, Arista/Austin's marketing research indicates that the label's primary audiences are listeners of the A/C and Triple A radio formats, making females ages 25-35 target consumers for the company's marketing staff. Also, in spite of the fact that the label's roster largely appeals to the college-age consumer, because the college-radio market has low wattage and few listeners overall, Arista/Austin's marketing personnel have chosen to focus upon the former audience--even though they acknowledge that the college audience is a

[141] Grossberg, "Rock and Roll in Search of an Audience," 177.
[142] Grossberg, "Rock and Roll in Search of an Audience," 180.
[143] Grossberg, "Rock and Roll in Search of an Audience," 182.
[144] Grossberg, "Rock and Roll in Search of an Audience," 180.

valuable demographic.

Taking the company's budget restrictions into consideration, its seems feasible that Arista/Austin could better target the college audience through club play, as described in the previous section of this study. To do so would save promotional dollars for the label while exposing its new product to a captive audience that is considered readily accepting of new music. Such a move would come closer to guaranteeing product exposure to large groups of a target audience than, say, relying upon national music networks such as *MTV* and *VH-1* to first approve and then lend play to a new artist's music video.

Also, information gathered by the company's publicity and media department indicates that female teens are strong supporters of Moore, the label's top-selling performer. However, the marketing staff's efforts do not appear to follow-up or recognize this audience segment. By neglecting to do so, the company is overlooking the buying power of approximately 25 percent of record buyers, according to 1995 industry statistics. Furthermore, while Arista/Austin's staff does acknowledge that signees Keen and Foster, respectively, have appeal that crosses over into the country demographic, it was not indicated that marketing these acts to this taste-specific audience segment is a priority. Again, potential sales appear to be forfeited here, especially when one considers that country was the No. 3-selling genre in 1996, as reported earlier in this study.

In its efforts to save advertising and promotion dollars, Arista/Austin has, in its favor, seized opportunities for its artists to participate in corporate-sponsored tie-ins. By doing so, the company is not only saving money, but also garnering national exposure for its artists and their music through their association with the products or brands being advertised. While such tie-ins are not easy to secure, Arista/Austin had done an admirable job, especially with its limited roster.

Primarily, Arista/Austin's marketing efforts--outside of radio--seem to be concerned with marketing directly to the consumer through large retail chains. Again, because such record outlets are responsible for 53 percent of the nation's music purchases, the label's concentrated efforts in this area are justifiable. However, perhaps in the early stages of an artist's career, it might serve Arista/Austin well to focus on the record outlets known as one stops, since they have been credited with being crucial to breaking new artists. After all, Arista/Austin is a label that is working to build its identity and reputation on the careers of new artists--another solid move that generally generates

the most profits for a record company--so a bit of attention to one stops could prove worthwhile.

Although Arista/Austin is committed to exposing its talent to new audiences through touring, new industry trends, as reported herein, indicate that extensive touring both in the U.S. and Europe *prior* to the release of an album has aided new talent in garnering airplay, thanks to the excitement generated by local and regional media in the area where the act tours. Also, record sales are fueled without sole reliance on radio airplay, which is a win-win for both the artists and the label.

Nonetheless, if Arista/Austin--or any media firm--is to yield optimum returns on its marketing efforts, it is crucial for the company to recognize that its diverse roster has a diverse audience makeup--all of whom contribute valuable buying power to the record industry each year. Even though its staff insists that Arista/Austin is a rock label, period, the crossover appeal of its artists must be recognized in order to efficiently target the label's music product. It is in this area where niche marketing can come into play and aid the company in securing revenue that it has, perhaps, overlooked in the recent past.

Running Head: Global New Value-Chain

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Supplier-Buyer Relationship in the Global News Value-Chain in the Internet Age

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Supplier-Buyer Relationship in the Global News Value-Chain in the Internet Age

We are today seeing the rapid introduction and development of open network technologies such as the Internet. Many, who are concerned about "unbalanced" or "distorted" international news flow, are expecting that Internet technology will change the current structure of the international news flow. Is this expectation valid and feasible? Can the Internet transform the traditional hierarchical relationship between international news suppliers and buyers into a market-type relationship dominated by a supplier-demand curve or will it reinforce the current hierarchical structure?

This study approaches the problem of international news flow as one of interorganizational relationships among news providers and news buyers. It critically reviews the electronic market hypothesis (EMH) suggested by Malone and his associates (Malone & Crowston, 1994, Malone & Rockart, 1991; Malone, Yates, & Benjamine, 1987) as a framework for analyzing the effects of the Internet on the international news value-chain. Malone et al. studied the impact of technology on the supplier-buyer relations and, extending Williamson's seminal work on market and hierarchy, proposed a hypothesis of *electronic market* (Malone, Yates, & Benjamine, 1987). According to this hypothesis, network technology will reduce transaction costs for building and maintaining inter-firm relationships and this reduction of the transaction cost will transform traditionally hierarchical interorganizational structures to market-type ones. Since Malone and his associates proposed this idea of an *Electronic Market*, it has been criticized by many scholars for various reasons. The critics suggested that interorganizational structure is determined not only by technological changes or economic incentives such as lowered transaction costs but by sociological factors such as

value (Zajac & Olsen, 1993), credibility or trust (Zaheer, 1998; Burchell & Wilkinson, 1997; Lewicki, McAllister, & Bies, 1998). To them, the notion of an Electronic Market is an undersocialized one (Granovetter, 1985) which neglects the problem of social relations.

The purpose of the present study is to examine whether Internet technology affects the relationship between news suppliers and news buyers in the global news value-chain in Asia. This study consists of three parts. First, this study will define and describe the global news value chain in Asia. Second, Malone et al.'s hypothesis of an electronic market will be discussed from the viewpoints of his critics. Based on these discussions, the study will examine the characteristics of interorganizational relations in the international news market. Third, the study will examine the current trends in Asian news media organizations with regards to the use of the Internet and the possibility that the new communication technology will transform the current hierarchically "biased" relations between international news providers and news buyers in Asia. For this purpose, in-depth interviews (as a pilot research) were conducted with journalists from eight Asian countries.

Structure of Global News Value Chain In Asia

The *structure of international news flow* is the way in which news providers and local news media are coordinated in horizontal, vertical, and diagonal interdependent relations (Hendriks, 1996). This chain can be described as in figure 1.

The value chain of global news is composed of two kinds of coordination mechanisms: internal and external. That is, the value chain consists of *external coordination linkages* with suppliers and consumers and *internal coordination linkages* among the different functional parts: design/planning, research, writing, editing, production (of paper), distribution, and sale.

Insert Figure 1 About Here

Concentrating on the foreign newsroom, the coordinated relations among the functions of design/planning, research, writing, editing, and production is circular. In a small news organization, the internal coordination takes place as the mental process of one person. The coordination problem of this small organization is reduced to time management (or scheduling) problem of the person. As news organizations get bigger, however, they usually differentiate the functions or roles taken by one person in small news organizations. In the bigger news organizations, the problem of coordination is no longer reduced to a capability of one person. The coordination among different functions and roles should be externalized in their formal and informal structures.

There are also external coordination issues in the news organization primarily with news suppliers and news customers. In this paper, the emphasis will be put on the relation between news suppliers and the local news organization. For the last two or three decades, there have been many discussions about the structure and effects of hierarchical relationship between news suppliers and news buyers in the global news value-chain. The

debates were mainly centered on the relationships between the four *major* Western news agencies – Associated Press (AP), Agence France-Presse (AFP), United Press Institute (UPI), and Reuters – and news media organizations in non-Western, mostly under-developed or developing nations. Issues frequently raised include (1) the monopoly status of the major Western news agencies based on their assumed financial strength and their commercial approach to news; (2) a predominantly negative picture of the Third World presented by the Western agencies; (3) the uni-directional flow of information given by the Western agencies to the non-Western media which was irrelevant or even destructive to their development; and (4) reflection by the Western agencies of their home countries from behind the rhetoric of highly touted impartiality (Gerbner, Mowlana, & Nordenstreng, 1993; Reeves, 1993; Boyd-Barrett & Thussu, 1992; Fenby, 1986; Masmoudi, 1980; Tatarian, 1978; Elliot & Golding, 1974).

Recently, some scholars have begun to criticize these cultural imperialistic arguments about international news flow (Tomlinson, 1997; Biltereyst, 1996; Gaunt, 1990). They stress the interdependence of suppliers and local media (and news audiences) without merely arguing for dependence of one on the other. However, even these critics admit that there is an unbalanced news exchange structure even if they believe that the unbalanced news flow may have very different meanings to different audiences in different places, and there could be counter-influences even in such a distorted structure.

One of the most frequently discussed and important issues among those mentioned above is the unbalanced direction of news products from the West to the non-

West based on the hierarchical structure of the news value-chain. Hamelink (1995) described this unbalanced news flow as follows:

> Information flows across the globe are unbalanced, since most of the world's information moves among the countries in the North, less between the North and the South, and very little flows amongst the countries of the South. (Hamelink, 1995, p.24)

Schramm presents a diagram which graphically shows this situation in an article published in 1981 (Fig. 2). Even though Schramm's observation was made almost two decades ago, many critical international communication scholars still point out that there have not been fundamental changes of the patterns of international news flow (Sreberny-Mohammadi, 1991), especially center-periphery and periphery-periphery relations. Boyd-Barrett and Thussu, who have studied this topic for more than two decades, admit in their book published in 1992 that there is still a "relative absence of horizontal flows between less developed countries in a system of strongly structured North-South flows." This unbalanced structure of the news value chain has created an ironic reality for Asian and other non-Western regions in which even the news that occurs in neighboring countries is supplied by the Western news suppliers which are headquartered several thousands miles away.

Insert Figure 2 About Here

There have been attempts to break down this dependency structure. Among them are alternative international news services that set out to meet developing nation's needs. One of the examples is Inter Press Service (IPS), which was established in complete independence from the major agencies (Hamelink, 1995). IPS stresses the need for "horizontal" communication between developing nations interacting as equals, rather than "vertical" communication in which a news supplier imposes its services on others. (Hamelink, 1995; Fenby, 1986). Another way that non-Western nations tried to escape from a hierarchical relationship with the major Western news agencies was by setting up news exchange systems among news media organizations in neighboring nations. The Pan African News Agency (PANA) and the Ghana News Agency (GNA) in African region are two examples of this kind of effort.

However, most of these attempts were not successful because of political, economic, and cultural stumbling blocks both inside and outside the organizations. They had such problems as censorship in their regions, bureaucratic red-tape, illiteracy of the people in their regions, scarcity of trained personnel, low pay and status, high cost of news transmission, lack of resources, and lack of appropriate communication hardware (Anderson, 1981).

Electronic Market Hypothesis in the Value Chain of Global News

Organizational interdependence became more salient with the emergence of open networks such as the Internet, Intranet, and Extranet. These trends have created interest among a number of scholars in the relationship between communication technology and

interorganizational coordination (Bakos & Brynjolfsson, 1993a, 1993b; Brynjolfsson, 1994; Johanson & Matton, 1988; Kallenberg et al., 1995; Kraut et al., 1997; Kraut & Steinfield, 1994; Lamb, 1996; Malhorta, 1997; Malone et al., 1987; Nouwens & Bouwman, 1995; Rochart & Short, 1989; Steinfield et al., 1995). Most of these studies consider information technology as an independent variable; that is, their basic research question is "how information technology affected the types of interorganizational coordination."

Among these studies, Malone et al.'s (1987) electronic market hypothesis (EMH) is one of the most influential ones. The basic idea of the EMH is that the development of communication technology lowers the transaction costs and market-type coordination rather than a hierarchical one will be a more dominant mechanism in establishing partnerships with others. This is based on Williamson's seminal works on market and hierarchy (1975, 1996). Williamson proposes two different organizing principles of firms: market and hierarchy. In a situation where the "market" is a dominant coordination mechanism, organizational relations are determined by supply and demand forces and constructed by choice-making process based on information about the best combination of design, price, quantity, and target delivery schedule. In a case where "hierarchy" is a dominant coordination means, managerial decision determines design, price, quantity, and target delivery schedule that will serve as input into the next steps and therefore there is no choice making process once a hierarchical relation is created.

Williamson (1975) argues that the most important factor in selecting the best coordination mechanism for a specific product between market and hierarchy is transaction cost. Malone et al. (1987, 1989) articulate three sub factors which affect the

transaction costs; coordination costs, asset specificity, and complexity of product description. *Coordination cost* is the cost of gathering information, negotiating contracts, and protecting against risks of "opportunistic" bargaining. These coordination costs are related to opportunism, or self interest with guile (e.g. cheating, withholding information, asymmetrical information, etc.) and frequency of exchange. Therefore, it is much easier to learn about price, quality of products, etc. if there are a large number of people in the market and large numbers of exchanges are taking place. In this case, market will be the best coordination mechanism (Malone et al., 1987, 1989).

The second factor is *asset specificity* (Williamson 1975; Malone et. al., 1987). Asset specificity indicates the degree to which production or distribution of a product is centralized. A product has high asset specificity when we can get it only from a specific person, only in a specific location, or only in a specific time period. Malone et. al. (1987), argued that transaction costs are high if a product has high asset specificity. Therefore, interorganizational exchanges involving products with high asset specificity are more likely to be coordinated by the hierarchical mode of coordination. On the other hand, interorganizational relations dealing with products with low asset specificity -- such as with highly standardized products – are more likely to be governed by a market coordination mode.

The third factor is *complexity of product description*. This is the "amount of information needed to specify the attributes of a product in enough detail for potential buyers to make a selection." (Malone et al., 1987). Interorganizational exchanges of products whose complexity is high will be controlled by hierarchical coordination. The

products that need only simple information to describe their characteristics will be exchanged in market-type interorganizational relations.

EMH assumes that the use of electronic links between firms will reduce transaction costs by lowering coordination costs, degree of asset specificity and complexity of product description. To the extent that networks overcome the high coordination costs associated with markets, firms will be able to buy goods and services less expensively than to produce them in-house or in hierarchical and integrated relations with outsources (Malone, 1987; Kraut et. al., 1997).

Electronic Market Hypothesis Predictions for the value chain of global news

The global news value chain in Asia can currently be described as a hierarchical relation model between dominating providers of international news products and local news media organizations. Our central question is this: I the global news value chain amenable to being transformed to an electronic market due to the use of the Internet?

The lack of technological infrastructure for gathering and distributing news in non-Western regions (Negrine, 1997) has been considered one of the main reasons for the hierarchical news value chain[1]. In the global news value chain, technology and news media have influenced to each other; new communication technologies have reshaped the internal and external relations of news media organizations and news media are heavily involved in the process of social shaping of technologies (Douglas, 1987; Schwarzlose, 1989; Dutton, 1999). Recently, there have been two technological breakthroughs that have the potential to change the structural relations among the stakeholders in the international news flow. One of them is satellite technology and the other is Internet

technology (Boyle, 1997; Marshall, 1978). The possible change of relations of the stakeholders in the international news market can be summarized as presented in <Fig. 3>.

Insert Figure 3 About Here

The traditional news flow was a simple one-way flow from news source → news agency (mostly US, London, and Paris based) → local media → news customers.[2] However, now that satellite transmissions and Internet technology have made possible alternative (though still theoretical) routes of news flow; news customers now can get Third world news directly from local news sources and local news media can get connected to news sources without totally relying on the major news agencies (Johnston, 1998; Boyle, 1997). A recent research study conducted with the cooperation of nearly 6,000 newspaper and magazine editors and broadcast news editors across the US found that journalists are increasingly turning to the Internet both to source stories and to get ideas for new stories (Editor & Publisher, February 17 1998). According to the study nine percent of respondents said that they use newsgroups, email lists and Usenet Newsgroups as their primary source of information. Nearly half of respondents said they or their colleagues go online daily in search of news. This is compared to 33 percent who said they went online on a daily basis last year and 23 percent in 1996.

Another important possible change is that news customers can get international news directly from news agencies such as ClariNet: http://www.clarinet.com, instead of through local news media. Accordingly, there would be multiple possible ways of getting international news on the side of news customers. We are likely to experience a structural change of interorganizational relations among the players in the field of international news production, reproduction, distribution, and consumption.

These scenarios seem to confirm the work of Malone and his colleagues and their hypothesis of an electronic market. The hypothesis predicts that hierarchical relationship, as a mode of interorganizational coordination, will be transformed into an electronic market relationship due to the use of new communication technology. As described before, new communication technology, such as the Internet, has a potentiality to lower the transaction cost for building and maintaining relationships between news providers and buyers by lowering the coordination costs, asset specificity and complexity of news products.

Decrease of coordination costs: Internet technology enables reporters in foreign news rooms to access news products of other news organizations all over the world since major news media organizations in most nations have web sites providing daily news services. Therefore, foreign news reporters in a news media organization could search for news pieces and download them for little search cost by using Internet browsers and could communicate with the news sources to get permissions to use their news products for little coordination cost by using electronic mail system or telephone.

Decrease of Asset specificity: Using traditional methods, news products of one source cannot readily used by other news media in different locations because two different kinds of asset specificity: time specificity (Malone, et al., 1987) and spatial specificity. In particular, time is one of the most critical factors in the news media industry, news would loses its value unless it reaches the user within a specified period of time (usually 24 hours maximum). It's been said that the Internet reduces temporal and spatial differences between communicators and make the process time shorter between production and consumption. In other words, a news organization could get news from any source that has its own online news service on the web virtually at the same time as the news products were produced and posted.

Decrease of complexity of products: attributes of news which should be communicated between news providers and buyers are quality, reputation, and political perspectives. The new communication technology has the potential to enable news buyers to discuss these issues more easily with news sources.

In general, from the beginning to the end, stakeholders in the global news value chain are concerned with managing only one source; news items. If someone can get access to a website (if it's available), browse its news lists and read articles, there is no complexity issue involved. For news on the web is itself a final product and there is no other information needed to describe the product. The only thing the news buyers (local news media) need to do is to decide whether to make contract with the news source and pay for their news products. (Of course, language and cultural differences could cause

some complexities in comprehending the news products. For a discussion of language and international relations, see Ricks, 1993)

Based on the previous discussions, the EMH hypotheses predicts that:

- As information technology (the Internet for purposes of this paper) reduces the unit costs of coordination, markets will be substituted for hierarchies as a mode of coordination in the international news value-chain.
- Coordination technology provides opportunities to lessen or alleviate the market imperfection.

If these hypotheses hold true, there should be a migration away from the traditional, hierarchical relationships between a few news suppliers (the Western Big-Four news agencies) and large numbers of "small" local news media to unbiased, efficient, international markets for global news products. This should occur despite news suppliers wish to establish hierarchies that secure a non-competitive distribution channel for global news products.

Alternative Views of EMH in International News Flow

Even if the new communication technology has a capacity to realize Malone's prediction in the international news market, various critics of the electronic market proposal should be considered. In essence, Malone et. al. argue that electronic networks will lower the transaction costs including search and coordination costs, and change the

way firms coordinate with others including their suppliers. However, much of the empirical research (Kraut et. al., 1997; Steinfield, Kraut & Plummer, 1995; Gurak, 1995; Bakos & Brynjolfsson, 1994a, 1993; Steinfield & Coby, 1993; Malone & Rochart, 1993; Brosseau, 1990; Keen, 1988) has not supported Malone et al.'s conceptual propositions. In addition, the emergence of new types of organizing mechanisms such as the hybrid coordination mechanism (Powell, 1987), network organization (Johnson & Matton, 1987), value-adding partnership (Bakos & Brynjolfsson, 1993a; Johnston & Lawrence, 1988), and quasi-form (Granovetter, 1985) have led some scholars to question the basic dichotomy between market and hierarchy mode of transaction costs theory (Granovetter, 1985; Zajac & Olsen, 1993).

Scholars have tried to explain the reasons for such different results by proposing some alternative factors such as "incomplete contract" (Brynjofsson, 1993), "incentives" (Bakos & Brynjolfsson, 1993b), "attribute of the network used," "business context" (Kraut & Steinfield, 1994), and "external forces" (Malhorta, 1997). All of these concepts, which were introduced to modify Malone et. al.'s electronic market/hierarchy hypotheses, imply that the social structures or sociological variables involved in interorganizational relations are hard to figure out only with economic formulas.

Among these alternative factors, two issues are relevant to this discussion of the international news flow: intermediaries and incomplete contracts.

The Internet and Intermediaries: Intermediaries has been considered as a means to save transaction costs in transaction theories. Moss (1981) explained this role of the intermediaries as conceived by the transaction cost theorists. He said:

> The intermediary effectively takes over the activities of searching for suppliers of particular commodities which his customers require and for customers requiring his suppliers' commodities. The intermediary's customers and suppliers, therefore, need devote resources only to searching for, and acquiring information about, a relatively small number of accessible intermediaries rather than a relatively large number of agents on the other side of the market who might no be readily accessible. Such savings are clear economies of search of information economies (p. 156).

Some scholars, who are proposing abundance of electronic market relations in the open network environments, claim that one effect of electronic market made possible by lowered transaction costs (especially search costs) will be the bypassing of intermediaries in the electronic market. However, other scholars, who stress the social process, argue "not only is it likely that widely available information infrastructures will reinforce the position of traditional intermediaries, but that networks will also promote the growth of a new generation of intermediaries" called "cybermediaries" (Sarka et. al., 1995).

These discussions about the role of intermediaries can be applied to the current situation of international news flow. Some relevant questions might be: Can Internet technology lessen the power of the major Western news agencies as intermediaries between news sources and news buyers and give the news media of the Third World opportunities to bypass these agencies to get news about Asian regions or countries? Or like Sarka et. al. (1995) argue, will the Internet reinforce the traditional position of the Western news agencies and give the agencies opportunities to come up with news functions which make their traditional dominating power even firmer in the global news value-chain?

Incomplete contracts -- credibility and trust: one of the most important factors to influence the firm's coordination strategies has been explained by the concept of incomplete contracts or self-enforcing agreements. Incomplete contracts are non-contractible investments such as quality, responsiveness, innovation rather than any reduction in coordination costs (Bakos & Brynjolfsson, 1994, 1993a). These incomplete contracts composed of credibility, trust, or loyalty cannot be bought, so cannot be included in the purely economic demand-supply formula. In the absence of credibility or trust, it would become very costly to arrange for alternative sanctions and guarantees deriving from mutually beneficial cooperation would have to be foregone. Institutional economists also believe that lack of trust is one of the causes of economic underdevelopment. (Furubotn & Richter, 1997)

Bakos and Brynjolfsson (1994) also found that quality as non-contractible is an important factor as well as trust or credibility. They argued that firms will employ fewer suppliers since they worried about quality of products they should buy from them and that would be the case even when search and transaction costs are very low. They explain:

> As search costs and other coordination cost decline, [Malone et. al. predicts] that firms should optimally increase the number of suppliers with which they do business. Despite recent declines in these costs due to information technology, there is little evidence of an increase in the number of suppliers used. On the contrary, in many industries, firms are working with fewer suppliers. This suggests that other forces much be accounted for in amore complete model of buyer-supplier relationships.

In the news industry, these issues of predictability, trust, credibility and quality have been considered important factors influencing the decision of the stakeholders in the industry. McQuail (1987) points out that "there is the matter of the high-degree of planning and predictability which goes with any large-scale continuous media production operation. The media have to have an assured supply for their own needs and thus have to 'order' content in advance" (p.). His comment points out that the issue of unbalanced international news flow contains problems of trust, credibility or quality. Galliner (1978)'s question also reflects on this point: "if a government controls its media, how can any neighboring government trust news reports put by national news agency?" (p.).

Cases of Asian News Media Organizations:

Interviews with the Asian Journalists

In order to examine whether there is any evidence to support Malone et al.'s hypothesis of an electronic market in the news value-chain in Asia, interviews were conducted to 15 Asian journalists in 8 countries. They were asked several questions which have to do with whether the Internet, as a new (internal and external) coordination technology, leads to greater numbers of news providers without additional costs, and, finally, lessens the relative dominating power of the major Western major news agencies in Asia.

Interview Methods

Interviewees: From the web page of Editors & Publishers (http://www.mediainfo.com/emedia), the researcher obtained a list of newspaper companies of South-East and East Asian countries including Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand. Thirty-five e-mail questionnaires were sent to these newspaper companies and there were fifteen responses from them as follows: Korea (five companies), Indonesia (two), Thailand (two), Singapore (three), Philippines (two), and Taiwan (one). In each newspaper company, the person interviewed was either editor in general, editor in foreign affairs, editor in Asian affairs, or reporter working for their foreign affair departments.

Interview methods: The interviews were conducted by electronic mail during April 12 and April 30, 1998. E-mails requesting for an online interview were sent to the general editor, foreign affairs editor, Asian news editor, or a foreign affairs journalist in each newspaper companies. If they gave me positive responses, I sent a questionnaire to them. The individual interviewees were asked to answer the questions as representatives of their companies. The questionnaire was written in two different versions: Korean and English[3]. After obtaining responses to the questionnaires from the individuals of the newspaper companies, follow-up interviews were conducted to them by e-mail in case the researcher needed to get additional information.

Interview Questions: In the questionnaire, the following questions were included:

- Major news providers each newspaper uses for Asia-related news
- Characteristics of the relationship each newspaper has with the major news providers for Asia-related news
- Satisfaction with the major news providers for Asia-related news
- Degree of the reliance on the Internet as a tool of gathering Asia-related news
- Specific usage of the Internet in each newspaper company
- The relationship between Internet usage and degree of reliance on the major news providers for Asia-related news.
- The relationship between Internet usage of each newspaper and search or use of news from other Asian news providers

Results of the Interviews

The Major News Provider for Asia-Related News: All of the news companies of various Asian countries used the Western major news agencies – AP, UPI, Reuters, AFP – as the major providers of Asia related news. These agencies received a mean score of 9.5 (out of 10 as total). News sources such as "news media in other Asian countries" (X=1.1) or "news agencies in other Asian countries" (X=0.7) were rarely used.

Satisfaction with Major Western News Agencies: The mean score indicating satisfaction with the major news providers was 4.2 (out of a five-point scale). Most of the companies gave highly positive answers to this question; only one company from Korea gave a negative response to this question.

Credibility of the news providers: The major Western news agencies and the correspondents of each local newspaper were considered the most reliable providers of

news about Asia. The mean score of credibility of their own correspondents was 9.2 and those of the major Western news agencies 8.2. The national news agencies of other Asian countries were rated 5.5 on average and the news media of other Asian countries were 6.1.

Major Communication Media for Buying Asia-related News: Various media were used as tools to get news about Asia from the major news providers. All fifteen companies use the Internet to get news about Asia; nine companies used telex or teletext and five companies, mostly from South-East Asia, are still using teleprinter.

Degree of use of the Internet for gathering Asia-related news: As shown before, all of the companies interviewed use the Internet as a medium to get news about Asia from their news providers. I also asked, "how much does your company make use of the Internet when it searches for or gather news about Asia? The range of the answers was broad; it varied from 10 to 1. But a majority (six out of fifteen) marked 10 on a 10 point scale. Only one company marked 1.

Usage of the Internet: The Internet services most frequently used by the Asian newspaper companies in descending order, were the online news services of the major Western news agencies (X=9.8 on the 10 points scale) and Search engines (X=6.8), and online news services of the local news media (i.e., New York Times) of the Western countries (X=5.1). There weren't big differences among the newspaper companies in terms of usage of these three services.

Many companies were using e-mail as a communication tool with their own correspondents (6 companies marked more than 8 out of 10) but there were still companies which rarely used e-mail with their correspondents (3 companies marked 0 or

1). The communication with the major Western news agencies by e-mail (X=0.4), and the with the news source in other Asian countries (X=1.8) was rarely tried by the interviewed Asian news media.

Change of reliance on the Western major news agencies since the use of the Internet: A majority of the companies (nine of fifteen) answered this question as "there was no change." Four companies answered that the reliance had been increased. Two companies responded that it was decreased.

Browsing the online news service of the mass media in the countries where a news story broke: three companies said that they "sometimes" saw online news services in other Asian countries, two companies responded "very often," and one "often."

Use the online news service of the mass media in the countries where a news story broke as a source for making news story: Six companies answered that they "seldom" used news sources from the other Asian mass media in the country where the news broke. Four companies responded "sometimes," three "often " and two "often."

Expected future change of reliance on the Western major news agencies due to the increased use of the Internet: Eleven newspaper companies answered that they expected reliance on major Western news agencies would increase due to increased use of the Internet. The reasons they gave for this included dominance of cyberspace by the Western news agencies due to technological infrastructure, copyright restrictions, and trustworthiness of the Western agencies. Two companies responded that amount of reliance will not change and only two companies said that they expected it would decrease.

Expected future change in using the media of the other Asian countries as providers of Asia-related news due to the use of the Internet: Eight companies expected use of other Asian media increase, six companies expected no change, and one expected it would decrease.

Discussions: Technology and the Structure of News Flow

The findings from the interviews with the fifteen Asian newspaper journalists are consistent with the notion of reinforced positioning of the major Western news agencies (AP, UPI, AFP, and Reuters) and the importance of the incomplete contracts such as credibility, trust structure, and predictability. There is little evidence to support Malone's prediction of the transformation of the international news market in Asia into an electronic market.

According to the interviews, the Internet has had limited effects on the news gathering and production processes in the newspaper organizations of the Asian countries examined, even though it has a strong potential to be used as an alternative tool to the center-periphery relation of current international news flow. The Internet seems to be considered by Asian journalists as an attractive tool to gather news, but only as a complementary one. Most of the journalists interviewed for this study were negative about the possibility that they could totally rely on the news from the Internet. They also denied the possibility that would cause a fundamental change by use of the Internet in the current structure of international news flow between the major Western news agencies and the Asian local news media.

Therefore, we can expect, based on the interviews, that the Internet is likely to become a tool for the major Western news agencies to reinforce their structural positions by developing new roles and functions. In a word, the Internet could give more opportunities to the Western news agencies (strong intermediaries) than to the local news media in the Third World regions.

The most important factor considered in deciding the news source by the news media of the Asian region is the trustworthiness or credibility of that news source. Usage of the Internet or lack thereof is also based on trust and credibility. Most of the interviewees indicated that the most serious problem using the Internet as a news source is credibility. Major Western news agencies were evaluated by the Asian journalists as highly trustworthy, reliable, and predictable, but they don't trust the news sources from other Asian countries. Most of the journalists admitted that they browsed and sometimes used news sources from other Asian countries, but in a very limited way. They use news from other neighboring Asian countries only as complementary.

Another significant factor that I did not include when designing this study but many Asian journalists pointed out, was an organizational factor which affected the operation of the international affair news rooms. In particular, many interviewees who were working for an international affairs department considered themselves as "technicians" not as a true "journalists." And the average years journalists spent in the international affair newsroom is about two, which might be an evidence that there was a problem of deskilling (Samaddar, 1994) in international affairs newsrooms of Asian news media organizations.

Conclusions: Suggestions and Limitations

A journalist working for *The Chosun Ilbo*, one of the most influential newspapers in Korea, told me a story about how the Korean news media organizations got the news of Pol Pot's death. According to him, the first institution that disseminated the news of Pol Pot's death was the *Far Eastern Economic Review* headquartered in Hong Kong. However, the sources which provided the news to most of the Korean news organizations were the Big Four Western news agencies – AP, UPI, AFP, and Reuters. It was not the *Far Eastern Economic Journal* which first broke the news nor was it any of the sources from Cambodia where Pol Pot died. The Korean news organizations got the news of the neighboring country from agencies whose headquarters were located in several thousand miles away! Why should it have happened this way? Was it because Asia lacked the necessary telecommunications infrastructure? That is to say, if Asia was equipped with enough technological bases, would the situation have turned out differently?

As a possible framework to answer these questions, Malone et al.'s (1987) electronic market hypothesis was critically reviewed in this paper. In order to test the hypothesis, in-depth interviews were conducted by email with journalists from 15 local news media in 8 different Asian countries. The results of the interviews give little evidence of Malone's hypothesis. Instead, sociological factors such as trust, credibility, predictability and sense of quality seem to be more important factors in determining the structure of the news value-chain in Asia.

Several points should be considered in the study of how the new communication technology affects the global news value-chain. First, we should learn more about the

nature of news as a cultural product. Whether or not any products, whether cultural or material, or whether commercial or non-commercial, embed cultural meanings and political values in them, news products seem to have different characteristics from other kinds of products (see McManus, 1992). We should consider the distinct nature of news products more carefully particularly when we apply economic or organizational theories to media industry related topics. The nature of products being exchanged in an interorganizational relationship can affect the forms and effectiveness of the relationship itself. (For the nature of product issue in interorganizational relationships, see Monge and Eisenberg, 1987)

Second, when we examine the global news value chain, we should consider it as a dynamic process changing across time and space, not a static structure fixed in time and space. In their article about transactional value, Zajac & Olsen (1993) mentioned these points and criticized the transaction costs theories as focusing on fixed and stable structures and one-sided relations. They suggest we look at the aspects of interdependence among the stakeholders in the value chain and consider the time variable.

Third, the present study focused on the external coordination in the news value-chain, but it is also necessary to examine internal coordination mechanisms and processes to learn how the various relations (internal and external) are structurized (Giddens, 1979).

Fourth, even if the results of this study seem to downgrade the impact of the Internet in terms of making changes in the current structure of "unbalanced" international news flow, we cannot deny its impact on the news production, distribution and consumption process in the global news value-chain. In particular, one of the most

important research areas would be the impact of the Internet on the consumption process of international news.

Lastly, comparative research will provide very useful and significant data. With longitudinal and cross-sectional analysis, variables such as nationality, company size, organizational strategies, level of network infrastructure and internal coordination process can be considered.

Some methodological limitations of this study also should be mentioned. There are several factors which make the results presented here hard to generalize. First, the sample of fifteen interviewees cannot be construed as representative of all of the Asian news media. No systematic method of obtaining a random sample was used for this study because the main purpose of the interviews was to get a general overview of the trends.

Second, problems related to the email interview method should be mentioned with regards to the generalization issue. Interviews by email is a method still new to social science research. Different interview methods have been compared to each other in many studies (See, Wiseman, F. 1972; Johnson, Hougland, & Clayton, 1989), with some studies already testing the difference between email interview methods and other traditional interview methods (Kiesler & Sproull, 1986; Witmer, Colman, Katzman, 1998; Coomber, 1997; Soetikno, Mrad, Pao, & Lenert, 1997; Bertot & McClure, 1996). Most of these studies find that the email survey method still has generalization problems. However, they also found that there are some advantages of using email for surveys: high response rate, less time and cost, low frequency of missing answers and so on. This study takes advantage of these merits of using email surveys without concern for generalizing the results because the researcher believed that the cases collected for this paper would

show interesting responses of the Asian news organizations to the introduction of new communication technology in terms of their relations with their news suppliers.

Third, the responses of the interviewees in this study are largely based on their expectations. Most of the questions asked the Asian journalists are in the form of "what would you do if something happens?" Their answer to this kind of question could only be subjective expectation rather than providing informatioan about actual occurrences. In other words, this study does not report actual data about news trades between news providers and buyers and the extent to which the news organizations relied on the Internet as a means of gathering news.

Fourth, there was no secure way to exclude the possibility of the respondents answering the questions as individuals not as representatives of their organizations. This is a problem that most of the survey methods have to solve.

Even with these limitations, this study has some theoretical and methodological significance; First, it presented results which showed the importance of the social process in the relation between news providers and news buyers. Second, this study also is distinct from traditional studies on global news flow in that it focused on interorganizational relationships without reducing the issue to economic or political discussions such as those about one-sided ideological domination, or indoctrination of the Western ideology in the Third world. Third, this study was one of the few attempts to get data about news flow among Asian countries particularly based on the interviews with the journalist from these countries. Fourth, this study demonstrated some of the advantages of using interviews by email: relatively high response rate, less time and cost, low frequency of missing answers and less difficulty in getting follow-up data.

1 It has been noted that international news flow has been developed along with innovations of communication and transportation technology. As the telegraph, cable, teletype, wireless (later radio), and communication satellite became operational, the news agencies or "wire services" employed each new device to "transmit more and more news ever more quickly from capital to capital" (Hachten, 1993). Moisy (1997) points out that "on the supply side, an unending series of technical advances has transformed the production and distribution of news....through the extensive use of computers and satellites, multiplexing and fiber optics, and digitization and data compression." Schwarzlose (1989) calls these international news agencies "news brokers" and defines them as "a techno-journalistic system of policies, structures, political-economic functions, and news content, developing among and interacting with other technological and journalistic system." The International news media or agencies are also always some of the most active stakeholders involved in the social construction process of the newly emerging media. For example, the New York Times was both the most important beneficiary of new media technology such as telegraphy and radio and, at the same time, actively influenced the ways the technologies were socially shaped (see. Douglas, 1987).

2 The MacBride report by UNESCO was concerned about the unbalanced news flows and distorted national images of the Third World produced in that flow; the report argued that more than 70% of international news distributed globally was produced by several major "Western" news agencies – AP, UPI, AFP, and Reuters; and that the quantity and quality of their news had a serious problem in terms of "balanced" flow of information.

[3] The larger number of responses from Koran newspapers could be related with using only Korean and English.

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Figure 1. Global News Value Chain

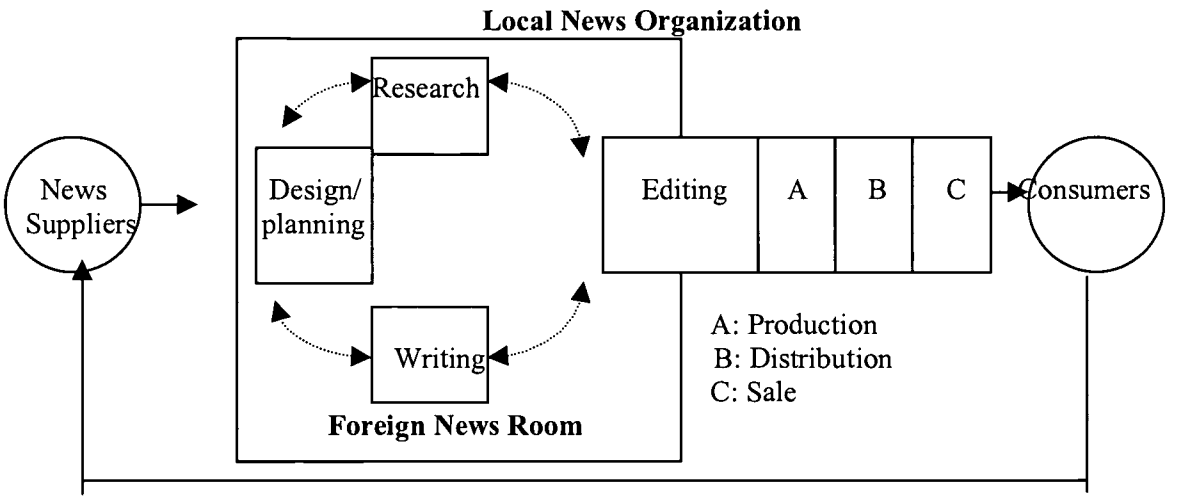


Figure 2. Unbalanced Relation between Western News Agencies and Third World (Source: Schramm, 1981).

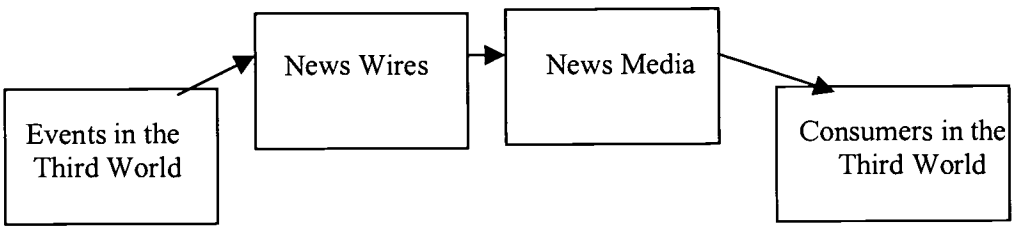
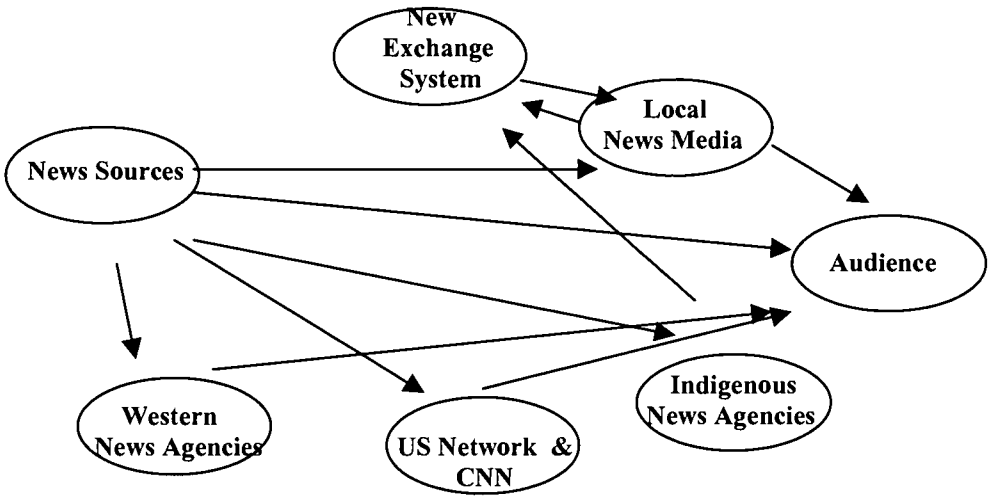


Figure 3. "Possible" News Flows Due to the Internet



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The Relationship of Circulation Performance, Environmental Uncertainty and the Market Orientation of Daily Newspapers

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The Relationship of Circulation Performance, Environmental Uncertainty and the Market Orientation of Daily Newspapers

The relationship between organizations and their environments has been one of the enduring concerns of those who manage – and study – organizations since at least the 1950s, when Dill reported on the impact of the environment on managerial autonomy.[1] For an organization, the environment is both a source of opportunity and threat. An organization's long-term effectiveness may depend on its management's ability to capitalize successfully on opportunities that its environment presents or to respond adequately to threats that it poses. That is why many organizations devote considerable resources to dealing with their environments and with the uncertainties that the environments present to organization managers. Indeed, Thompson argued that one of the central problems for managers of complex organizations was coping with environmental uncertainty.[2]

That construct, environmental uncertainty, is at the center of the research reported here. This paper explores the relationships among perceived environmental uncertainty, a market-oriented editorial strategy and circulation performance at U.S. daily newspapers. Though this research does not propose to be an explicit test of structural contingency theory,[3] it does rely on two key propositions from that large body of research. The first proposition assumes that environments are sources of uncertainty for organization managers, and that managers seek to minimize that uncertainty. The adoption of a strong market orientation within a newsroom is one strategy for reducing managers' perceived environmental uncertainty. The findings presented below offer evidence that such a relationship exists.

The second proposition is that organizations seek to find a good "fit" with the environments in which they operate because a good fit permits the organization to be more effective. We propose that becoming a market-oriented newspaper, with the attendant emphasis on identifying and meeting the informational wants and needs of readers, is a strategy to improve the fit between the organization and its environment and, therefore, to make it more effective. On this proposition our findings are more ambiguous. Though we do find associations among market orientation, perceived

environmental uncertainty and some organizational effectiveness measures, the findings are neither unequivocal nor uniform across news organizations.

Data from a 1996 survey of senior newsroom managers at 183 general-circulation U.S. daily newspapers were used to examine the propositions outlined above. This survey is among the largest and most comprehensive undertaken on market-oriented journalism, an issue that has become a controversial within the media industries.[4] This paper, in particular, re-examines and elaborates on previously published research that dealt with the relationships between perceived environmental uncertainty and the market orientation of daily newspaper newsrooms. It improves upon that previous research by relying on a larger sample of organizations and on improved measures of the key constructs. The results, in one instance, are at odds with what previous research discovered.

We hope our findings will be of interest both to media scholars and media managers. For media scholars, the research provides a test of propositions of contingency theories using a multidimensional approach to conceptualizing perceived environmental uncertainty. Previously published work involving news organizations treated environmental uncertainty as a unidimensional construct. The research also employs a more sophisticated approach to measuring an organization's market orientation. For media managers, the findings provide evidence of possible benefits and drawbacks associated with strengthening a news organization's market orientation. Or, more precisely, they shed light on whether the newspaper industry's emphasis on becoming more market oriented has any clear payoff in terms of improved circulation performance. While media managers certainly can gauge whether their organizations are experiencing benefits from a stronger market orientation, their experiences are individual. Our survey findings examine the experience collectively, across a relatively large group of newspapers. The effort to strengthen newspapers' market orientations has been expensive and contentious. Presumably journalists, media managers and media scholars would benefit from knowing whether there's "gain" associated with the "pain" of making newspapers more market oriented.

Market-Oriented Newspapers

The 1990s began as a decade of challenge for managers of U.S. daily newspapers. For some papers, the recession that began in 1991 called into question basic assumptions about the ability of general-circulation daily newspapers to routinely provide the high, double-digit profit margins that investors had come to expect, even during economic downturns.[5] Staff cutbacks, something relatively rare for daily newspapers during previous recessions, became more common. The recession and its aftermath seemed to underscore the potential gravity of two long-term industry trends:[6]

- Household penetration, a key measure of success in reaching an audience, had been sliding for more than four decades.[7] This made the daily newspaper a less efficient, and therefore less desirable, vehicle for delivering advertising messages to mass audiences.
- Because of competition from direct mail and television, the daily newspaper's share of advertising dollars had dropped to its lowest level ever, below 25 percent.[8] Though overall advertising revenues continued to increase, this trend suggested that maintaining profit margins to which investors had become accustomed would be increasingly difficult without major changes in the way newspapers did business.

As the environment for daily newspapers became more hostile, many papers decided to adopt a stronger market orientation.[9] Though the trend toward a stronger market orientation began in the late 1970s or early 1980s, industry trade publications suggested that it gained momentum during and after the recession of the early 1990s. *Presstime*, *Editor & Publisher*, *American Journalism Review* and *Columbia Journalism Review* all reported on the development. Supporters argued that market-oriented journalism would help save daily newspapers from irrelevance and improve their long-term viability.[10] Critics disparaged it as pandering to readers, said it undermined newspapers' social responsibilities, and fretted about its ethical implications.[11]

A strong market orientation implies that the organization's long-run success depends first on learning about customers' and potential customers' wants and needs.[12] Though readers' interests have traditionally been part of the calculus that journalists used to determine "what's news," adoption of a strong market orientation enhanced and

formalized the readers' indirect role in news decision-making. It represented a shift away from a professional model in which the journalist relied on his or her expertise to determine what was newsworthy. Under the market-oriented model, the journalist directs news decision-making toward satisfying readers' wants and needs. Often these wants and needs are inferred from environmental scanning – that is, from market research intended to fathom those wants and needs.

A strong market orientation not only implies that an organization aggressively seeks to understand customer wants and needs but also that it engages the entire organization in a unified effort to satisfy those wants and needs. That has posed ethical challenges to newspapers because it implied that news decision-making could be formally linked to the organization's broader business needs or concerns. This emphasis on integrating news decision-making with other organizational objectives is illustrated by changes at *The Los Angeles Times*. There, the paper's publisher tried to "lower the walls" between the business and news sides of the operation. Sections of the paper became separate entities, with business and news executives working more closely with one another.[13]

Defining and Measuring the Strength of Market Orientation

Development of a strong market orientation is a strategy that an organization could follow in its attempt to remain successful in the long run. That strategy involves an organizational commitment to meeting the wants and needs of customers in a firm's target markets, a notion that is common to most formal definitions of "market orientation."[14] Kotler says the marketing concept "holds that the key to achieving organizational goals consists of determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors."[15] Kohli and Jaworski[16] offer this more elaborate definition:

> "... a market orientation entails 1) one or more departments engaging in activities geared toward developing an understanding of customers' current and future needs and the factors affecting them, 2) sharing of this understanding across departments, and 3) the various departments engaging in activities designed to meet select customer needs."

This definition, emphasizing three dimensions of market orientation, formed the basis for research that Kohli and Jaworski conducted to develop a valid and reliable approach to measuring market orientation within an organization. The three dimensions that comprised their measurement approach were:

- *Intelligence-Generation.* This refers to an organization's efforts to collect and assess information about customer needs and preferences and about forces that may influence the development and refinement of those needs and preferences.
- *Intelligence-Dissemination.* This refers to the process and extent to which market information (information about needs, preferences and forces that influence needs or preferences) is exchanged with an organization.
- *Responsiveness.* This refers to action taken in response to intelligence that is generated and disseminated.

Each dimension of the construct is best conceived of as a continuous variable. Organizations can presumably vary in the strength of their orientation along each dimension, from very low to very high. An organization with a very strong market orientation would presumably rate highly on all three dimensions.

In this study, 15 survey items were developed to measure market orientation (Appendix A). These items seek to tap into the structural characteristics of newspaper newsrooms that provide evidence of the strength of the organization's market orientation along the three dimensions that Kohli and Jaworski identified. Six items were used to assess intelligence generation; five items to assess intelligence dissemination; and four items to assess responsiveness. For the analyses that follow, the items were combined into three summated indices, and each was subjected to item analysis and reliability assessment across the three circulation groups within the sample. Alpha coefficients ranged from .729 to .866, suggesting high reliability for the measures. Table 1 shows the means, standard deviations and reliability coefficients for the market orientation indices.

Environmental uncertainty

The scholarship on organizational environments approaches this construct in two basic ways.[17] The first conceptualizes an organization's environment as an objective,

measurable reality that varies in terms of its wealth, stability, heterogeneity and so forth. The other conceptualizes environment as a perceptual phenomenon – essentially a mental construction of organizational decision-makers. It assumes that for environmental factors to influence an organization's strategy and structure, the organization's decision-makers must first perceive those factors. It further assumes that the perceived environment may differ from the objective environment, though it is presumably the perceived environment that drives strategic decision-making. After all, that is what is believed to exist. While the perceived and objective environments may not be identical, neither are they unrelated. Indeed, the objective environment presumably informs or helps shape managers' perceptions of the environment, including the extent to which they view the environment as uncertain.

Both conceptualizations of environment have been used widely in organizational research. A perception-based approach was used here because the perceived environment is what managers would take into account in their decision-making. Duncan has offered this conceptual definition of the perceived environment, which we used: *The totality of the physical and social factors that are taken directly into consideration in decision-making behavior of individuals in an organization.*[18] As a construct, uncertainty is as problematic as environment. Information theorists, decision theorists and organizational scholars have embraced different conceptual approaches.[19] Some have treated the concept globally; others have identified specific dimensions or kinds of uncertainty. The definition of uncertainty used in this study, proposed by Milliken, focuses on a perceived lack of predictability. Milliken defines uncertainty *as an individual's perceived inability to predict something accurately.*[20] Environmental uncertainty, then, would be *an individual's perceived inability to predict something accurately about physical and social factors that are to be taken into consideration in the individual's decision-making for the organization.*

Organizations operating in uncertain environments are supposed to require organizational differentiation and specialization, delegation of authority, enhanced environmental scanning and flexible decision-making.[21] Though environmental uncertainty or perceived environmental uncertainty is central to major theoretical perspectives such as contingency theory or resource-dependency theory, the research that

employs this construct often has produced inconsistent or hard-to-interpret findings. Both Miller and Milliken have pointed out this predicament.[22] Milliken has suggested this may be because research has fused three basic dimensions of environmental uncertainty.[23] In response, Milliken has proposed these dimensions of perceived environmental uncertainty:

- *State uncertainty*. This is uncertainty about the condition of or state of the environment. Generally state uncertainty implies that one does not understand how components of the environment might be changing or might be interrelated. The experience of state uncertainty is likely to be partly a function of objective characteristics in which the organization is operating.
- *Effect uncertainty*. This is uncertainty about the impact of environmental conditions or changes on an organization. Effect uncertainty is the inability to predict how the current state of the environment or the future state of the environment is likely to affect an organization.
- *Response uncertainty*. This is uncertainty about the response options available to an organization or about the value of response options to an organization. Response uncertainty is defined as a lack of knowledge of response options and/or an inability to predict likely consequences of a response option.

Milliken's conceptualization of perceived environmental uncertainty guided the development of the measures used in this project. The survey included 15 items that attempted to assess these three dimensions of perceived environmental uncertainty. As with the market orientation measures, the uncertainty items were used to create three indices. Item analysis done for purposes of assessing the reliability of these indices suggested that four measures were ambiguous. These were dropped and the indices were rebuilt (Appendix B). Alpha reliability coefficients were computed on each index for each of the three circulation groups in the sample. One index, the Response Uncertainty index for the small-newspaper group, was low – .596. The others ranged from .710 to .846, somewhat lower than for the market-orientation indices but nonetheless within acceptable ranges. Means, standard deviations and alpha reliability coefficients for the indices are reported in Table 1.

This conceptualization of environmental uncertainty presents a challenge for research in which the organization is the unit of analysis. The concept is defined in terms of perceptions of individuals in the organization. That raises questions about treating environmental uncertainty as an organizational-level concept. Speaking strictly, an organization does not perceive; the individuals who are part of the organization perceive. Organizations are, however, arenas for collective activity, such as joint decision-making. If it is accepted that an organization's environment can affect its decision-making, it seems reasonable to assume that senior managers operate with some jointly held perceptions of that environment, presumably arising from their collective experiences with the organization and its environment. These jointly held perceptions would not be identical but should be similar and would constitute the organization's environment for purposes of strategic decision-making. Indeed, data collected for this study suggest that editors' perceptions of their environment are more similar than different.[24]

Hypotheses

Newspapers presumably move toward strengthening their market orientation with clear organizational objectives in mind. In the case of the newsroom itself, one strategic goal would be to reduce uncertainty about readers' informational wants and needs. The emphasis on a stronger market orientation means that the organization becomes more aggressive about collecting and processing information from its environment – that is, about scanning the environment for potentially relevant information. This information is available to help tailor news decision-making practices so as to create a better "fit" between the news organization's product and the informational wants and needs of readers, viewers or listeners. Contingency theories of organizations suggest that to the extent that this "fit" with the organization's environment is successful, it should be reflected in more effective organizational performance and greater organizational success.

In a 1992 survey of 78 daily newspapers, Beam found that perceived environmental uncertainty was positively associated with increased reliance on market research to shape editorial content.[25] He explained that relationship by suggesting that a strong market orientation (as reflected through reliance on market research to shape

editorial content) will tend to emerge at organizations at which editors perceive substantial environmental uncertainty. In other words, perceived environmental uncertainty was functioning as an independent variable and market orientation as a dependent variable. Here, a similar relationship is hypothesized.

H1: *As managers' perceived environmental uncertainty increases, the strength of the organization's market orientation increases.*

That is, we should find a strong positive correlation between managers' perceived environmental uncertainty and the strength of an organization's market orientation. As with Beam's 1992 study, the theoretical assumption is that a strong market orientation will emerge at organizations where environmental uncertainty is highest. Presumably the presence of a strong market orientation is an effort to counteract the perceived uncertainty in the organization's environment. This basic relationship should be reflect across all three indicators of market orientation and perceived environmental uncertainty.

Contingency theories suggest that "fit" between an organization and its environment should be associated with organizational performance or effectiveness. A strong market orientation presumably demonstrates an organizational commitment to achieving a strong fit with its environment. So, if the organization succeeds in achieving a strong fit, that ought to be evident in greater effectiveness or performance. Said another way, it seems reasonable to assume that organizations with a strong market orientation ought to "do better" in some ways than organizations with a weaker market orientation. Not only is this what contingency theories would suggest, but from a management standpoint, it would be irrational to invest time and resources in developing a strong market orientation if that weren't associated with a clear benefit for the organization. Therefore, our second hypothesis is that:

H2: *As the strength of a newsroom's market orientation increases, organizational performance increases.*

Perceived environmental uncertainty also might be an indirect indicator of fit. Here we assume that lower levels of uncertainty correspond to managers' beliefs that they have a good understanding of their organization's environment, including a good understanding of what it will take to make the organization successful. Therefore, we might expect to find that lower levels of perceived environmental uncertainty are associated with higher levels of performance. That gives rise to the third hypothesis:

H3: *As perceived environmental uncertainty declines, organizational performance increases.*

In this study, organizational performance was assessed using two circulation measures. For most newspapers, the growth or decline in circulation or household penetration would be a reasonable indicator of organizational effectiveness. The first indicator was the percentage change in the newspaper's total daily circulation from 1994 to 1995. Those circulation change data were the most recent available at the time the survey was conducted. The second indicator was the change in household penetration for the newspaper's home county between 1990 and 1995. This provided a longer-term measure of circulation performance. We focused on home-county penetration because newspapers sometimes voluntarily reduce nonproductive circulation in outlying areas. Because we were assessing penetration at time points five years apart it seemed likely that some publications could have done just that. However, it seemed unlikely that newspapers would voluntarily pare home county circulation, as that would be "close-to-home" circulation that should matter a lot to the organization. Household penetration was the preferable circulation-performance measure because it would accommodate changes in household growth or decline between 1990 and 1995 – something over which the newspapers would have little control.

The Sample and Analytic Approach

The findings reported here come from a mail survey conducted from April through July 1996. Initially, 893 senior editors were contacted at 215 daily newspaper companies. These editors typically were in supervisory positions, usually at the

department-head level and above. They were selected because they were likely to be aware of organizational practices on content selection, readership research, and general organizational goals and policies. Multiple editors were contacted at each publication. Their papers were selected using a disproportionate stratified probability sample. That sampling technique permitted an adequate representation of newspapers of all sizes from within the population of 1,458 U.S. daily newspaper firms.[26] In selecting the sample, large and medium-sized newspapers were oversampled; though they accounted for two-thirds of aggregate daily circulation they represented only 14 percent of all newspaper firms.[27] The objective was to make certain that an adequate number of those relatively rare but important organizations were part of the sample.

Of the 893 editors surveyed, 406 provided usable responses, for an individual response rate of 45.5 percent. These editors represented 183 newspapers, yielding an organizational response rate of 85 percent. The latter is the more critical figure, as the findings reported here are intended to describe characteristics of newspapers rather than of individuals working at newspapers.

Data from a stratified disproportionate sample such as the one used in this project present difficult analytic challenges. Sample strata can be weighted to reproduce mean values that are accurate estimates of the population as a whole, but weighting substantially complicates the computation of standard error terms across the entire sample. Popular commercial statistical packages, such as SPSS, are not designed to deal with all the analytic complexities associated with computation of standard error terms for weighted data. Consequently we chose to conduct analyses and report results within each stratum – large, medium and small daily newspapers. That decision was made partly to overcome the analytic problems associated with the standard error terms and partly because organization size would typically be used as a control variable in analyses. This analytic strategy had the practical effect of controlling for organization size and avoiding the task of computing standard error terms by hand. Though this makes interpretation a little more cumbersome, we concluded that this was the most conservative of the analytic options available.

The hypotheses were tested straightforwardly, with bivariate Pearson correlation coefficients.[28] Because each of the circulation groups had a relatively small number of

cases, we decided to eliminate extreme values when computing the correlation coefficients. This affected only analyses involving the circulation performance measures. The criterion applied to determine if a case was extreme – was an outlier – was if the value exceeded plus or minus three standard deviations from the mean. That affected one or two cases in each of the circulation groups. It should be noted that the elimination of these extreme values had a dramatic effect on results. Typically, "significant" findings became "not significant" when the extreme values were eliminated from analyses. The decision to eliminate legitimate values from analyses is admittedly difficult – particularly in the medium and large circulation categories where our organizational response rate approached 100 percent. But eliminating the outliers was the more conservative analytic strategy, which is the one we chose to follow here.

Findings and Discussion

Hypothesis 1: Table 2 shows the bivariate Pearson correlation coefficients for the market orientation indices and the perceived environmental uncertainty indices across the three circulation categories – small, medium and large newspapers. These correlations are strong and uniform for both sets of indices – but they are not in the direction that Hypothesis 1 predicts. All 27 correlation coefficients are negative, and 25 of the 27 are significant at the $p \leq .05$ level. The results indicate that as the strength of market orientation increases, perceived environmental uncertainty declines. In other words, as a group, the managers in strongly market-oriented newsrooms feel that they understand their environments substantially better than managers in newsrooms with weaker market orientations. While it's always hazardous to make inferences about causal relationships using cross-sectional data, these findings suggest that rather than perceived environmental uncertainty "driving" the strength of market orientation, the reverse may be true. A stronger market orientation, with its emphasis on scanning the environment and sharing information about the environment across an organization, may act to lessen managers' perceived environmental uncertainty.

Beam's original assessment of this relationship may have been a time-bound finding, or, perhaps, only "half the story."[29] In 1992, at the time of his survey, the recent recession may have strengthened management's perceptions of environmental

uncertainty, and newspapers may have responded by conducting more market research and by using that research to help shape their editorial product. That would have produced a positive relationship between market orientation and uncertainty. Hence the finding of a strong positive correlation between uncertainty and use of market research to shape editorial product. But by 1996, when this latest survey was conducted, newspaper managers may have been starting to benefit from their increased commitment to understanding and meeting reader wants and needs – in other words, to understanding this key aspect of their environment. At this point, a strong market orientation may have helped reduce their perceived environmental uncertainty, thereby explaining the relationships reported in Table 2. Ultimately, the relationship between market orientation and perceived environmental uncertainty may be something of an inverse reciprocal process – high perceived uncertainty prompts an organization to become more market-oriented, which in turn leads to lower perceived uncertainty. At any point in time, the relationship between market orientation and environmental uncertainty may depend on where an organization is in this process.

Hypothesis 2: Table 3 shows the bivariate Pearson correlation coefficients between the three market-orientation indices and the two circulation performance measures – the percentage-point change in home-county household penetration between 1990 and 1995 and the percentage increase or decrease in total circulation from 1994 to 1995. The results here are decidedly mixed, though the one set of significant results is consistent with the hypothesis that market orientation should be associated with increased effectiveness or performance. For small newspapers, there was a strong correlation between being market oriented and having year-to-year circulation increases for 1994 to 1995. However, there was not even the hint of a similar effect for medium-sized and large newspapers.

Though change in home-county household penetration rate would seem to be the most sensitive of the two indicators of performance or effectiveness, the five-year time frame may have undermined its value. It may be unreasonable to assume that the current strength of an organization's market orientation would be associated with changes taking place over such a long period, and it may be best to discount the findings in which this measure was used.

The differential effects found with the other circulation performance measure, however, deserve attention. The strong association for smaller newspapers might be explained in a couple of ways. The most obvious explanation is that there is a direct benefit in terms of circulation performance to being a market-oriented news organization. A strong market orientation may permit smaller newspapers to achieve better fits with their environments, and those fits could be reflected in better circulation performance. Another explanation may be that factors associated with a strong market orientation, and not the strength of market orientation itself, are driving circulation performance. Perhaps organizations with market-oriented newsrooms tend to have well managed circulation divisions, and that, more than the "fit" of the news product itself, is improving circulation performance. A third explanation would be that a market-oriented news operation can only succeed in increasing circulation performance in certain environments, and most particularly in more homogeneous environments. Smaller newspapers tend to serve smaller and, presumably, less diverse communities. Under those conditions, being market oriented may help overcome or reverse the seemingly natural trend toward circulation decline. It may actually be possible to effectively meet the informational wants and needs of smaller communities with one news product precisely because those communities are relatively homogeneous. In larger, more diverse communities – those communities served by the medium-sized and large newspapers in this sample – a strong market orientation may not be enough to overcome natural downward circulation trends. In these larger communities, the reality may be that the full-service, general-circulation newspaper is becoming anachronistic, and that circulation stagnation or decline is inevitable. Even becoming more market-oriented won't effectively combat it. In fact, it may be that no single product will be able to adequately meet the complicated informational wants and needs of readers or potential readers in these kinds heterogeneous communities. The Miami Herald Co. management appears to have come to just that conclusion for Dade County.[30] The company now produces two separate newspapers, one for English-language readers and one for Spanish-language readers. Miami may be but a very dramatic example of a broader phenomenon – that larger markets are simply too diverse to be served effectively by a single newspaper.

Hypothesis 3: Table 4 shows bivariate Pearson correlation coefficients between the three perceived environmental uncertainty indices and the circulation performance measures. These findings show no support for the hypothesis that perceived environmental uncertainty would be negatively associated with circulation performance. Though the correlation is in the expected direction for the small-newspaper group, the coefficients aren't large enough to reach conventional significance levels. Four significant relations are found for medium-sized and large newspapers, though they are not in the direction predicted. These findings are not easily explained. They suggest that news organizations at which perceived environmental uncertainty is high tend to show the strongest performance on the '94-'95 circulation measure. One possible explanation is that at larger news organizations, circulation performance is essentially independent of the strength of a newsroom's market orientation. The strong positive relationships we've found may simply be a consequence of perceived environmental uncertainty being associated with another unmeasured variable linked to circulation performance. For example, organizations at which perceived environmental uncertainty is high may for some reason have aggressive circulation departments or promotion programs.

Conclusions

Though the findings reported here often are not consistent with the hypotheses offered, they nonetheless add to our understanding of what it means to be a market-oriented news organizations. First, the relationship between a strong market orientation and perceived environmental uncertainty may not be as straightforward as suggested in earlier research. Where that earlier research concluded that uncertainty could lead to a stronger market orientation, the findings here suggest that the opposite may be true – that a strong market orientation is associated with lower levels of uncertainty. As explained above, both relationships may be viable depending on where an organization finds itself in the process of becoming more market oriented. To untangle this relationship, it would be best to see what happens to organizations over time.

Our findings also suggest that at least in terms of improving circulation performance – a key concern of many daily newspapers today – there may be limited benefit from becoming more market-oriented. While circulation performance was

positively associated with a strong market orientation at smaller newspapers, no similar relationship was found in the other two circulation groups. Because circulation "success" is affected by many factors other than the newsroom's understanding of its readers wants and needs, it may be unrealistic to expect a clear, direct association between a newsroom's market orientation and circulation performance. A strong market orientation might be a necessary but not sufficient condition for strong circulation performance. Or, as suggested above, it may no longer be possible to create a single news product that adequately serves larger, heterogeneous communities. Though newsroom managers may invest in understanding their communities and may even come to feel that they have a good grasp of readers wants and needs, the typical general-circulation product that the newspaper industry offers today in larger communities may still be insufficient to truly meet the informational wants and needs of a diverse collection of readers or potential readers. All this is not meant to suggest that a market-oriented news strategy is a waste of resources for larger news organizations. It may be that a strong market orientation has helped arrest or slow what would otherwise be larger circulation declines at these larger newspapers. Some would argue that well-run businesses must seek to gain a stronger understanding of customers' needs, and to try to meet those needs. Still, a clear circulation payoff from development of market-oriented journalism may prove illusive for larger newspapers.

Finally, the relationship between perceived environmental uncertainty and circulation performance remains to be untangled. Contingency theories suggest that organizations that achieve a strong fit with their environment will be more effective. Examining the relationship between perceived uncertainty and circulation performance was an effort to indirectly test that theoretical statement. The assumption was that low levels of perceived environmental uncertainty – particularly low levels of response uncertainty – would signal a good environmental fit. Consequently, we would expect to find better circulation performance at organizations with low uncertainty, particularly low response uncertainty.

The findings suggest that that may be the case at smaller newspapers. Though the correlations between circulation performance and perceived environmental uncertainty did not meet conventional levels of statistical significance, the relationships were all in

the expected direction, and the coefficients were in the weak-to-moderate range. Had the significance level been set at the $p \leq .10$ level, which may have been appropriate given the small sample size, we would have found evidence to support our hypothesis for the state uncertainty and response uncertainty indicators. On the other hand, the strong positive association between uncertainty and circulation performance for the larger newspapers remains puzzling. Had we found no relationship at all, that would have amounted to additional evidence for our speculation that larger newspapers simply may not be able to achieve particularly good fits with their environments. At this point, however, we can offer no strong plausible explanation for the positive relationships that we did find.

Table 1

Means and standard deviations (in parentheses) for indices of Perceived Environmental Uncertainty, indices of Market Orientation and Circulation Performance measures of daily newspapers across three circulation categories. Alpha reliability coefficients listed below means for indices.

	Small (N=93)	Medium (N=61)	Large (N=28)
Perceived Environmental Uncertainty indices [a]			
State Uncertainty	2.67 (0.75)	2.73 (0.61)	2.77 (0.59)
	alpha = .725	.735	.710
Affect Uncertainty	3.75 (1.04)	3.86 (0.79)	3.62 (0.97)
	alpha =.756	.714	.846
Response Uncertainty	2.85 (0.73)	2.92 (0.67)	3.0 (0.75)
	alpha =.596	.697	.721
Market Orientation indices [a]			
Intelligence Generation	4.18 (1.08)	4.42 (0.90)	4.75 (0.77)
	alpha =.823	.862	.810
Intelligence Distribution	4.22 (1.23)	4.53 (1.14)	4.45 (1.05)
	alpha=.768	.858	.866
Responsiveness	4.39 (1.13)	4.66 (1.02)	4.76 (0.87)
	alpha=.729	.860	.786
Circulation Performance measures			
Percentage change from '94-'95 in total circulation	.005 (0.13)	-.0245 (.05)	-.003 (.07)
Percentage-point change in daily household penetration '90-'95 for home county	-.009 (.08)	-.030 (.06)	-.036 (.08)

[a] Possible values range from 1 to 7.

Table 2

Pearson correlation coefficients for indices of Market Orientation and Perceived Environmental Uncertainty across three circulation categories.

	State Uncertainty	Affect Uncertainty	Response Uncertainty
Small (N=94)			
Intelligence Generation	-.480[a]	-.389[a]	-.552[a]
Intelligence Dissemination	-.432[a]	-.401[a]	-.440[a]
Responsiveness	-.469[a]	-.242[a]	-.509[a]
Medium (N=61)			
Intelligence Generation	-.512[a]	-.218[a]	-.329[a]
Intelligence Dissemination	-.376[a]	-.195[a]	-.255[a]
Responsiveness	-.444[a]	-.085	-.168[a]
Large (N=28)			
Intelligence Generation	-.408[a]	-.436[a]	-.342[a]
Intelligence Dissemination	-.304[a]	-.148[a]	-.221[a]
Responsiveness	-.113	-.225[a]	-.134[a]

[a] $p \leq .05$

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Table 3

Pearson correlation coefficients for Market Orientation indices and Circulation Performance measures across three circulation categories.

	% Circ change '94-'95	% penetration change '90-'95
Small (N=90)		
Intelligence Generation	.338[a]	.012
Intelligence Dissemination	.291[a]	-.039
Responsiveness	.382[a]	.038
Medium (N=59)		
Intelligence Generation	-.064	-.077
Intelligence Dissemination	.074	-.215[a]
Responsiveness	-.040	-.126
Large (N=27)		
Intelligence Generation	.012	.030
Intelligence Dissemination	-.088	-.070
Responsiveness	.083	.031

[a] $p \leq .05$

Table 4

Pearson correlation coefficients for Perceived Environmental Uncertainty indices and Circulation Performance measures across three circulation categories.

	% Circ change '94-'95	% penetration change '90-'95
Small (N=90)		
State Uncertainty	-.136	.038
Affect Uncertainty	-.111	.145
Response Uncertainty	-.162	.062
Medium (N=59)		
State Uncertainty	.286[a]	.079
Affect Uncertainty	.246[a]	.029
Response Uncertainty	.377[a]	-.134
Large (N=27)		
State Uncertainty	.372[a]	.043
Affect Uncertainty	-.027	-.060
Response Uncertainty	.020	.070

[a] $p \leq .05$

Appendix A

These survey items were used to assess the strength of an newsroom's Market Orientation. The response scale ranged from "very strongly disagree" (1) to "very strongly agree" (7).

Intelligence-generation dimension

- This newspaper tries hard to keep up with changes in readers' interests.
- This newspaper does a lot of research into readers' wants and needs.
- This newspaper is slow to detect changes that might influence what readers want or need from their newspaper (response values reversed in analyses).
- The newspaper devotes a relatively large amount of resources to trying to understand what readers want or need in their newspaper.
- This newspaper systematically assesses any information it has on what readers like or don't like about the newspaper.
- This newspaper pays little attention to what readers say they want or need in their newspaper (response values reversed in analyses).

Intelligence-dissemination dimension

- This newspaper wants its senior editors to meet regularly to discuss readers' wants or needs.
- This newspaper disseminates throughout the newsroom any information it has collected from reader research.
- This newspaper seldom circulates the findings of reader research among reporters and lower-level editors (coding reversed for response values).
- This newspaper is the kind of place where there's a lot of discussion about what readers want or need in their newspaper.
- This newspaper periodically has meetings between senior editors and representatives of other newspaper departments to talk about ways to meet readers' wants and needs.

Responsiveness dimension

- This newspaper seldom makes content changes based on results of reader research (coding reversed for response values).
- This newspaper is slow to respond to readers' suggestions for new kinds of content (coding reversed for response values).
- This newspaper periodically examines how content might be changed to ensure that it's in line with readers' interests.
- This newspaper regularly uses information it collects about readers' interests to refine the newspaper's content.

Appendix B

These survey items were used to assess editors' Perceived Environmental Uncertainty. The response scale ranged from "feel very uncertain" (1) to "feel very certain" (7). Response scales were reversed in analyses.

State Uncertainty

- How certain do you feel that you know what kinds of content your readers want in their newspaper?
- How certain do you feel that you know what kinds of content your readers need in their newspaper?
- How certain do you feel that you understand your community's most pressing issues?
- How certain do you feel that you know what groups of people read your paper regularly?

Affect Uncertainty

- How certain do you feel that you understand how changes in your community are likely to affect the kind of content your newspaper publishes?
- How certain do you feel that you know how the Internet is likely to affect your newspaper in the years ahead?
- How certain do you feel that you can anticipate how development of on-line newspapers is likely to affect your job as a journalist in the years ahead?
- How certain do you feel that you understand how the increasingly competitive business environment is likely to affect your newspaper company during the next few years?

Response Uncertainty

- How certain do you feel that you know how to successfully adapt your newspaper to the changing interests of your readers?
- How certain do you feel that you will be able to stay on top of the most important issues facing your community in the years ahead?
- How certain do you feel that you know how to provide content that meets your readers' needs?

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24 Assessing the homogeneity of responses within an organization is difficult. The strategy used here was to compute the standard deviation for a variable across respondents in a given organization. For the sample as a whole, the standard deviation scores for each variable were regressed on the number of respondents within an organization. In essence, an effort was made to see if the number of respondents was a significant predictor of the standard deviation, a measure of variation in scores. The number of respondents was a significant predictor of the standard deviation for only six of the 75 variables tested.

This degree of homogeneity seemed sufficient to treat the measures as organizational-level indicators.

25 Beam, "How Perceived Environmental Uncertainty Influences the Market Orientation of U.S. Daily Newspapers," 1996.

26 By newspaper firms, we refer to corporate entities that publish one or more newspapers in a given location. Firms that published two papers from the same location, such as those with joint operating agreements, were treated as one organization because they operate as a single business for advertising, circulation and other business purposes. The list of daily newspaper firms was drawn from *Circulation '95*.

27 The sample was a stratified systematic disproportionate probability sample. The population of 1,458 general circulation daily newspaper firms was divided into three groups by aggregate daily circulation, with each stratum accounting for approximately 18.8 million of the total aggregate daily circulation of 56.3 million. The large-paper stratum included 39 newspaper firms. The medium-paper stratum included 168 newspaper firms. The small-paper stratum included 1,251 papers. The sample size in each stratum was designed to produce approximate confidence intervals of plus or minus 5 percentage points within each stratum. In the large-paper stratum, the sample size was 29 newspaper firms. Within the medium-paper stratum, the sample size was 62 newspaper firms. Within the small-paper stratum, the sample size was 124 newspaper firms. The organizational response rates within the strata were 28 of 29 in the large-paper stratum; 61 of 62 in the medium-paper stratum and 94 of 124 in the small-paper stratum.

28 A relatively high percentage of units were sampled from the large- and medium-sized newspaper strata. Consequently, when significance testing was done, the finite population correction term was used to reduce standard errors.

29 Beam, "How Perceived Environmental Uncertainty Influences the Market Orientation of U.S. Daily Newspapers," 1996.

30 Greg Jaffe, "At the Miami Herald, a Strategic U-Turn," *The Wall Street Journal*, 21 September 1998, p. B1.

Viewing Motivations and Implications in the New Media Environment: Postulation of a Model of Media Orientations

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Introduction

Whether people watch television selectively has been a fundamental question for a long time for the academic as well as industrial community. Countless studies and marketing surveys have been conducted to answer this question and have brought insights into people's viewing behaviors. However, research results are still inconclusive.

To date, two broad theoretical perspectives are most often used to explain television viewing patterns (Webster & Newton, 1988; Webster & Wang, 1992). One emphasizes the primacy of individual traits and motivations behind the behaviors (Palmgreen, Wenner & Rosengren, 1985). From this perspective, viewers are assumed to be active and motivated in the selection of programming that can meet their needs and preferences. The second perspective eschews individual traits and focuses on structural characteristics. Audiences in the aggregate are conceived of as overall passive and subject to strategic manipulations such as programming availability and scheduling characteristics (Webster, 1985).

Although both traditions have made substantial contributions to the understanding of television audience behaviors, they are not unchallenged. McQuail (1984) has indicated that the power of using uses and gratifications measures to predict media exposure is quite limited. Lichtenstein and Rosenfeld (1983) also have questioned the assumption that "needs" govern media choices. In general, research findings in this tradition have been inconsistent. Prior research showed only low to moderate correlation between motivations and media exposure (Swanson, 1987). By contrast, structural

characteristics such as inheritance effects, repeat viewing, scheduling techniques and audience availability have been found to have substantial predictive power (Horen, 1980; Rust & Eechambadi, 1989; Tiedge & Ksobiech, 1986; Webster, 1985; Webster & Newton, 1988; Zufryden, 1976).

Research concentrating on the structural constraints, on the other hand, has been questioned about its validity such as the failure to take into account the turnover rate of audience in the investigations of program selection (Brosius, Wober & Weimann, 1992). Hawkins, Reynolds and Pingree (1991) found that, of all the five identified viewing styles, only the "moderate runner" appeared to correspond to the stereotype of the viewer who just watches what is available. This finding is supported by the study of Rust, Kamakura and Alpert (1992), which suggested that viewers tended to choose the least objectionable programs. Gunter (1985) conducted several national and regional surveys in the United Kingdom and also found similar results indicative of prominent features of viewing behavior, that is, channel loyalty and programming loyalty.

Some scholars have pointed out that the inconsistent research results between the structuralist approach and the tradition that emphasizes audience activity was a consequence of methodological biases (Adams, 1997; Rosenstein & Grant, 1997). Prior research stressing the structural factors tended to focus on audience in aggregate and use ratings tools such as viewing meters and diaries, whereas investigations of individual viewing motivations and activity were more likely to make use of questionnaires or interviews.

To complicate things, some viewing patterns such as channel loyalty, program type loyalty and repeat viewing can be interpreted in both terms. In the structuralist

tradition, channel loyalty is conceptualized as "within-channel duplication" which results largely from "audience inertia" (Cooper, 1993; Cooper, 1996; Rosenstein & Grant, 1997). Program type loyalty is also predominantly conceived as lead-in or inheritance effects as consequences of scheduling strategies (Tiedge & Ksobiech, 1986; Webster, 1985; Webster & Newton, 1988). Repeat viewing, which is defined operationally as viewers watching successive episodes of a program, is interpreted as an outcome of program formatting techniques or continuous story lines (Sherman, 1995; Webster & Wang, 1992). Conversely, from the perspective of active audiences, these observations are held as evidence that individual viewers actively select what they want (Brosius, Wober & Weimann, 1992; Darmon, 1976; Gunter, 1985).

Because of these discrepancies, scholars have attempted to search for an integrated framework that can take both approaches into consideration (Heeter & Greebberg, 1988). Webster and Wakshlag (1983) proposed a broad model that recognizes the viewer awareness and preference in media exposure but still gives priority to mass audience availability. Rosenstein and Grant (1997) produced a model which conceptualizes habit as a link between individual activity and structural constraints. Uses and gratifications theorists also began to integrate structural determinants into the theoretical framework that might in some ways confine individual viewers' selectivity and affect their motives (Palmgreen, Wenner & Rosengren, 1985; Swanson, 1987; Weibull, 1985).

A very important component in the examination of viewing patterns is viewers' selection process. This process has become increasingly critical in the new media environment. Recent research found that inheritance effects began to weaken in the

1980's as the penetration of cable TV, ownership of VCRs, and the sales of remote control devices began to surge (Walker, 1988). Audience share in network prime-time programming also increasingly eroded in the same period (Davis & Walker, 1990). Furthermore, the availability of more content-specialized channels also have increasingly produced a certain degree of audience fragmentation and polarization that had not occurred previously (Webster, 1986). Based on individual viewers' psychological and behavioral dimensions, Lin (1994) also found that the level of audience activity and viewing gratifications varied with the diversification of media availability. All these findings point to the existence of active audience members who are playing a decided role in the selection process.

The purpose of this study is to examine the importance of people's motivations in the choice process. The paper also attempted to explore the criteria that viewers may have when they turn to certain program types.

Uses and Gratifications

In the study of media consumption, the uses and gratifications paradigm assumes audiences to have motivations and goals that may have their psychological, social or sociocultural origins when the turn to the media (Rosengren, Wenner & Palmgreen, 1985). Through exposure to certain types of media or programming, people would accomplish their ends and obtain gratifications. Countless and diversified investigations have been conducted in this tradition. Some researchers applied this conceptualization to general television viewing (Abelman, Atkin & Rand, 1997; Lin, 1993), some other to specific program types such as news, soap operas, and religious programs (Abelman, 1987; Babrow, 1987; Vincent & Basil, 1997). A more recent study has been found to use

the uses and gratifications framework in the examination of rerun viewing (Furno-Lamude & Anderson, 1992). It was also applied to home computer use (Perse & Dunn, 1998). Massey (1995) even took a qualitative approach to this model in the investigation of audience activity during the 1989 Loma Prieta earthquake disaster. The bulk of research in this approach not only has revealed the popularity of this conceptual framework in the study of media use, it also has shown the methodological flexibility and diversity of this model.

With the assumption of motivated and active viewers in the uses and gratifications paradigm, some researchers applied this model to identify the underlying motivations behind the general media use as well as specific program types. Rubin (1984) identified two primary motivational patterns in television: ritualized and instrumental. In a recent study, a new factor—reactionary television use—was found in religious program viewing (Abelman, 1987). Based on gratifications items adapted from earlier work, Lin (1993) found five factors in gratifications sought and obtained: informational guidance, interpersonal communication, parasocial interaction, entertainment and diversion. A recent study on news use confirmed the four major motivational categories: surveillance, escape, boredom and entertainment (Vincent & Basil, 1997).

Indeed, the uses and gratifications model has been very useful in uncovering the underlying factors about why people select what they want from the media. Nevertheless, it is not free of criticisms. First of all, and particularly of most concern to the industry, the model lacks predictive power as far as medium or program selection is concerned (Palmgreen & Rayburn, 1982; Webster & Wang, 1992). Furthermore, some

scholars also argued that prior research of uses and gratifications often relied on post-hoc reconstruction from viewers' self-reports (Stanford & Riccomini, 1984).

Second, and probably most compelling, the whole conceptualization of uses and gratifications was said to be less of a theory than it is an approach through which numerous concepts and theories about media exposure can be viewed (Massey, 1995).

In an attempt to refine the theoretical framework, Palmgreen and Rayburn (1982) highlighted the distinction between gratifications sought (GS) and gratifications obtained (GO) and built a model of GS on the expectancy-value model of Fishbein and Ajzen. The model focused on the relationship between gratifications sought and viewing intentions. However, the combination of expectancy-value theory and that of uses and gratifications also fell short and succumbed itself to skepticism. Swanson (1987) argued that "[p]roceeding in this ad hoc fashion can create confusion about what theories are being tested, what concepts are essential components of those theories, and related matters" (p. 240).

Based on earlier work, Levy and Windahl (1985) proposed a 3×3 heuristic typology incorporating two dimensions—qualitative orientation and temporal—to provide a broad framework for conceptualizing audience activity in the process of media exposure. The dimension of qualitative orientation consists of selectivity, involvement and utility; the temporal dimension takes the sequential form of before, during and after exposure. According to the authors, the uses and gratifications model matched the before-exposure-selectivity cell and the after-exposure-utility cell (e.g., gratifications sought and obtained). A relatively strong correlation between selectivity in exposure

seeking and post-exposure use was found in an investigation of television news viewing in Sweden (p. 118).

Mass media orientation

One of the central propositions of the concept of media orientation is that audiences have already formed an overall "image" about what the media or content can offer, since media use is a common daily activity for most people (Lichtenstein & Rosenfeld, 1983; McDonald, 1990; Stanford, 1984). Lichtenstein and Rosenfeld (1983) argued that the uses and gratifications assumption of personal needs as determinants of media choices might not be necessary because the image has been learned. This argument has found some support in the study on the influence of habit or past experiences on behaviors (Bentler & Speckart, 1979). Numerous empirical studies of behavioral patterns such as voting for a particular political party (Echabe, Rovira & Garate, 1988), seat belt use (Sutton & Hallet, 1989) and blood donation (Charng, Piliavin & Callero, 1988) all lent support to the significant role played by habit. In terms of media orientation, the concept of habitual behavior implies that media use has become so routinized through daily repetition that this behavior ceases to activate any conscious decision-making each time the viewer turns to the media. Instead, the consistently held image serves as a cue that automatically orients his viewing behaviors and outcomes.

Although the conceptualization of media orientation has been useful in explaining the overt habitual behavior of media use, it failed to address the embedded mechanism underscoring the formation of viewing habit (McDonald, 1990). Whether this mechanism functions differentially for different people in various situations demands a subtler conceptualization. To account for this deficiency, several scholars have attempted

to incorporate the conceptual framework of uses and gratifications, in particular the gratification sought, into the theory of media orientation (McDonald, 1990; Stanford, 1984; Stanford & Riccomini, 1984). In other words, the orientation toward the medium is defined as a summary of gratifications an individual perceives that the selected medium and content are likely to provide.

Compatible as is the approach of uses and gratifications with the concept of media orientation, there is a substantial difference between these two frameworks in terms of the distinction between media as medium and media as content. Stanford (1984) has pointed out that the medium (i.e., television) is often treated only as a vehicle for program choices in the uses and gratifications tradition. She argued that there might be a "relationship between learned orientations to TV as a medium and gratifications from favorite TV programs" (p. 522). The author's research findings based on a telephone survey generally supported her proposition that general orientations toward television affected gratifications from specific programs.

Along the same line, McLeod and McDonald (1985) also maintained that the general term of media orientation would be able to explain more specifically the use of media in various dimensions of time spent, exposure to particular content, degree of reliance, level of attention, and motivations for use. More important, the authors distinguished two types of orientation in media use: medium-specific orientation and content-specific orientation. Therefore, the various aspects in media exposure "can be descriptive of orientations to a given medium, absolutely or relative to other media, or summed with corresponding dimensions of other media to form a cross-media concept" (p. 6).

The medium-content distinction not only implies the dynamic relationship between medium selection and content choice that is generally missing in the uses and gratifications paradigm. Also implicit in this conceptualization is the awareness of the two-step decision process in media exposure, in particular in TV viewing, that has been well recognized in academic research (Cooper, 1996; Heeter, 1988; Heeter & Greenberg, 1985; Rosenstein & Grant, 1997; Rust & Alpert, 1984; Webster & Newton, 1988; Webster & Wakshlag, 1983). People often decide whether or not to watch and then what program to watch. Based on prior literature of decision-making, Heeter (1988) pointed out three components involved in the selection process of cable TV programs: indefinite goal, complexity and uncertainty. The audience is assumed to have a variety of overt and covert potential goals (or needs) that might be satisfied by watching any number of different available programs. Because of the limited but large number of program alternatives in cable television, the selection process resembles a complex task, and viewers may not have full knowledge of the program availability at a given time. Under these circumstances, the viewers have to go through an "orienting search" for information.

Viewing motivations versus programming strategies

Although the uses and gratifications approach and the concept of media orientation have brought insights into viewers' TV viewing patterns and outcomes, scholars in this tradition have not been paying much attention to its practical implications for the industry (Abelman, Atkin & Rand, 1997). Indeed, prior research often focused on the relationship between gratifications sought and obtained, audience involvement, and

media effects, but the media academic community hardly ever attempted to take one step further to examine the applicability of this approach in programming strategies.

Most TV programmers still rely largely on the conventional wisdom of scheduling strategies, aggregated ratings data, and demographic information (Head, 1989). To a large extent, these strategies have been very effective. As far as programming strategies are concerned, factors at the individual level only take a marginal status. For those who address the individual differences, on the other hand, semantic attributes of program types, demographic configurations, and genre preferences are the major concerns. In other words, viewing motivations seem to be a missing link in the examination of programming strategies and viewing outcomes. However, the changing new media technology and the increasing competition from new broadcast networks and multichannel systems are begging more precise information about audience viewing behaviors.

The purpose of this study is to explore the possibility and effectiveness of taking viewing motives into programming consideration. Subsequently, some questions need to be answered. Apart from the structural determinants and demographic traits, are viewing motivations playing any substantial role in this broad scenario? What are the salient attributes of viewing motivations that may come into play? Is there any substantial relationship between viewing motivations and program choices? If so, how can these attributes of viewing motivations be applied to program selection?

Postulating the model for TV viewing behaviors

In social psychology, two combinatorial models have been used extensively in the investigation of attitude-behavior relationships. One is the expectancy-value model

formulated by Fishbein and Ajzen (1974), who have posited that an attitude is a function of the sum of expected values (value) of the salient attributes (beliefs) ascribed to the attitude object. The summed products indicate the strength of attitudes and behavioral intentions toward the object. This model has also been adapted by some media scholars in the research of uses and gratifications (Galloway & Meek, 1981; Palmgreen & Rayburn, 1982). The other one is Anderson' (1965) information integration theory. Within this framework, a person is presumed to form and modify attitudes as he receives new information and integrates it with his prior attitudes and beliefs. The valuation of the information has two operational dimensions: its scale value and its weight. The summed products represent the strength of attitudes.

To the extent that media use is an instance of behavior, these models are very helpful in the exploration of viewing patterns. However, to make these models more suited to mass communications research, some media-specific components must be taken into account. Based on the aforementioned conceptualizations of uses and gratifications, media orientations and the two-step process, this study postulated a new model:

$$P(C) = (M_1C_1 + M_2C_2 + M_3C_3 + \ldots + M_kC_k)$$

In this equation, the likelihood of choosing a certain type of medium for a certain content, P(C), is a function of the summed product values of orientations toward the medium, M, and orientations toward the content, C.

This model assumes that individual viewers have a certain number of goals or needs when they turn to the media for specific content. The general images or orientations toward the media/content are expected to determine individuals' diagnostic values. The diagnosticity, in turn, will determine the selection of media and content (see

Figure 1). The medium-content distinction implied by the media orientation theory is deemed essential in this model because the dynamic relationship between the medium and content may serve to enhance or compromise the magnitude of satisfaction. Granted, this relationship is likely to be based on a multiplicative rule. For example, a person turns to TV because he thinks TV is the best choice for something entertaining, relative to other media types. He may find that sitcoms can best satisfy his goal, compared to other program types. Thus, the consequence of watching a sitcom will give him most gratification. Another example, a person may start with the content-specific goals such as the current status of President Clinton's impeachment. He has television, newspapers and other types of media to choose from. Because he has the image that newspapers will provide more in-depth information, the probability that he will choose newspapers to read is higher than watching television news.

This model departs from previously mentioned models in a significant aspect. The expectancy-value model treats the evaluation as consisting of two dimensions of expected attributes and their weights of importance; the information integration theory distinguishes the scale-value dimension and weight of information. The model postulated here, however, does not make this distinction. This is because media use has been practiced on a consistently regular basis, and prior studies have been able to repeatedly uncover similar underlying motives. Instead, this model distinguishes the medium-oriented and content-oriented dimensions.

If people have certain goals when they turn to the media, they are likely to choose whatever can best meet their goals. Because viewers have already obtained general images of what the media and content can provide, the orientations toward the medium

and the content should serve in combination to determine the viewing outcomes. In the case of TV viewing, the viewers should select the most appropriate program types they perceive to provide the maximum gratifications.

Hypothesis: The summed values of viewing motivations are positively correlated with the probability of choosing a certain program type to watch.

With the emergence of new broadcast networks such as Fox and UPI, cable television and direct broadcast satellite, the media market has become increasingly competitive. Any new information about people's viewing behaviors will be critical in the formulation of programming strategies.

Research question 1: Does gender play a role in the selection of program types and viewing motivations? What are the program types that are more appealing to respective gender?

Research qeustion 2: Does cable subscription affect choices of program types? What are those program types?

Methods

The survey was administered to 187 undergraduate students of the University of Florida. Respondents were asked to indicate their level of agreement with each of the orientation statements toward watching TV in general and specific program types in different wording. A seven-point scale was used ranging from 1 (strongly disagree) to 7 (strongly agree). The eight statements were adapted from prior research of uses and gratifications (Abelman, Atkin & Rand, 1997; Rubin, 1983; Stanford & Riccomini, 1984). These included: (1) to pass the time, (2) to relax, (3) to forget my problems, (4) to

find about things I need to know in my daily life, (5) to know current events, (6) to learn about myself, (7) to have something entertaining, and (8) to have something exciting.

Habit was not conceived as a viewing motive because it may be an underlying psychological process that helps to create the general viewing patterns (Rosenstein & Grant, 1997). Therefore, it was not included in the statements of viewing reasons. Instead, it was treated separately in the questions about demographic information. Participants were asked to indicate their degree of agreement with the statement: I turn off the TV if there is nothing I want. That is, the lower the score is, the more habitual the viewing is. Other questions concerning sample characteristics covered gender, cable subscription, and average amount of viewing time on weekday and weekend, respectively.

Sixteen major program types were chosen for the measurement of program preferences and viewing probability. They were (1) situation comedy, (2) drama, (3) action adventure, (4) non-news magazine, (5) news/magazine, (6) sports, (7) daytime soap opera, (8) comedy-variety, (9) game show, (10) talk show, (11) documentary, (12) children's programming, (13) mystery, (14) movie, (15) music program, and (16) si-fi program. Examples of each program types were provided in the questionnaires for reference. Probability of viewing each of the 16 program types was based on respondents' self-reports. In order to avoid the confounding factors of programming availability, the questions were asked twice, one for viewing probability during the day, the other for viewing likelihood in the evening. Daytime soap opera was deleted from questions about viewing probability in the evening. Respondents were also asked to

write down their favorite programs and the program types their favorites should be categorized as.

Results

Sample Characteristics

Of all the 187 survey participants, 116 were female students (62%) and 71 were male students (38%). More than 70% of the participants had subscriptions to basic cable service (N = 132, 70.6%); 51 students had premium cable (27.3%). Only 4 students did not have cable (2.1%). On average, the students spent slightly more than 3 hours watching TV on a weekday (M = 3.13, SD = 2.3) and more than 4 hours on weekend (M = 4.44, SD = 2.92).

Students were asked to report their probabilities in percentage form of selecting each of the 16 program types to watch during the day and each of the 15 program types in the evening. Table 1 (1-A and 1-B) summarizes the results in descending order of daytime and evening viewing, respectively. Findings show that students were most likely to watch sitcoms during the day (M = 50.14) as well as in the evening (M = 65.55). Films had the second highest probability of being selected during the day (M = 37.87) and also in the evening (M = 49.46). By contrast, game show, sci-fi drama, mystery, and children's programming all had probabilities of selection lower than .20 for both daytime and evening. Music programming had slightly higher probability for daytime viewing (M = 36.79) than for evening (M = 31.29). Talk shows also were more likely to be selected for daytime (M =34.30) than for evening (M = 27.45). The differences suggest that students took into account the program availability in different dayparts.

Viewing gratifications were defined operationally as the summed product values ascribed to the eight motivational statements for general TV viewing and for specific program types. Higher scores indicated higher gratifications that might be expected or obtained from the specific medium and the content. Based on this operationalization, each statement could take the highest score of 49 (7×7), and the eight statements altogether could have a maximum of 392 (49×8) as the gratification score. This means the content in this specific medium can meet the viewer's goals or needs to the fullest extent. In contrast, each statement could also take a value as low as just 1 (1×1) and the eight-statement gratification score, in this case, would be only 8 (1×8).

Among all program types, film (M = 178.2) and sitcom (M = 161.8) tended to provide the students with the highest viewing gratifications. By contrast, mystery (M = 119.07), daytime soap (M = 105.41), sci-fi drama (M = 104.39), and children's programming (M = 95.60) had the lowest scores of gratifications. Table 2 summarizes the means and standard deviations of gratifications scores for each program type in descending order.

It is worth noting that those most liked and least liked program types paralleled approximately the selection probabilities. However, documentary (M = 153.30) and news programming (M = 151.14) tended to provide considerable gratifications, although their probabilities of being selected for viewing were only in the medium range. Alternatively, the gratifications score of drama (M = 143.97) was only in the medium range, while it had a relatively high probability of selection. A check of the distribution curves of these three program types shows high levels of skewness. These discrepancies may suggest these program types had relatively limited but highly satisfied audiences.

Hypothesis Test

This study hypothesized that viewing motives would be positively correlated with the probability of selecting a certain program type to watch. Pearson's correlation was conducted to test the hypothesis for daytime and evening separately. Findings illustrate that viewing motives were generally correlated with probabilities of selecting a certain program type to watch (see Table 3 and Table 4). Only film was found to have insignificant correlation with viewing motives. For all other program types, Pearson's product-moment coefficients ranged from r = .249 to r = .559 for daytime viewing, and from r = .283 to r = .555 for evening viewing. For daytime programming, program types such as children's programming (r = .476), music programming (r = .495), soap opera (r = .559), sports (r = .517), and talk show (r = .454) had higher correlation coefficients, relative to other program types. For evening programming, music (r = .464), sci-fi drama (r = .518), and sports (r = .555) were the program types having higher correlation coefficients.

Findings illustrate that the probabilities of program choices were also related with one another (see Table 5 and Table 6). For daytime viewing, action adventure had a stronger positive relationship with sci-fi programming (r = .520). Drama and sitcom were strongly related (r = .60). Film was also positively correlated with sitcom (r = .529). Game show and talk show were also highly correlated (r = .496). Alternatively, soap was negatively but only weakly related with sports (r = -.221) and with documentary (r = -.199). For evening viewing, news and documentary (r = .50), and news and non-news magazine (r = .527) were highly correlated. No significant negative correlation was

found for any program type. By contrast, children's programming and soap opera seemed to have very low or insignificant correlation with most other program types.

Gender Differences in Program Selection and Viewing Gratifications

Table 7 and Table 8 report the independent sample t-test results of program type choices between male and female students for daytime and evening programming, respectively. Male and female students differed significantly in the selection of program types such as action adventure (t = 4.123), comedy-variety (t = 2.131), documentary (t = 2.743), drama (t = -2.266), non-news magazine (t = -2.582), sci-fi programming (t = 3.481), daytime soap (t = -6.878), sports programming (t = 8.693), and talk show (t = -3.232) during the daytime. Female students were more likely to choose drama, non-news magazine, daytime soap, and talk show to watch during the day.

The patterns of program type selection in the evening were only slightly different from those of daytime viewing. Female students were more likely to select drama (t = -4.382) and sitcom (t = -2.152), whereas male students tended to prefer action adventure (t = 3.388), documentary (t = 2.796), and si-fi programming (t = 2.648).

Independent sample t-test was also conducted to see whether male and female students had different degrees of gratifications from certain program types. Results (see Table 9) illustrate that male students tended to obtain higher gratifications than female students from watching programs such as action adventures (t = 2.651), documentaries (t = 2.358), sci-fi drama (t = 3.249), and sports programs (t = 6.126). By contrast, female students were more satisfied with soap operas (t = -5.376).

Cable Subscriptions versus Program Choices and Gratifications

Independent sample t-test was also conducted to test the differences in the selection of each program type between basic cable subscribers and premium subscribers. Because there were only 4 students without cable subscription in the sample, t-test was not conducted on this group. Findings show that basic cable and premium subscribers differed only in the selection of film during the daytime ($t = -2.528$). Premium subscribers were more likely to watch films than basic cable subscribers during the day. There were no significant differences for other program types.

In terms of viewing gratifications, premium subscribers tended to obtained higher gratifications than basic cable subscribers from watching game shows ($t = -2.627$) and non-news magazines ($t = -2.428$).

Habit and Viewing Patterns

As a question about viewing habit, students were asked whether they would turn off the TV if there was nothing they wanted. They seemed to only slightly agree with it ($M = 4.55$, $SD = 1.9$). Pearson's correlation was used to test the relationship between habit and selection of program types to watch during the day and in the evening, respectively. Findings reveal that habitual viewing (i.e. lower scores) had weak negative correlations with drama ($r = -.231$), film ($r = -.154$), non-news magazine ($r = -.153$), and sitcom ($r = -.211$) for daytime viewing. In other words, students who watched TV habitually were slightly more likely to select these program types to watch. No significant correlations were found for other program types. Similarly, habit had weak negative correlations with drama ($r = -.180$), non-news magazine ($r = -.144$), and sitcom ($r = -.122$) for evening viewing.

Television and Program Viewing Motivations

Principal axis factor analysis with Oblique rotation was conducted to identify the underlying patterns of motivations for general television viewing and each of the 16 program types. Eigenvalues of at least 1.0 served as the retention criteria. Two factors—ritualized and instrumental—were identified for all the 16 program types, whereas a third factor, boredom, was identified for general television viewing. This implies that people may watch television just to pass the time without any specific preference of program content, while the selection of a certain program type to watch requires more specific goals.

The three factors identified from general TV viewing were able to explain 67.1% of total variance. Total variance explained by the two factors in specific program types were: action adventure (67.6%), children's programming (79.1%), comedy-variety (64.4%), documentary (60.4%), drama (58.3%), film (58.3%), game show (67.4%), non-news magazine (58.5%), music (66.4%), mystery (74.1%), news (47.2%), si-fi (77.8%), sitcom (52.6%), soap opera (80.4%), sports (72.6%), and talk show (61.0%).

Conclusion

This paper postulated a combinatorial model that integrates the conceptualization of uses and gratifications with the two-step procedure of TV viewing. The model was used to test the relationship between viewing motiveations and program selection. The study also attempted to use the model to explore the implications of viewing motives as criteria for programming strategies. Research results support the hypothesis that the combination of general orientations toward the medium (i.e., TV) and gratifications

sought from content (i.e., program types) would be able to predict program choices. This suggests that both the content-specific and medium-specific dimensions in media consumption behaviors should be taken into consideration.

The approach of uses and gratifications in prior media use research has often been criticized for its lack of predictive power. This weakness could be originating from some missing links that have yet to be addressed. This study attempted to incorporate the two aforementioned dimensions into this conceptual framework and come up with a revised model in order to improve its predictive strength. Although the findings show only moderate correlations for many program types, stronger correlations between viewing motives and program choices can be found for some program types, such as sports, children's programming, daytime soap, music programming, and sci-fi drama. Therefore, these results are, to some extent, indicative of certain usefulness of this new model. Nevertheless, the moderate correlations for some program types also imply that any quick conclusion as regards the effectiveness of this model should be avoided.

It should be noted, however, that the more popular program types such as sitcom and film seemed to have lower correlations with viewing motives, whereas those with higher coefficients often had lower probabilities. There can be three interpretations. First, to the extent that people are more likely to watch sitcoms and films day after day because of their popularity, the viewing behavior becomes habitual ultimately. Consequently, the role of viewing motivations becomes less salient and less important. The findings of negative relationships between habitual viewing (i.e., lower score) and the probabilities of selecting drama, non-news magazine, sitcom, and film are consonant with this interpretation. That is, those who watched TV habitually were more likely to

choose these program types. By contrast, viewers choose the less popular program type to watch often because these programs can provide gratifications that other program types are unable to. Under these circumstances, viewing motives become an important determinant of media selection.

A second interpretation is that different viewers have divergent preferences for various program types. Whereas sitcoms and films attract the largest audience, program types such as soap opera, children's programming and sports are more appealing to specific demographic subgroups. To the extent that they have specific programming preferences, motivations are more likely to play a salient role in viewing behaviors. This second point is consistent with the findings of this study that male and female students were different in their program choices and viewing gratifications. Furthermore, the program types with significant gender difference were generally those less popular ones. That is, the size of audience in favor of these programs was quite limited.

The low correlation of more popular program types can also be interpreted from structural perspectives. Sitcoms and films, including new shows as well as reruns, are among the most prevalent program types across channels. That is to say, viewers will have a higher chance to watch programs of these two types, irrespective of their motivations. Under these circumstances, the influence of viewing motives will be largely reduced. This third interpretation is partially supported by the findings that premium cable subscribers were more likely to watch films than basic cable subscribers during the day, as they had more film offerings by premium channels.

These situations can have important implication for the video entertainment industry. Although audience members are more likely to select sitcoms and films, and are able to obtain higher gratificaions, they are less loyal. Moreover, there are more channels offering programs of these types. While the audience availability is large, the competition for audience share is also fierce. On the other hand, program types such as music, sci-fi drama, sports, and children's programming appeal to the smaller but more motivated audience. From the perspective of niche markets, these program offerings can have the advantages of less competition and more captivated audience members. In addition, the viewer demographics are generally more clearly defined, which is critical for advertising-supported channels.

Results of this study also reveal that the selections of certain program types are highly related. For example, students who liked to watch action adventures were also more likely to watch sci-fi drama. Those who selected sitcoms to watch also tended to prefer films. This implies that these program types, if scheduled for the same time, may actually compete with each other for audience attention, regardless of their different genres. By contrast, students who liked to watch soap operas were less likely to select sports programs and tended to eschew documentaries, too. Accordingly, these program types are more likely to appeal to different groups of audiences and less likely to compete with each other. In other words, programmers must take into account audience overlapping and competition among different program types.

This study reveals that male and females students had different preferences for some program types, and they also differed in what various program types could provide to satisfy their needs. Consistent with conventional wisdom, action adventures,

documentaries, sci-fi programming, and sports programs were found to be more popular among male students, whereas dramas, soap operas, and non-news magazines were more appealing to females. Likewise, male students had higher gratifications from action adventures, sci-fi dramas, and, in particular, sports. Females students tended to be more satisfied with soap operas. Conventionally, gender has been a very critical factor in programming strategies. The empirical findings of gender differences in terms of viewing motivations and gratifications would be able to provide new information for programming strategies.

Discussion

In the new media environment, conventional strategies that heavily rely on the structural determinants originating from the old-time network oligopoly market are being challenged incessantly. A better understanding of how audiences use the media is critical now, as the market has become increasingly competitive, and the audience has been increasingly empowered by new technologies to pursue their goals actively and selectively. Understanding audiences' viewing motivations would be a good start.

This paper attempted to make a distinction between motivations behind the selection of medium and those behind content choices. This is because media consumption is assumed to be a multidimensional activity which often engages at least these two dimensions. Moreover, the dynamic interaction between the medium type and content should be considered as an essential part in the investigation of media consumption behaviors. As long as programming strategies are concerned, the concepts of multidimensionality and interaction should be both taken into account.

In the new media environment, the media marketplace has become increasingly competitive and new media technologies are gradually blurring the previously clear distinction among various media. For instance, it is expected that cable TV subscribers will be able to have more than 300 channels in the near future. At the same time, there are the new markets of satellite TV and HDTV. As a result of technological advances such as digital transmission via satellite or even through the Internet, the competition in the radio marketplace is no less intense.

While previous research has often stressed the intramedia competition in each individual market, intermedia competiton also began to emerge as an important issue in media research (Dimmick, 1993). As more and more media and content are vying for the same resources in terms of advertising and audiences, among others, substitutability and complementarity would ultimately occur. In the same medium, people can have all kinds of content to choose from. By the same token, people can also receive similar, if not the same, content through different media. Therefore, a better understanding and precise information of how media users make their choices regarding medium type and content would be critical in media management.

Although this study proposed a model that differentiates the medium and the content, TV viewing was the major concern. The results have provided some evidence of the usefulness of this model. Nevertheless, whether this model can also be applied to cross-media scenarios still needs further empirical study, such as the selection of newspaper, television, and radio for same types of content (e.g., news), or the choice between television and radio for music programming.

There are also other limitations that need improvement. First of all, the convenience sample of undergraduate students makes the research results not generalizable to the whole population. This is very important because the uses and gratifications paradigm assumes that viewing motives are contingent on individual differences. Therefore, to improve the external validity of this model, a more diverse sample is necessary.

Second, this study used only eight statements derived from prior research as the bases of viewing motivations. It is possible that there are other critical aspects of gratifications that have yet to be addressed. For example, Dimmick (1993) has suggested that, in addition to the affective and cognitive dimensions of gratifications, there are other "gratification opportunities" such as convenient times. Alternatively, attitudes of media corporations have also been found to influence gratifications and consumer choice (LaRose & Atkin, 1991). As the media market has become increasingly fragmented, the discovery of new gratification dimensions will help the media industry to formulate more effective strategies or find promising niches.

Third, instead of using specific programs, this study used program types to examine the relationship between viewing motives and media content selection. This method is problematic for two reasons. First, prior research has pointed out that audiences had their own perceptions of program types that were slightly different from conventional classification systems (Youn, 1994). Moreover, the conventional classification systems are themselves different from one another (Adams, 1997). In order to solve this problem, this study provided examples for each of the 16 program types that respondents could refer to. To check the validity of program classification, students were asked to write

down their favorite programs and the program types to which they thought the programs belonged. Although the majority was in accordance with the conventional systems, some inconsistencies have been found in two programs, the Simpsons and Ally Mcbeal. As there is an increasing number of new programs that are difficult to categorize on the basis of conventional systems, a more valid and reliable system has to be developed.

Figure 1. Media Orientations and Selection Process

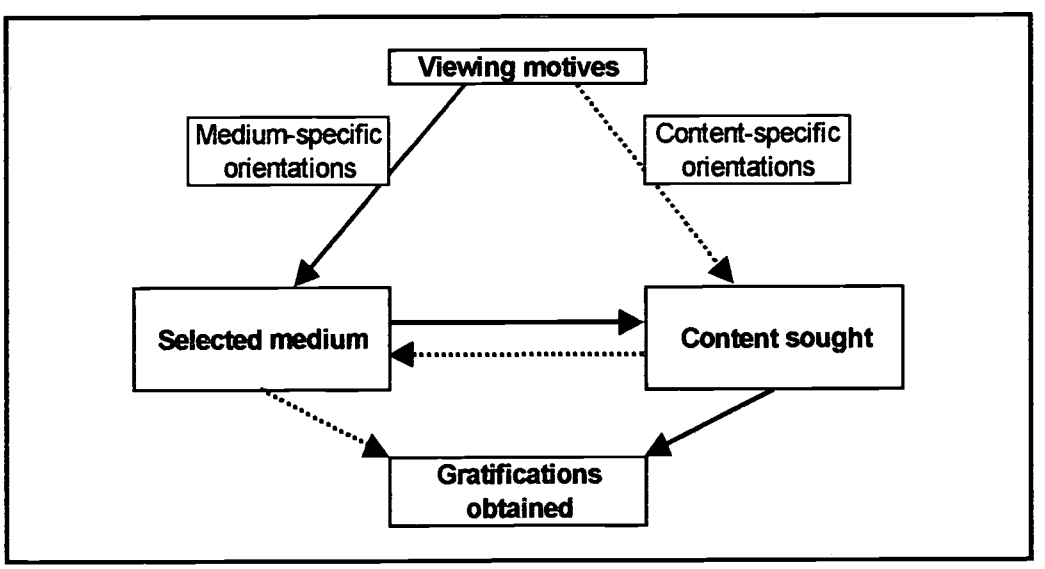

Table 1. Selection Probabilities of Respective Program Types

1-A. Selection Probabilities for Daytime Viewing

	N	Minimum	Maximum	Mean	Std. Deviation
Sitcom	187	.00	100.00	50.1390	31.4723
Film	187	.00	100.00	37.8717	31.9562
Music	187	.00	100.00	36.7861	32.9892
Talk show	187	.00	100.00	34.2995	29.4068
Drama	187	.00	100.00	34.1818	30.9182
Sports	187	.00	100.00	30.6952	34.4194
News/Magazine	187	.00	100.00	28.4866	27.1559
Non-news magazine	187	.00	100.00	28.0963	28.0133
Comedy-variety	187	.00	100.00	25.7219	28.9629
Documentary	187	.00	90.00	25.0963	27.6174
Daytime soap	187	.00	100.00	21.8877	31.6075
Action adventure	187	.00	100.00	19.5561	24.4701
Game show	187	.00	100.00	18.4866	25.4888
Sci-fi drama	187	.00	90.00	11.1497	20.8246
Mystery	187	.00	85.00	10.5348	17.8814
Children's	187	.00	90.00	6.4545	14.5986

1-B. Selection Probabilities for Evening Viewing

	N	Minimum	Maximum	Mean	Std. Deviation
Sitcom	187	.00	100.00	65.5455	29.6013
Film	187	.00	100.00	49.4599	32.8552
Drama	187	.00	100.00	46.2834	33.7666
Music	187	.00	100.00	31.2888	32.1551
Sports	187	.00	100.00	30.8503	34.8190
News/Magazine	187	.00	100.00	29.4759	28.6577
Comedy-variety	187	.00	100.00	29.2299	30.6285
Talk show	187	.00	100.00	27.4545	30.9681
Non-news magazine	187	.00	100.00	26.1818	27.6366
Documentary	187	.00	90.00	23.3155	28.2331
Action adventure	187	.00	100.00	21.7487	28.6113
Game show	187	.00	100.00	16.2086	24.7661
Sci-fi drama	187	.00	95.00	12.5455	22.2730
Mystery	187	.00	85.00	10.5882	17.9005
Children's	187	.00	90.00	3.2620	9.5445

Table 2. Viewing Gratifications for Respective Program Types

	N	Minimum	Maximum	Mean	Std. Deviation
Film	187	26.00	336.00	178.1872	56.1498
Sitcom	187	19.00	288.00	161.8235	52.4767
Documentary	187	20.00	371.00	153.3048	65.1049
News/Magazine	187	20.00	347.00	151.1444	57.7960
Music	187	26.00	371.00	151.1283	64.8692
Comedy-variety	187	20.00	305.00	150.8984	58.2842
Talk show	187	25.00	336.00	148.6898	59.9228
Non-news magazine	187	14.00	318.00	147.6898	62.4227
Drama	186	19.00	294.00	143.9731	58.0542
Sports	187	14.00	336.00	137.7005	69.7161
Action adventure	187	14.00	275.00	132.7166	57.0676
Game show	187	14.00	315.00	128.2781	63.5969
Mystery	187	14.00	273.00	119.0695	62.9893
Daytime soap	187	21.00	315.00	105.4118	66.4636
Sci-fi drama	187	14.00	293.00	104.3850	66.3141
Children's	187	14.00	371.00	95.5989	64.3164

Table 3. Correlation between Viewing Motives and Selection of Program Types for Daytime Viewing

	Action advent.	Kids' show	Comedy variety	Docu-mentary	Drama	Film	Game show	Non-news mag.	Music	Mystery	News/ Mag.	Sci-fi drama	Sitcom	Soap opera	Sports	Talk show
Action adventure	[355**]	.161*	.169*	.099	.059	.039	.133	.100	.099	.281**	.088	.322**	.115	-.052	.274**	.123
Children's	.157*	[.476**]	.159*	.174*	.066	.112	.204**	.076	.067	.223**	.160*	.311**	.161*	.109	.208**	.104
Comedy-variety	.195**	.127	[.327**]	.142	.033	.078	.089	.126	.132	.143	.033	.136	.124	-.052	.085	.109
Documentary	.104	.135	.095	[.365**]	-.102	-.010	.070	.103	.046	.081	.179*	.123	.015	-.179*	.074	.007
Drama	.112	.042	.089	.028	[.345**]	.159*	.046	.202**	.193**	.204**	.119	-.015	.157*	.242**	.063	.118
Film	.121	.026	.105	.059	.090	[.113]	.156*	.090	.118	.182*	-.008	-.013	.093	.056	.060	.082
Game show	.130	.029	.056	-.019	.004	.036	[.361**]	.075	.053	.107	.061	-.051	.086	.087	.094	.159*
Non-news Magazine	.119	-.030	.201**	.100	.106	.148*	.189**	[.294**]	.204**	.068	.189**	-.022	.186*	.182*	.096	.180*
Music	.148*	.038	.261**	.133	.219**	.257**	.175	.286**	[.495**]	.210**	.178*	.064	.238**	.170*	.086	.308**
Mystery	.160*	.161*	.096	.078	.071	.047	.136	.058	.059	[.301**]	.068	.180*	.086	-.018	.046	.113
News/Magazine	.044	.096	.085	.233**	.023	.081	.057	.190**	.063	.082	[.336**]	.078	.047	.058	.089	.031
Sci-fi Drama	.214**	.198**	.065	.114	.054	.050	.084	.024	.046	.204**	.093	[.444**]	.008	.013	.131	.049
Sitcom	.199**	.066	.176*	.084	.189**	.136	.144*	.145*	.186	.220**	.127	.027	[.262**]	.188**	.165°	.135
Daytime soap	-.101	-.004	-.041	-.175*	.190**	.018	.091	.075	.109	.023	.033	-.149*	.063	[.559**]	-.126	.103
Sports	.107	-.021	.015	.100	-.153*	-.049	.055	-.098	.011	-.038	.061	.059	-.033	-.249**	[.517**]	-.144*
Talk show	.134	.080	.251**	.117	.254**	.228**	.366**	.372**	.286**	.229**	.204**	-.058	.284**	.264**	.063	[.454**]

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
Note: The row headings represent the viewing motives for each program type. The column headings represent selection probability of each program type.

Table 4. Correlation between Viewing Motives and Selection of Program Types for Evening Viewing

	Action advent.	Kids' show	Comedy variety	Docu-mentary	Drama	Film	Game show	Non-news mag.	Music	Mystery	News/ Mag.	Sci-fi drama	Sitcom	Sports	Talk show
Action adventure	[.356**]	.172*	.178*	.134	.050	.063	.150*	.086	.073	.255**	.124	.336**	.100	.257**	.086
Children's	.179*	[.434**]	.171*	.182*	.089	.091	.213**	.104	.081	.236**	.148*	.255**	.152*	.120	.119
Comedy-variety	.132	-.017	[.323**]	.128	.016	.083	.049	.106	.088	.058	.045	.080	.105	.020	.101
Documentary	.117	.061	.072	[.375**]	-.111	-.006	.058	.065	.038	.088	.206**	.150*	.000	.047	-.002
Drama	.005	.061	.005	-.046	[.404**]	.181*	.096	.194**	.221**	.185	.096	-.024	.177**	-.048	.172*
Film	.114	.013	.104	.030	.061	[.121]	.144	.106	.109	.136	.009	-.028	.125	.079	.089
Game show	.052	.014	.067	.018	.086	.139	[.403**]	.147*	.121	.125	.091	-.074	.105	.073	.227**
Non-news Magazine	.127	.018	.217**	.222**	.140	.175*	.286**	[.352**]	.289**	.197**	.263**	.047	.245**	.130	.287**
Music	.091	.008	.195**	.097	.242**	.186*	.135	.253**	[.464**]	.214**	.177*	.030	.194**	.027	.241**
Mystery	.132	.091	.069	.085	.051	.015	.102	.014	.045	[.283**]	.077	.173*	.061	-.006	.090
News/Magazine	.094	.127	.141	.305**	.142	.206**	.209**	.280*	.205**	.188**	[.373**]	.083	.192**	.113	.160*
Sci-fi Drama	.216**	.169*	.150*	.205**	.089	.126	.110	.083	.120	.204**	.202**	[.518**]	.119	.096	.119
Sitcom	.038	.002	.181*	.012	.159*	.180	.165	.151*	.174*	.121	.102	-.029	[.312**]	.025	.195**
Sports	.172*	-.007	.038	.134	-.100	.025	.082	-.049	.043	.003	.101	.092	.023	[.555**]	-.101
Talk show	.210**	.103	.257**	.218**	.206**	.257**	.273**	.317**	.336**	.251**	.218**	.154*	.290**	.136	[.402**]

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
Note: The row headings represent the viewing motives for each program type. The column headings represent selection probability of each program type.

Table 5. Correlation between Selections of Various Program Types for Daytime Viewing

	Action adventure	Children's Program	Comedy variety	Documen tary	Drama	Film	Game show	Non-news magazine	Music	Mystery	News/ Magazine	Sci-fi drama	Sitcom	Daytime soap	Sports
Children's	.323**														
Comedy vareity	.434**	.155*													
Documen tary	.297**	.150*	.334**												
Drama	.331**	-.014	.224**	.142											
Film	.352**	.083	.445**	.234**	.458**										
Game show	.299**	.155*	.254**	.207**	.185*	.366**									
Non-news magazine	.223**	.019	.290**	.198**	.385**	.316**	.314**								
Music	.181*	.031	.259**	.121	.311**	.402**	.226**	.379**							
Mystery	.455**	.279**	.370**	.183*	.212**	.370**	.282**	.187*	.066						
News/ Magazine	.253**	.136	.156*	.340**	.325**	.234**	.281**	.483**	.168*	.153*					
Sci-fi drama	.520**	.331**	.281**	.128	.134	.220**	.061	.036	.061	.318**	.154*				
Sitcom	.352**	.002	.422**	.301**	.600**	.529**	.252**	.464**	.318**	.217**	.232**	.041			
Daytime soap	-.129	.031	-.050	-.199**	.179*	.023	.161*	.258**	.112	-.047	.082	-.075	.063		
Sports	.418**	.069	.272**	.337**	.101	.200**	.137	.079	.114	.154*	.247**	.248**	.194**	-.221**	
Talk show	.184*	.070	.247**	.198**	.350**	.351**	.496**	.348**	.385**	.176*	.172*	-.021	.342**	.289**	-.043

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 6. Correlation between Selections of Various Program Types for Evening Viewing

	Action adventure	Children's program	Comedy variety	Documen tary	Drama	Film	Game show	Non-news magaz.	Music	Mystery	News/ Magaz.	Sci-fi drama	Sitcom	Sports
Children's program	.241**													
Comedy variety	.306**	.060												
Documen tary	.250**	.068	.330**											
Drama	.211**	.013	.058	.012										
Film	.286**	.073	.307**	.188**	.257**									
Game show	.163*	.028	.128	.128	.225**	.257**								
Non-news magaz.	.347**	.070	.263**	.249**	.292**	.306**	.310**							
Music	.026	.002	.155*	.118	.346**	.341**	.179*	.443**						
Mystery	.316**	.295**	.213**	.151*	.077	.202**	.179*	.127	.049					
News/ Magaz.	.275**	.056	.207**	.500**	.198**	.313**	.257**	.527**	.240**	.167*				
Sci-fi drama	.367**	.220**	.207**	.173*	-.008	.165*	-.010	.101	.035	.352**	.141			
Sitcom	.233**	.063	.282**	.133	.456**	.459**	.267**	.429**	.304**	.120	.260**	.028		
Sports	.341**	.000	.193**	.303**	.012	.252**	.130	.152*	.090	.115	.266**	.193**	.075	
Talk show	.245**	.079	.237**	.189**	.233**	.301**	.323**	.453**	.331**	.105	.328**	.190**	.287**	.057

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 7. Gender Difference in Daytime Program Selections

	t	df	Sig. (2-tailed)	Mean Difference
Action	-4.123	185	.000	-14.5884
Children's	-1.551	185	.123	-3.3996
Comedy	-2.131	185	.034	-9.2125
Documentary	-2.743	185	.007	-11.2201
Drama	2.266	185	.025	10.4423
Film	-.424	185	.672	-2.0460
Game show	1.026	185	.306	3.9405
Non-news	2.582	185	.011	10.7358
Music	1.151	185	.251	5.7175
Mystery	-.817	185	.415	-2.2031
News/ Magaz.	.618	185	.537	2.5328
Sci-fi drama	-3.481	185	.001	-10.6117
Sitcom	1.043	185	.298	4.9468
Daytime soap	6.878	185	.000	29.3130
Sports	-8.693	185	.000	-38.0912
Talk show	3.232	185	.001	13.9696

Table 8. Gender Difference in Evening Program Selections

	t	df	Sig. (2-tailed)	Mean Difference
Action adventure	-3.388	185	.001	-14.2099
Children's program	-.953	185	.342	-1.3713
Comedy variety	-1.285	185	.201	-5.9186
Documentary	-2.796	185	.006	-11.6841
Drama	4.382	185	.000	21.2776
Film	-.102	185	.919	-.5074
Game show	1.383	185	.168	5.1497
Non-news magaz.	1.316	185	.190	5.4699
Music	1.483	185	.140	7.1636
Mystery	-.489	185	.625	-1.3222
News/ Magaz.	-.122	185	.903	-.5270
Sci-fi drama	-2.648	185	.009	-8.7477
Sitcom	2.152	185	.033	9.5073
Sports	-8.026	185	.000	-36.3653
Talk show	1.426	185	.156	6.6361

Table 9. Gender Difference in Viewing Gratifications

	t	df	Sig. (2-tailed)	Mean Difference
Action adventure	-2.651	185	.009	-22.4355
Children's program	-.001	185	.999	-1.0806E-02
Comedy variety	-.928	185	.354	-8.1560
Documentary	-2.358	185	.019	-22.8496
Drama	1.589	184	.114	13.9069
Film	-.037	185	.971	-.3113
Game show	.389	185	.697	3.7405
Non-news magaz.	1.323	185	.187	12.4193
Music	.761	185	.447	7.4499
Mystery	-.765	185	.445	-7.2671
News/ Magaz.	-.705	185	.482	-6.1474
Sci-fi drama	-3.249	185	.001	-31.6661
Sitcom	.225	185	.822	1.7817
Daytime soap	5.376	185	.000	50.2065
Sports	-6.126	185	.000	-58.8351
Talk show	1.778	185	.077	15.9613

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BLACK NEWSPAPERS:

IN SEARCH OF

AN ADVERTISING STRATEGY

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ABSTRACT FOR
"BLACK NEWSPAPERS: IN SEARCH OF AN ADVERTISING STRATEGY"

This study explores African-American newspaper advertising in a major state – the total advertising and respective ad categories by content analysis and by a survey examining internal staffing and overall strategy views of publishers. Results indicate much of the problem still may be staffing-related. Advertising space in African-American newspapers still lags behind mainstream weekly averages, suggesting publishers focus on specific types of ads or evaluate targeting strategies for soundness of a plan heavily weighted on public-sector advertising. Publishers' apparently have to convince local advertisers they reach the most people in the desired target market. Finally medium-sized newspapers tend to outperform others, prompting questions about size as a valid indicator.

BLACK NEWSPAPERS: IN SEARCH OF AN ADVERTISING STRATEGY

No industry can succeed if it does not meet changing needs. This is doubly true for the African-American press, which finds itself in an economic quandary. African-American newspaper advertising levels are troublesome (Lacy and Ramsey, 1994) and economic self-sufficiency always has been a struggle (Pride and Wilson, 1997). As a result, many African-American newspaper publishers feel a need to improve their product to attract more readers that appeal to advertisers. That means hiring additional staff and purchasing more efficient equipment. But without large readerships, these newspapers have difficulty getting the advertising revenues that would help further and improve operations and the product.

Little is known about specific economic survival strategies of these newspapers. Despite its beginnings in 1827 as a servant of, spokesman for and defender of the African-American minority population of the United States (Wolseley, 1990), African-American newspapers have had times of struggle, none more serious than in the last 30 years. As conditions improved for some black citizens in the 1970s and the African-American middle class began to grow (Rose, 1976; Landry, 1987), the black press suddenly found itself facing new competition from mainstream media. The accelerated African-American migration to suburbs (Logan and Schneider, 1984) meant a shift from reliance on subscriber support to dependence on advertising. At the same time African-American newspapers began to decline. Some critics blamed outdated and irrelevant content and the increasing need to depend on white advertisers for revenue (Ward, 1973; Higgins, 1980). Meanwhile, African-American newspaper publishers noticed declining

advertising sales and talk of an African-American newspaper "identity crisis" arose (Joseph, 1985). African-American newspaper publishers faced the 1990s threatened with extinction because of the loss of readers, journalists and advertisers to other media (Fitzgerald, 1990).

For their part, African-American newspaper trade group officials pointed to increased circulation and renewed determination to attain a larger share of local advertising (Stein, 1990). Supportive examples – historical awareness campaigns, economic brokering, journalistic training and molding public opinion – of how the black newspaper still served the African-American community (Hatchett, 1991; Boyd, 1991) abounded, but editors and publishers still were concerned about advertising support (Lacy, Stephens and Soffin, 1991). Nearly two-thirds of the managers agreed or strongly agreed that lack of reader support was a reason that African-American newspapers fail. One content analysis showed African-American newspapers' had a lower percentage of advertising from local sources than did mainstream weekly newspapers (Lacy and Ramsey, 1994).

But questions remain as to why advertisers do not buy more ads in African-American newspapers and what black newspaper publishers have done or can do to solicit additional advertising support. This study explores the status of African-American newspaper advertising in a major state – the total advertising and respective ad categories as determined by content analysis. The study not only examines that content from the perspective of circulation size, but also from an internal staffing and overall strategy viewpoint.

Background

As mentioned above, advertising has been a historical problem for African-American newspapers. Prior to the 1970s, corrective strategies included local forums for advertisers, cash incentives, agencies specializing in acquiring advertising for African-American newspapers and, ultimately, the formation of a national association to focus on the problem. Some individuals ventured so far as to conduct market research and readership studies. (Pride and Wilson, 1997). But beginning with the civil rights movement, mainstream media took advantage of a more integrated society, Papers were no longer seen as relevant by a new generation of African-Americans and several African-American newspapers did not survive (Pride and Wilson, 1997; Bernstein, 1989). A recent study (Black and Woods, 1994) suggested that advertisers and prospective advertisers knew little about black newspapers, but added that African-American newspaper sales professionals were not helpful in that regard. That finding echoed one earlier that suggested African-American newspaper publishers were not "assertive" enough, i.e., they did not consistently reinvest in their papers and did not "reflect good management." The author said few black newspapers had taken the time to prove their vitality as an advertising medium (La Brie, 1979). This study attempts to examine the direction, quality and degree of that effort.

Few studies have attempted in general to connect newspaper advertising staffs and their productivity, let alone within the context of the African-American press. For example, a study of job satisfaction in newspaper advertising departments noted that "the advertising industry seems to be a neglected pocket in a heavily researched area" of job satisfaction (Pokrywczynski and Crowley, 1997).

No study to date takes into account the effect an ad salesperson has on the amount of ads or the size of ads a paper sells. One study (Smith, 1998) discussed the potential for such an effect by examining the factors that influence selection of media by advertisers in smaller markets. Smith found factors relating to the salesperson was the sixth-most cited category – out of 10 – influencing advertiser media choice. But personnel limitations – a common problem in most African-American newspapers because of limited financial resources (Lacy, Stephens and Soffin, 1991) – make developing sales strategies a challenge for the African-American press. Selling space in African-American newspapers has been "a matter of personal effort by individual publications" (Wolseley, 1990) but only anecdotal evidence of that effort is available. This study represents an initial, empirical foray into the advertising effectiveness of African-American newspapers staffs and strategies.

Finally, the effects of size of African-American newspapers on advertising linage have tentatively been established. Large-circulation African-American newspapers have less advertising than do medium-circulation newspapers and certain content categories differ by size, although the distribution was similar across circulation size (Lacy and Ramsey, 1994). But these findings were exploratory and non-generalizable because of the small sample. And they did not explore the impact of internal factors, such as advertising staffs and strategies.

As a result, this study describes the state of advertising in African-American newspapers by attempting to answer the following research questions:

1. What are the collective internal efforts of African-American newspapers to attract advertising?

2. How productive are those efforts?
3. Does the distribution of advertising space and the numbers of advertisements among advertisement types in African-American newspapers vary with circulation size?

Methods

Texas Publishers Association (TPA) asked the authors to conduct an advertising audit of its member newspapers. TPA was started in the mid-1980s to promote, support, and inform the historically African-American newspapers in Texas as well as to increase support from advertisers. The group initially included 27 publications with combined outreach to more than a million blacks in Texas, far more than in some multi-state regions. Today, TPA has 22 members and 19 associate members.

All members were asked to answer questions and submit copies of their October 1998 newspapers. September was constructed as the most desirable month because the publishers held that October represented an average month with regard to amount of advertising sales. The response rate was 51 percent. Listed below are the 20 newspapers that submitted papers after a letter to the publisher and two follow-up calls were made.

The newspapers included The African Neighborhood News and Issues, The Brazos News, The Cherokee County Informer, The Houston Defender, The Minority Opportunity News, Nokoa, Power Pages, The South Texas Informer & Business Journal, South West Digest, The African Herald, The Black Voice, The Dallas Examiner, The Dallas Post Tribune, The Houston Newspages, The (Houston) Informer, The San Antonio Observer, The Smith County Herald, La Vida News, The (Austin) Villager, and The North Texas Journal.

In order to adequately describe the advertisers who supported the African American newspapers in Texas, a coding scheme was developed to procure information about the description of the ads; the organization that was being advertised; the geographic scope of the advertisers' business; the nature of the product or service being advertised and the physical size of the ads in comparison to the size of the newspaper in which they were placed.

Three main categories used to describe the ad were display, classified and insert, in line with the category description used by Lacy and Ramsey (1994). The type of advertiser was classified as either "commercial," " government" or "community/non-profit." Commercial was any organization selling a product or service primarily for profit. Government organizations were categorized as any public, state or federal organization. Community/non-profit included advertisers that provided social services but not primarily for the sake of profit, e.g. churches and schools.

We developed 14 mutually exclusive categories to describe the advertised products and services: health and education, department store/clothing/shoes, real estate/housing organization, lotto (lottery), liquor and tobacco, automobile, religious, political, government bids, communication (telephone, radio and television stations and any publication services), airlines, banks, other services and other products.

All ads in the newspaper were counted and measured in square inches. The total newspaper space also was measured in order to determine the percentage of space that was used for advertisements. Since columns varied across newspapers, square inches was more appropriate than column inches.

Two coders pre-coded 10% of the 988 newspaper ads and received an inter-coder reliability (Holsti, 1969) of 82%. The main discrepancy surrounded whether funeral homes were community/non profit or commercial. It was agreed that they were commercial. Additionally the category of "others" was disproportionately huge. It was then that "lotto" and "banks" were added. The reliability test subsequently rose to 96%.

In order to provide an organizational context in which Texas publishers received support from advertisers, the TPA members were asked to complete a self-administered mail survey which complemented the information accrued from the content analysis. The publishers supplied information about the circulation of the paper, the cost, their staff and how ads were solicited.

Twenty questions were devised to collect the information. Publishers were asked to choose a distribution frequency of daily, weekly, monthly, or "other." To determine staff compensation and the number of personnel assigned to pursuing ads for the paper, publishers were asked to reveal the total number of employees, the total full-time employees, the number of full-time and part-time ad employees and the manner in which ad staff were compensated.

To ascertain what type of ads were pursued by staff, if any, publishers were asked to select which advertisers they pursued. They were asked "Which types of ads do those advertising staffers primarily pursue (check all that apply): 'auto,' 'government,' 'religious,' 'election,' 'financial services,' 'grocery,' 'other local retail,' 'telecommunication,' 'dept. store,' 'computer/electronic,' 'tobacco & liquor,' 'public service.'" Publishers also were asked whether ad staffers were compensated for their work by the hour, by the ad, on a commission basis, a combination or "other."

The TPA members also were asked to supply information about the source of their advertisements that was not solicited by the staff. They were asked, "Of the ads that are not solicited by your ad staff, what percentage comes through advertising institutions, agency or syndicate?" In addition, we wanted to know if the publishers had special advertising sections and/or inserts at other times of the year and if they did, to what degree of frequency. They were asked: "Do you publish special advertising section/inserts? The response choices were "yes" or "no." The follow-up question asked if they did publish special sections, how many sections did they run in a typical year.

RESULTS

Demographics and General Content. Most (60%) of the respondents are weekly papers, averaging slightly more than 18,000 circulation (see Table 1); however, most (65%) have circulation less than that. In fact, averages can be deceiving. For example, although the papers average nearly 1.6 full-time ad employees, nearly half (45%) report one or fewer. And although the respondents average slightly more than one part-time advertising employee, more than a third (35%) report less than one part-timer. The same trend continues when total employee figures are examined – 60% report six or fewer total employees (compared to a 7.75 average per paper) and only 40% claim more than three full-time employees, despite the group average of 3.8.

On average, the Texas publishers say about 60% of all ads are solicited by ad personnel, who are generally (50%) paid by a combination of by the hour, by the ad or by commission. Of the remaining ads that are non-staff generated, the publishers say about 30% on average come via advertising agencies. Interestingly, more than one-half (53%) of the publishers say advertising agencies generate fewer than one-fifth of the non-staff-

generated ads. On average, then, some 28% of ads in the Texas black press are unsolicited and obtained without the aid of an advertising agency.

Table 1: Respondent Average Profile

Category	*Average*
Circulation	18,195
Full-time Advertising Employees	1.55
Part-time Advertising Employees	1.08
Percent /Ads Solicited by Ad Staff	59.75
Percent /Ads Not Solicited by Ad Staff Coming Through Ad Institution/Agency	28.86
Percent Publishing Special Sects/Inserts	50
Number of Sections/Year	3.17
Number of Full-time Total Employees	3.8
Number of Total Employees	7.75

In terms of total advertising, the largest number of ads were in the category of local retail ads for products (see Table 2). The sample averaged 21 of these ads and about 473 square inches per issue, accounting for nearly 33% of advertising space. The second-largest advertiser, in terms of number, was religious advertising, which averaged 10.8; but religious ads accounted for only 8.7% of ad space. No other category of advertising averaged more than 5 ads per issue. The second-largest advertiser, in terms of space, was communications ads, which included services and products from telephone companies and related industries, and averaged more than 155 square inches, or 10.7% of ad space on 3.52 ads per issue. The best ad-space-to-ad-number ratio belonged to the liquor/tobacco category (7.31), while the lowest came from religious ads (0.81). The average display advertisement was 31.8 square inches, while classified and insert ads averaged 12.3 and 90 square inches, respectively.

Staffing and Staff Energies vs. Outcomes. Advertising staff time is spent pursuing various clients. The Texas papers' ad personnel apparently concentrate on government- or public-oriented sources; some 70, 85 and 75% of the publishers reported their ad staffs pursued government, election and public service ads, respectively (see Table 3). The largest private sector interest seemed to be in financial services advertising (85%), with grocery ads next at 70%. Interestingly, a majority of publishers (55%) said their ad staffers do not pursue religious ads – a traditionally rich source of advertising for the black press – and only half reported their staffs pursued "other local retail" ad sources.

Table 2: Average Size of Advertisements Per issue By Size of Newspapers and By Type of Company/Product in Ad

Type of company/product	*Size of newspaper (average number of ads in parentheses)**			
	Small	Medium	Large	Total
Health/education	133.82 (4.45)	157.79 (6.20)	97.11 (3.88)	129.57 (4.84)
Dept. store/clothing/shoes	4.53 (0.40)	164.20 (2.00)	127.23 (1.77)	98.65 (1.39)
Real estate/housing	13.53 (0.46)	47.01 (2.80)	44.11 (2.22)	34.88 (1.83)
Lotto	82.60[c] (0.93)	260.39 (2.20)[b]	120.11 (1.33)	154.37 (1.49)
Liquor/tobacco	4.53 (0.06)	45.20 (0.40)	34.00 (0.33)	27.91 (0.26)
Automobile	33.67 (1.20)	127.59 (3.00)	51.23 (1.33)	70.83 (1.84)
Religious	83.67 (8.33)	217.06 (17.20)	77.98 (6.88)	126.24 (10.80)
Political	30.34 (0.60)	92.42 (3.80)	15.44 (0.55)	46.07 (1.65)
Government bids	55.08 (2.73)	43.20 (2.00)	31.33 (1.55)	43.20 (2.09)
Communications	73.06[a] (1.80)	295.78 (7.20)	97.11 (1.55)	155.32 (3.52)
Airlines	4.80 (0.13)	99.00 (1.00)	28.00 (0.33)	43.93 (0.49)
Local retail - services	66.20[c] (1.13)	259.80 (5.00)	84.00 (1.88)[c]	136.67 (2.67)
Local retail - products	323.67 (16.8)	634.20 (21.00)	460.56 (25.2)	472.81 (21.00)
Total Advertising	909.50 (39.10)	2452.64 (73.80)	1268.21 (48.89)	1446.24 (53.87)
Square Inches in Paper	2,947[c]	3,987	4,140	

**Note:* Newspaper circulation sizes were: small – less than 11,000 circulation; medium – 11,001 to 30,000; and large – 30,001 or more. The overall difference between small and medium newspapers was significant at the $p < .01$ level. The difference between medium and large newspapers was significant at the $p < .05$ level. The difference between small and large newspapers was not significant ($p > .05$).

[a] The difference between the small and medium newspapers was significant at the $p < .05$ level.
[b] The difference between the medium and large newspapers was significant at the $p < .05$ level.
[c] The difference between the small and large newspapers was significant at the $p < .05$ level.

These pursuits – with the striking exception of religious ads – are reflected somewhat in the average number of certain ad types per issue (see Table 4). For example, only a quarter of the publishers said their staffs pursued liquor and tobacco ads; correspondingly, the average number of such ads ranks last. Similarly, ads for airline and real estate/housing – both included in "other local retail" in Table 3 – ranked near the bottom. Political ads constituted yet another surprise, however, in that the average number of such ads was quite low considering the fact that 85 percent of the publishers reported their ad staffs pursued election-oriented clients.

Table 3: Types of Ads Pursued by Advertising Staffers

Type of Ads Pursued	*Percent No*	*Percent Yes*
Automobile	40	60
Government	30	70
Religious	55	45
Election	15	85
Financial Services	15	85
Grocery	30	70
Other Local Retail	50	50
Telecommunication	35	65
Department Store	40	60
Computer/Electronics	45	55
Tobacco/Liquor	75	25
Public Service	25	75

But Table 4 also illustrates how typical ad space may factor in their pursuit. For instance, banks (included in "financial services") do not constitute many ads, but the average size of bank ads is considerable (nearly 52 square inches). Similarly, lottery or "Lotto" ads (also coded as "government" ads since the lottery is government-run in

Texas) accounted for few ads on average, but the average ad space rivaled (almost 98 square inches) that of controversial liquor and tobacco ads. But statistical tests showed the reported pursuit of these ads did not correlate with the number nor the amount of space of the ads. For example, there was no correlation between the publisher's tendency to report that the advertising staff pursued automobile ads and the number of auto ads revealed in the content analysis. Similar, non-significant results were shown for correlations between the stated pursuit of government, religious, election, financial services, telecommunication and department store ads with the resulting number and amount of ads in the corresponding areas.

Table 4: Respondent Advertising Averages

Type of Ads	Number	Square Inches	Inches/Ad
Health/Education	6.65	183.3	27.6
Dept.Store/Clothing	1.6	94.6	59.1
Real Estate/Housing	2.05	41.75	20.4
Lotto	1.85	181.1	97.9
Liquor/Tobacco	0.3	30.0	100.0
Automobile	2.25	80.2	35.6
Religious	13.65	152.35	11.2
Political	1.65	52.8	32.0
Government Bids	3.25	66.2	20.4
Communications	3.85	172.45	44.8
Airlines	0.5	40.95	81.9
Banks	2.95	152.4	51.7
Other	29.25	614.6	21.0
Category Average	5.3	143.3	46.4

When full-time ad personnel was compared to the results in the various ad types categories, we discovered correlations with Lotto ad space (R^2=.47, p<.04), financial services ad space (R^2=.45, p<.05) and the number of financial services ads (R^2=.49, p<.04). There were no statistically significant correlations between the total number of employees or the total full-time employees and any of the ad types number totals or ad type space totals – with the exception of insert ads, which were more likely to increase in space with the increasing presence of part-time ad staff (R^2=.49, p<.03). Likewise, correlations between the publisher's reported percentage of staff-solicited ads to the various ad types and ad type space results did not meet standard statistical significance levels, though many showed levels of less than .10.

The Size Factor. Grouping the Texas publishers by size of their newspapers' circulation yields more interesting data. For example, taking Table 3's original data (types of advertisements publishers say their advertising staffers pursue) and adding the dimension of circulation size, showed that on the whole the publishers of the larger newspapers tend to be more likely to say their ad staffs pursue most types of ads (more than 81% on average, compared to 62% and 55% of the medium and small groups, respectively), although the differences were not statistically significant.

The only ad type that showed any statistical significance as to the influence of circulation size on the tendency to report ad staff pursuit was department store ads. In that case, larger (100%) and medium-sized (80%) newspapers have a greater tendency to say they pursue such ads (X^2=6.06, p<.05) than smaller papers (36%) and circulation size is correlated with this reporting tendency (R^2=.48, p<.04).

In addition, when circulation size was used to describe the average ad size per issue, it was discovered that medium newspapers (those with circulations of between 11,000 and 30,001) tend to have more total ads and, thus, larger ad space than smaller or larger newspapers. The medium-sized group averaged 2,452 square inches of ads, compared to slightly less than half that for larger newspapers and about 37% of that for smaller papers. Each relationship was statistically significant, with the stronger significance level evidenced between smaller and medium papers ($p<.01$). No statistically significant difference was found, however, between smaller and larger papers (see Table 2) in average ad size nor average number of ads per ad type.

But in correlating circulation size to ad-category space, statistically significant relationships were found for liquor/tobacco ad space ($R^2=.48$, $p<.04$) and for financial services ad space ($R^2=.49$, $p<.03$), as well as for the number of financial services ads ($R^2=.54$, $p<.02$). In addition, the higher the circulation of the newspaper, the more space there was for classified ads ($R^2=.53$, $p<.02$) and regional ads ($R^2=.54$, $p<.02$).

The distribution of the advertising was somewhat similar among the circulation groups. The Spearman's rho coefficients for average number of ads per issue equaled .812 for small and medium newspapers, .911 for medium and larger newspapers, and .951 for small and large papers. Spearman's rho coefficients for square inches equaled .650 for small and medium newspapers, .953 for medium and larger newspapers, and .962 for small and large papers.

This also was evident in that fact that – save for a few categories – there weren't significant differences in ad numbers nor ad space by category among the circulation sizes. The only significant differences: Smaller papers had less lottery ad space than

larger papers, and less local retail-services ad space than larger papers while medium-sized papers – although having more ads and ad space than the other two categories – outpaced larger papers only in the number of lottery ads and outpaced smaller papers only in communications ad space.

DISCUSSION

The findings, albeit limited by the study's regional nature, provide insight into African-American newspapers' advertising dilemma.

First, despite the staffing demographics, much of the problem still may be staffing-related. The newspapers sampled average nearly 1.6 full-time advertising employees – nearly 4.5 fewer than the industry average for weekly, mainstream newspapers (1997 Weekly Cost and Revenue Study). In retrospect, it's astonishing that black papers have as much advertising as they do, given those staffing levels. When circulation groups are examined, the staffing figures are just as revealing – 1.0 employees (African-American) vs. 5.9 (mainstream) in small newspapers; 2.4 vs. 5.3 in medium newspapers; and 2.0 vs. 7.4 in large newspapers. And considering sample respondents say these staffers generate 60 percent of the advertising, then it doesn't take much imagination to conclude that advertising totals would be considerably greater with staffing levels of mainstream newspapers. Some 41 percent of the space in these 20 African-American newspapers was advertising, still nowhere near mainstream weekly averages. In addition, it must be emphasized that publishers said – with few exceptions – that their ad staffs pursued most types of ads. Given that the results don't match the pursuit or the intended pursuit, black press publishers would be advised to concentrate

their efforts on specific types of ads or, at the least, to evaluate their targeting strategies to determine the degree of execution and the soundness of the plan.

Second, although the types of ads indicate that local retail ads for products continues to be a strong area and that religious ads still are a black newspaper staple, there seems to be a reliance on public-sector advertising. The space for government bids, political and Lotto ads – when combined – constitutes the second-largest group type in terms of total square inches (from Table 2) and the first-largest group type in terms of average square inches (from Table 4). And when one adds the numbers from quasi-public institutions such as airlines and banks, the public-related advertising totals constitute more than a quarter of the average square inches of advertising. These totals confirm the Texas publishers' reported admittance that their ad personnel focus on government- or public-oriented ad sources. Whether this is an isolated phenomenon is unknown, but our interviews with several publishers indicates such advertising is relatively easy to solicit, given the sensitivity of such advertisers to diversity issues and their desire to promote perceptions of equal opportunities regarding their services. In addition, the average size of financial services and Lotto ads (Table 4) makes them particularly attractive targets.

Third, while Texas African-American newspaper ad staffs deliver such ads, the fact that there are few of the other types of ads – and the lack of a statistically significant correlation between publishers' reports of percentage of staffs that solicit those other types – while troublesome, still confirms previous studies. Not only is the salesperson not a major factor in the transaction (Smith, 1998), but a desire for an effective, targeted reach primarily drives local advertising media decisions (Nowak, Cameron and Krugman, 1993). So African-American newspaper publishers' apparently have to

time of the study and African-American buying power was at an all-time high. With the advent of the Internet and the electronic newspaper, potential new revenue streams also were opening.

If anything, the study points to the need for further assessment of African-American newspapers' advertising efforts. Particularly, scholars need to query advertisers and media buyers on their opinions and intents regarding these newspapers. Obviously, the black newspapers' collective internal efforts do not match the performance of the industry as a whole. Part of the reason may be staffing (or lack thereof), part of it may be that publishers over-estimate the effectiveness of sales representatives or part it may be African-American newspapers' general overall sales strategies are flawed. Whatever the reason, too much is at stake – economically and socially – to stop looking.

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Opening the Umbrella:
An Economic Analysis of Online Newspaper Geography

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Opening the Umbrella:
An Economic Analysis of Online Newspaper Geography

Abstract

This study examines how the print newspaper's local nature and the Internet's boundary-transcending capacity define an online newspaper's geographic market. An original theory of online newspaper geography is developed, and an illustrative model proposed, from which inquiries about the nature of the new medium are made. An email survey of online newspapers was conducted to test the hypotheses and to provide valuable information about online newspaper geography.

Opening the Umbrella:
An Economic Analysis of Online Newspaper Geography

Having realized the potential of the Internet as an emerging medium, the newspaper industry responded by launching electronic editions of their newspapers on the Web. As of April 1998, more than 750 Northern American dailies offered online services[1] and 98 of the top 100 newspapers provided online products (Newspaper Association of America, 1999). Worldwide, as of February 1999, almost 3,400 newspapers provided online services, of which more than 2,000 are based in the United States[2] (Editor & Publisher Interactive, 1999). Over the past few years, the emergence and continuing growth of a substantial online newspaper industry deserves scholarly attention.

The Internet, as a news medium, possesses many unique characteristics that have redefined how news is produced, distributed, and consumed; for example, interactivity, unlimited space, hypertext, multimedia presentation, search capability, timeliness, and global reach. While each attribute represents a certain facet of this online media revolution, this study chose to focus on the Internet's boundary-transcending capacity, which defines the medium and may well be where the Internet will make fundamental changes to human communication. So the following analysis explores the geographic aspect of the online medium.

An online newspaper is created by the convergence of two media: the newspaper and the Internet. Technologically, the Internet enables online newspapers to seek a worldwide market. Practically, most online newspapers are owned and operated by their print counterparts, which also serve as online editions' primary content providers (Fitzgerald, 1997; Middleberg + Associates, 1999; Tankard & Ban, 1998). Such a

[1] Includes Web sites and partnerships with consumer online companies

[2] Includes sites on BBS, Microsoft Network, AOL, Prodigy and Gopher services

relationship creates a scenario that makes the online newspaper market difficult to define. While the market for the print newspaper almost always is defined by geographic boundaries (Lacy & Simon, 1993), the Internet is an inherently global medium. Therefore, between the most local and the most global, online newspapers may define their geographic markets differently and blurring of market boundaries may occur.

Therefore, this study examines how the print newspaper's local nature and the Internet's boundary-transcending capacity define an online newspaper's geographic market. An original theory of online newspaper geography is developed, and an illustrative model proposed, from which inquiries about the nature of the new medium are made. An email survey of online newspapers was conducted to test the hypotheses and to provide information about online newspaper geography.

THEORIES AND INQUIRIES

Media function in a "dual-product market" (Picard, 1989) -- the "information market" for media goods, and the "advertising market" for access to audiences. Both are contained within a specific geographic area, the boundaries of which often are determined by access to the commodity. But Internet access has few pure geographic limits. Any information posted on the Web is accessible to a practically global audience. Chyi and Sylvie (1998) indicated that the medium's global capacity may prompt online newspapers to seek markets on a number of geographic levels, serving multiple audiences and competing with multiple media within multiple geographic areas. Considering the complexity and variations at different levels of geographic markets, they distinguished an online newspaper's local market from its long-distance market based on the availability of the online newspaper's print counterpart. A local market is where the online edition and the print edition both are available, while a long-distance market is where only the online edition is available.

This local versus long-distance distinction makes a general statement about online newspapers' submarkets without differentiating various types of online newspapers. According to the model, every online newspaper has a local market within the print edition's circulation area and a long-distance market that covers the rest of the world. To closely examine online newspaper geography, in addition to the local/long-distance dichotomy, the following analysis further differentiates online newspapers' geographic markets by introducing a hierarchical model of online newspaper geography.

Previous studies have shown that content-sharing between a newspaper's print and online products is prevalent -- the print edition often serves as the primary content provider for the online edition and thus similar or identical information is published in two formats (Fitzgerald, 1997; Middleberg + Associates, 1999; Tankard & Ban, 1998). Given content-sharing, people who are interested in reading a newspaper's print edition probably also are interested in reading that paper's online edition because of their interest in the news and information provided. In the print newspaper market, circulation penetration usually is strongest in the newspaper's home community. This also may hold true for the online edition. For instance, Houston residents are interested in reading the print edition of *the Houston Chronicle* and also might be interested in reading its online edition.

On the other hand, the Internet's boundary-transcending capacity enables a worldwide audience to access any Web sites and thus expands the online newspaper's market boundary beyond the print edition's circulation area. But news, especially local news[3] -- unlike CDs, computers, or Hollywood movies -- generally is not a universal product. Excluding those in the primary circulation and coverage area of a print newspaper, few would be interested in local news offered by that particular paper. For example, besides Austin residents, who would be interested in knowing what's happening

[3] About 90 percent of online newspapers provided local news (Gubman & Greer, 1997).

in Austin, Texas? To have such interest, the long-distance online reader would have to have connections or some relationship to Austin: Some may be within Texas, probably fewer in other U.S. cities, and even fewer in Europe, Asia, or Africa. In contrast, a national electronic newspaper -- for example, the online *New York Times* -- may attract a substantial global audience. In other words, a local newspaper may become a regional newspaper online, and a national newspaper may become international online. However, it may not be as easy for a local newspaper to become international online, unless there are existing or potential niche markets in which a local newspaper specializes. (For example, the San Jose paper may find a niche at the international level because of its coverage of high-tech industries in nearby Silicon Valley).

This study tries to increase the sensitivity of Chyi & Sylvie's typology (1998) in dealing with online newspaper geography. A review of media economics literature found the umbrella imagery used in Rosse's model of newspaper competition (1975) a useful analytical tool.

The "umbrella competition" model (Rosse, 1975) depicted intercity competition among (print) newspapers at four different layers in a metropolitan area -- metropolitan dailies, satellite city dailies, suburban dailies, and weeklies. Despite the focus on intercity competition in the print newspaper market, Rosse's model conveys a strong geographic emphasis by using a set of umbrella symbols in a four-layer hierarchical structure to represent media markets at multiple geographic levels (see Picard, 1989, p.30). Although the current study does *not* intend to apply that model to the online newspaper market, it utilizes the umbrella symbol to illustrate (print or online) newspapers' geographic markets because such a simple image effectively captures several important dimensions of a geographic market definition -- in terms of market boundary, market size, and a particular market's relative position in a larger geographic context.

To illustrate online newspapers' geographic markets, a five-layer model -- including community, metro, regional, national, and international levels -- is created. As

most print newspapers operate at either the community, metro, or national level, their online editions also may operate at these levels. In addition, the Internet's boundary-transcending capacity enables online newspapers to seek markets at the regional and international levels. These layers exist in a relative sense, meaning there is no clear-cut demarcation between layers. In general, this new umbrella model illustrates print and online newspapers' geographic markets. (Illustration 1).

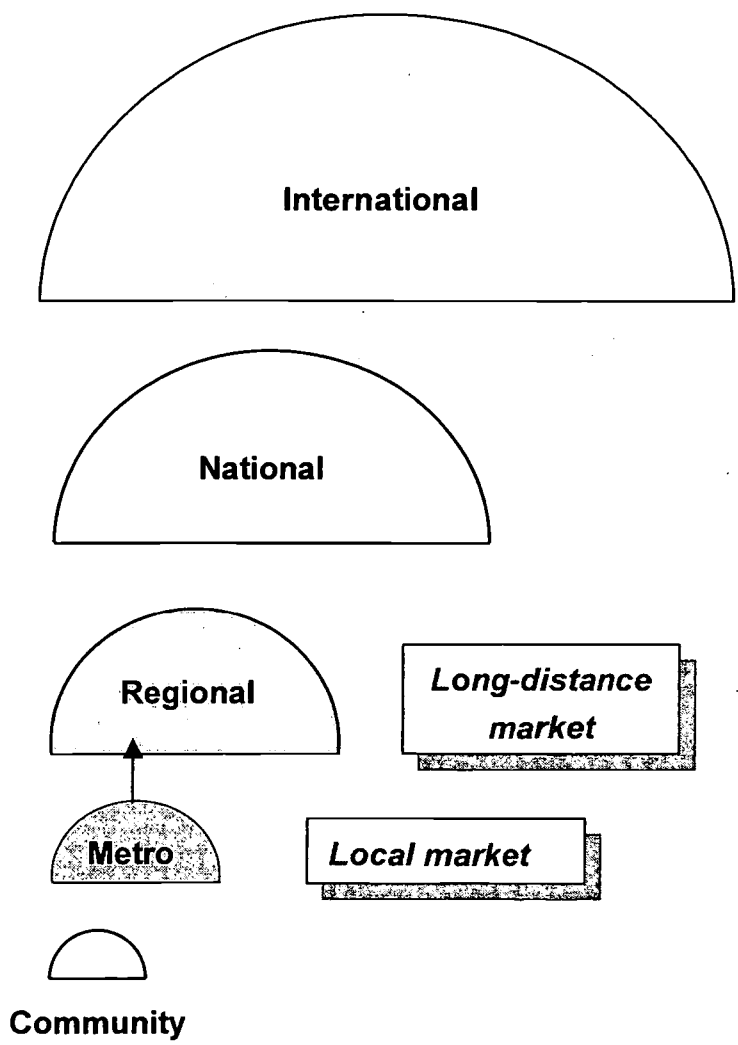

Illustration 1: The Umbrella Model of Online Newspaper Markets

(Taking a metropolitan newspaper's online edition as an example)

Online Newspapers in the Local Market

Because of content-sharing between a newspaper's print and online editions and the local audience's interest in local information, online newspapers probably will attempt to look for an audience within the print edition's market. For example, the print edition of *The Houston Chronicle* is the dominant newspaper in the Houston area. Its online product -- also featuring news and information about Houston -- may find it easier to appeal to Houston residents interested in information about Houston. In such cases, an online newspaper's local (as opposed to long-distance) market boundary seems to be predetermined by the print edition's market boundary. The formation of a local market definition can be phrased using umbrella terminology: The print edition "transfers" its original umbrella to the online edition. So it is hypothesized:

H_1a: *An online newspaper's local market boundary is defined by the print edition's market boundary.* (The Umbrella-Transferring Hypothesis)

In addition to market boundaries, the size of a print newspaper's market probably should be positively related to the size of the online edition's local market. A larger print market implies a larger group of people interested in news and information provided by that newspaper. These people are potential online audiences for that same newspaper's online edition. Therefore, it is hypothesized:

H_1b: *The larger the print edition's market is, the larger the online edition's local market is.* (The Umbrella-Correlation Hypothesis)

Online Newspapers in the Long-Distance Market

The umbrella-transferring and umbrella-correlation hypotheses specify the relationship between the print edition's market and the online edition's *local* market. According to Chyi & Sylvie (1998), online newspapers can go beyond that local

boundary to reach a *long-distance* market, where the print edition is not readily available. Because of the medium's global nature, online newspapers can easily reach audiences outside the print edition's circulation area and choose to seek a market at any geographic level -- regional, national, or even global. However, while technologically viable, the nature of the product often imposes limitations on online newspapers' geographic market definition because news generally is not a universal product. In other words, the Internet may "upgrade" an umbrella from community to metro, from metro to regional, or from national to international, but probably not from community to international. Therefore, it is hypothesized:

H_2: *An online newspaper's long-distance market is one level above the print edition's market.* (The Umbrella-Upgrading Hypothesis)

Overall, the new umbrella model can be summarized as such: Technologically, the Internet's global nature enables online newspapers to serve local and long-distance audiences. The print edition transfers its market boundary to the online edition. The transferred umbrella constitutes the local market, the size of which is positively related to print circulation. The Internet also upgrades the online market to the next higher geographic level, which, however, usually is not the highest global level.

METHODS

An email survey of online newspapers was conducted to test the umbrella model of online newspaper geography. Special attention goes to the relationship among three markets: the print edition's market, the online edition's local market, and the online edition's long-distance market. Print circulation and online usage data can be used to test the umbrella-transferring hypothesis (H_1a) and the umbrella-correlation hypothesis (H_1b). These two hypotheses specify the relationship between the print market and the online local market in terms of market boundary and market size, respectively. Online usage

data in the long-distance market can test the umbrella-upgrading hypothesis (H_2), which deals with the impact of the Internet's global capacity on online newspapers' market expansion. Online newspaper economics also was examined by inquiries about current and plausible revenue models.

Definitions of Key Concepts

Several key concepts in the umbrella-transferring, umbrella-correlation, and umbrella-upgrading hypotheses need to be defined. Newspaper directories and the email survey can help measure these concepts.

Market Boundary & Market Size

A market is where business activities take place. For a print newspaper, market boundary refers to the geographic border of its circulation area. Market size is represented by circulation or penetration figures. Both can be measured by obtaining circulation and commercial trading area information made available by the Audit Bureau of Circulations in the *Editor & Publisher International Yearbook* (1998).

For an online newspaper, market boundary is the border of the area where its users reside. Market size is represented by online usage. However, practically, online audience measurement remains a difficult problem facing most Web sites. The exact number of online users often is a mystery because no single reliable technique exists to accurately measure the size of audiences and their identity (Greenstein, 1998; Stone, 1998a; Stone, 1998b; Stone, 1998c; Audit Bureau of Circulations Interactive, 1998; Kirsner, 1997; Gugel, 1997; Rich, 1997). Conference with six online professionals at newspapers of different sizes about this matter suggested that most online newspapers should be able to provide "page views" and "unique users" statistics. "Page views" (or "impressions") -- the number of requests for HTML pages -- is accepted by online advertisers as a standard measure of online audience size. "Unique users" -- the number of site visitors -- is another commonly used audience measure, often derived by the use of

"cookies."[4] Both measures provide one dimension of the online market size and can serve comparison purposes. Therefore, the market size concept is measured by asking respondents to report page views and unique users data.

The online market boundary is measured by asking respondents to estimate the percentages of online users who reside within/outside the print edition's primary circulation area. Respondents were asked to specify their measurement methods for more accuracy.

Since online newspapers also can intentionally define their market boundaries by targeting audiences in certain geographic areas, the online market boundary also was measured by "the intention to target audiences in a certain geographic area."

Local/Long-Distance Markets

An online newspaper's local market is where both online and print editions are available. An online newspaper's long-distance market is where only the online edition is available. Practically, the existence of local/long-distance markets depends on substantial usage from within/outside the print edition's circulation area.

Methodological Justification

Traditional media markets are monitored by institutions such as Nielsen (for television) and the Audit Bureau of Circulations (for newspapers), and market data often are available to the public. Some companies specializing in online audience measurement -- such as RelevantKnowledge, MediaMetrix, I/Pro, @Plan -- have been trying to serve as the equivalent of ABC for the Internet. But there still is no single source where usage statistics for online newspapers are made available. Therefore, a survey has to be conducted to gather baseline data. Since most online newspapers provide an email link on

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[4] A "cookie" is a text file a server places in a visitor's computer to help identify that particular browser the next time it visits.

their Web sites (Kamerer & Bressers, 1998; Tremayne, 1998; Gubman & Greer, 1997), one of the most efficient ways to reach these online news providers is via email.

For email surveys, attaining a decent response rate is problematic. Previous studies surveying online news organizations or journalists via email showed response rates ranging from 71 percent (Harper, 1996), 35 percent (Alexander, 1997), 32 percent (Tankard & Ban, 1998), to 13 percent (Ban, 1998). To increase the response rate, this study tried the following -- a short questionnaire, multiple follow-ups, and promising to share research findings as incentives. Because the primary purpose of this study is to identify the relationship between a newspaper's print and online markets -- providing descriptive statistics about the population is secondary -- a moderate response rate around 30 percent should be acceptable.

Sampling

Since a market, as represented by the umbrella symbol, is a geography-sensitive concept, the sample must include newspapers operating at each level of the hierarchy -- national newspapers, metropolitan dailies, and community newspapers. There are 1,565 dailies and 8,858 weeklies in the U.S. (Bacon's Newspaper Directory, 1997). Due to the large number of newspapers in the U.S. and to time constraints, sampling is necessary. To increase generalizability, stratified random sampling on a national scale is an option. But from such a large population, it is difficult to get a sample that can illustrate a complete umbrella structure. Instead, choosing a few states and conducting a census within each may yield a better portfolio of online newspapers. So, four states -- California, Texas, New York, and Florida -- were selected for a number of reasons. First, with California in the West Coast, Texas in the South, New York in the Northeast and Florida in the Southeast, a four-state sample yields more representative results than a one-state sample. Secondly, these are the states in the U.S. with the largest populations. Together these four states accounted for more than 30 percent of the U.S. population (U.S. Census Bureau,

1999). California, New York, Florida, and Texas also were identified by Nielsen Media Research as the top four states with the largest number of Internet users. Each was estimated to have at least two million online users in fall 1997 (CommerceNet/Nielsen, 1998). In addition, each of these states has a substantial number of newspapers (Editor & Publisher International Yearbook, 1998). These characteristics increase the representativeness of the study.

Since only a handful of U.S. daily newspapers operate on a national scale, all were included in the sample. Online newspapers in California, Texas, New York, and Florida were taken from the Editor & Publisher's online media directory at www.mediainfo.com (1998) and the Newspaper Association of America's online newspaper portal at www.newspaperlinks.com (1998). Included were English-language newspaper sites currently offering general-interest news content. For those that offered an email directory of online staff, the survey was sent directly to the person in charge of marketing matters. For sites with only a general email address, the survey was sent to that address. A few sites offered no email address and thus were excluded from the study. The final sample consisted of 193 online newspapers, of which four operate at the national level, 65 in California, 52 in Texas, 38 in New York, and 34 in Florida.

Survey Instrument

The draft of the email questionnaire was revised several times based on suggestions made by six online newspaper professionals to make sure the questions were answerable and relevant from the industry's point of view. The survey was then pre-tested on 13 online newspapers. The email survey consists of a cover letter and 11 questions about online newspaper market definitions and revenue models. Whenever the target respondent was identifiable, the cover letter was directly addressed to that person because a personalized message may increase the response rate. In other cases, the

recipient was asked to forward the survey to the marketing practitioner or, if there was no one in marketing, the most appropriate person who could help answer the questions.

The 11 questions, which took a person familiar with usage data about 5 minutes to complete, focused on site traffic measures, geographic markets, target audiences, and revenue models.

The size of the online audience was measured by asking:

[ ] Estimated number of unique online USERS (not hits) per DAY

[ ] Estimated number of page views per MONTH

The breakdown of the local and long-distance markets was measured by asking:

Where do you think your audience resides?

[ ] % reside WITHIN the print edition's primary circulation area

[ ] % reside OUTSIDE the print edition's primary circulation area

[ ] Don't know

The intention to target audiences in a certain geographic area was measured by this question:

Your target audience is (Check all that apply)

[ ] WITHIN the primary circulation area of the print edition

[ ] OUTSIDE the primary circulation area of the print edition. If so,

[ ] in what area?

Data Collection

The survey of 193 online newspapers -- including four national dailies and those in California, Texas, New York, and Florida -- was conducted via email and fax between Dec. 17, 1998 and Feb. 19, 1999. Each newspaper received one mailing and up to two follow-up surveys.

Completed surveys were received from 64 out of the 193 online newspapers. A few online newspapers, instead of answering survey questions, responded by saying that company policy did not allow them to disclose usage and revenue information to people

outside their organization. Some said their Web site functioned as a public service and thus the survey, which focuses on market issues, was irrelevant to them.

The response rate for this survey can be estimated in two ways. The gross response rate is 41 percent, calculated by dividing the number of replies (including non-completion responses and completed surveys) by sample size. The completion rate is 33 percent, calculated by dividing the number of completed surveys by sample size. The completion rate yielded a sampling error of ±8.2 percent.[5]

MAJOR FINDINGS

Responses were received from 52 daily and 12 weekly newspaper sites. The size of the online staff -- including editors, sales, and technicians -- ranged from 0 to 130. ("Zero staff members" probably means there is no full-time person in charge of the online product). While 27 percent had more than 10 employees working for the online product, the median was 3, and the mode was 2. (Table 1).

Table 1: Size of Online Staff

Number of Employees	%
100 –130	5
11 – 50	22
5 – 10	11
3 – 4.5	13
2 – 2.5	21
1 – 1.5	16
Less than 1	13
(Valid cases)	(63)

Mean = 12.5; Median = 3; Mode = 2.

[5] A correction factor for smaller populations (1 – n/N) was introduced when calculating the sampling error.

Circulation of the print edition ranged from 693 to more than 1.5 million (Table 2), based on which, newspapers (print editions) were placed into three categories: community (circulation under 100,000), metro (circulation between 100,001 and 1 million), and national (circulation over 1 million and those listed as national newspapers in the *Editor & Publisher International Yearbook*). Five national newspapers, 12 metro newspapers, and 47 community newspapers participated in this study.

Table 2: Circulation of the Print Edition

Circulation	%
Over 500,000	8
100,001 – 500,000	16
50,001 – 100,000	18
25,001 – 50,000	16
10,001 – 25,000	20
0 – 10,000	21
(Valid cases)	63

Mean = 168,474; Median = 37,885.

To examine content-sharing between a newspaper's print and online editions, the survey asked respondents how much content in the online product is unique -- not available in the print edition. Larger newspapers tended to produce more unique content than smaller ones, but, overall, the percentage of unique online content was low. (Table 3).

Table 3: Percentage of Unique Online Content

	% of Unique Online Content		
	Mean	Median	Mode
National Newspapers	45*	35	N/A
Metro Newspapers	25*	20	20
Community Newspapers	19*	10	0
Overall	22	10	0

* $F(2, 57) = 2.59$, $p < .10$

Online Audience Measurement

Four Web sites did not reveal their page view statistics. Among the rest, the number of page views per month ranged from 20 to 120 million. About one-fourth (26%) of the sites had no more than 20,000 page views per month. About 22 percent had between 20,001 to 200,000; another 26 percent had between 200,001 to 1,000,000. About 16 percent had between 1,000,001 and 10,000,000 on a monthly basis. Only 10 percent had page views over 10,000,000. (Table 4).

Table 4: Page Views per Month

Page Views per Month	%
Over 10,000,000	10
1,000,001 – 10,000,000	16
200,001 – 1,000,000	26
100,001 – 200,000	12
20,001 – 100,000	10
0 – 20,000	26
(Valid cases)	(59)

Mean = 5.9 million; Median = 240,000.

Of the 64 online newspapers, 54 were able to provide usage data in terms of daily unique users. The number of unique users per day ranged from 2 to one million. The mean was 37,349, and the median was 2,300. About 40 percent of the sites had no more than 1,000 unique users per day. About 20 percent had between 1,001 and 5,000. Some 27 percent had between 5,001 to 50,000. Another 12 percent of them had more than 50,000 unique visitors per day. (Table 5).

Table 5: Number of Unique Users per Day

Unique Users per Day	%
Over 50,000	12
5,001 – 50,000	27
1,001 – 5,000	21
0 – 1,000	40
(Valid cases)	(54)

Mean = 37,349; Median = 2,300.

Although there is no way to rigorously test the accuracy of these self-reports about audience sizes, knowing how online newspapers track site traffic can at least provide some context and help understand the methods currently used for online audience measurement. Results showed that computer software was the most popular audience measurement tool used by 65 percent of these online newspapers; WebTrends, RealMedia Open Ad Stream, MKStats, and Analog were most commonly mentioned packages. About 30 percent received reports on site traffic from their parent companies. About 8 percent used market research data such as surveys. Another 8 percent used auditing services. About 10 percent relied on feedback from individual users and

intuition. In general, online newspapers utilized a variety of measurement tools to estimate their audience size.

Umbrella-Transferring

To test the umbrella-transferring hypothesis (H_1a: *An online newspaper's local market boundary is defined by the print edition's market boundary.*), the relationship between the print edition's market boundary and the online edition's *local* market boundary needed examination.

Of the 64 online newspapers surveyed, eight said they did not know the percentage of online users from within the print edition's primary circulation area. Among the rest 56 online newspapers, all but one (98 percent) reported having users residing within the print edition's primary circulation area, including nine which didn't provide exact percentages as requested. Of the 56 responses, 29 (52 percent) said more than 50 percent of their online users resided within the print edition's circulation area. Of the 47 online newspapers reporting percentages, 61 percent said as much. (Table 6).

Table 6: Percentages of Online Users Within the Print Edition's Primary Circulation Area

Percentage of Online Users Within the Print Edition's Primary Circulation Area	Percent reporting this percentage (all cases reporting)	Percent reporting this percentage (cases reporting percentages only)
0 %	2	2
1 – 25 %	5	6
26 – 50 %	25	30
51 – 75 %	34	40
76 – 100 %	18	21
Percentages Unknown	16	N/A
(Valid cases)	(56)	(47)

Mean = 60; Median = 65. (Among cases reporting percentages.)

Market boundaries also were measured by the intention of targeting a certain geographic market. Almost 90 percent of respondents said they targeted audiences within the primary circulation area of the print edition. Among them, 74 percent targeted readers and non-readers of the print edition, 18 percent targeted non-readers only, and 7 percent targeted print readers only.

Both measures of online market boundaries (geographic distribution of users, and targeting intention) serve as a strong indication of market-transferring between print and online editions. In other words, analysis supports the umbrella-transferring hypothesis: An online newspaper's local market boundary is defined by the print edition's market boundary.

Umbrella-Correlation

To test the umbrella-correlation hypothesis, the size of the print market and the size of the online local market had to be determined. The print edition's market size is represented by circulation. The online edition's local market size can be calculated using an indirect measure -- overall market size multiplied by percentage of online users within the print edition's circulation area. The online edition's overall market size was measured twice -- in terms of page views (Table 4) and in terms of unique online users (Table 5). The percentages of online users within the print edition's primary circulation area also were known. (Table 6). Therefore, the size for the online edition's local market in terms of page views and unique users was determined, respectively.

Correlation analysis was utilized to identify the relationship between the print market and the online product's local market. Because both variables are on a ratio scale, Pearson's correlation coefficient *(r)* was calculated.[6] Results showed print circulation was

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[6] Pearson's correlation coefficient *(r)* measures the magnitude of the linear association between two variables (Poindexter & McCombs, in press). It ranges from negative one (-1) to plus one (1), where zero

positively related to page views in the online local market (r = .8581, p < .001) and unique users in the online local market (r = .6509, p < .001). In other words, a substantial relationship between the size of the print market and the size of the online local market supports the umbrella-correlation hypothesis (H_1b): The larger the print market is, the larger the online product's local market is.

Umbrella-Upgrading

To test the umbrella-upgrading hypothesis (H_2: *An online newspaper's long-distance market is one level above the print edition's market.*), the relationship between the print edition's market and the online edition's *long-distance* market needed examination. Analysis focused on market boundary because umbrella-upgrading basically is about market expansion across geographic levels. The relationship between the two markets in terms of market size also was explored.

In terms of market boundary, of the 64 online newspapers surveyed, eight said they did not know the percentage of online users from outside the print edition's primary circulation area. Among the rest 56 online newspapers, 49 (88 percent) reported having users residing outside the print edition's primary circulation area, including four which didn't provide exact percentages as requested. Of the 56 responses, 31 (56 percent) reported that long-distance usage accounted for more than 25 percent of total traffic. Of the 52 online newspapers reporting percentages, 60 percent said as much. (Table 7).

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(0) means the absence of a linear relationship, one (1) means a perfect positive linear relationship and negative one (-1) means a perfect negative relationship.

Table 7: Percentages of Online Users Outside the Print Edition's Primary Circulation Area

Percentage of Online Users Outside the Print Edition's Primary Circulation Area	Percent reporting this percentage (all cases reporting)	Percent reporting this percentage (cases reporting percentages only)
0 %	12	13
1 – 25 %	25	27
26 – 50 %	43	46
51 – 75 %	9	10
76 – 100 %	4	4
Percentages Unknown	7	N/A
(Valid cases)	(56)	(52)

Mean = 34; Median = 30. (Among cases reporting percentages.)

In terms of online newspapers' intention to target long-distance audiences, 61 percent targeted audiences outside the print edition's primary circulation area. To provide a larger picture, "intention to target *long-distance* audiences" and "intention to target *local* audiences" should be evaluated simultaneously. As noted earlier, 89 percent of online newspapers target audiences *within* the print edition's primary circulation area. Comparison showed that the majority (55%) of online newspapers targeted both local and long-distance markets, 34 percent targeted the local market only, and 6 percent targeted the long-distance market only. (Table 8).

Table 8: Intention to Target Local and Long-Distance Audiences

Target Audience	%
Target Local *and* Long-Distance Audiences	55
Target Local Audience Only	34
Target Long-Distance Audience Only	6
(Valid cases)	(64)

In addition to the local/long-distance dichotomy, the umbrella-upgrading hypothesis also specifies that the long-distance market is "one level above" the print market. To perform a level-by-level analysis, print newspapers were placed into three categories: community, metro, and national. Online markets, on the other hand, were examined at the local, metro, regional, national, or international level.

As noted earlier, Internet audience measurement still is problematic in terms of accuracy. Practically, it is not feasible to collect data about the breakdown of "online usage" at different geographic levels with a survey. Therefore, the "one level above" part of the umbrella-upgrading hypothesis was tested using online newspapers' "targeting intention." Respondents who targeted long-distance audiences were asked to describe the geographic area where long-distance users resided, and 27 (including 16 community newspapers, eight metro newspapers, and three national newspapers) answered this open-ended question. Responses were content analyzed and tabulated in Table 9. Results were mixed. All national newspapers unanimously defined their long-distance market as international or global -- one level above the print market, as predicted by the umbrella-upgrading hypothesis. One-fourth of metro newspapers targeted a long-distance audience at the regional level -- also one level above the print edition's market. But another one-fourth of metro newspapers targeted the international level. One-fifth of community newspapers also targeted the international level and 13 percent at the regional level. The

"one level above" part of the umbrella-upgrading hypothesis was supported among all national newspapers, some metro newspapers, and few community newspapers.

Table 9: Geographic Level of the Long-Distance Online Market by Geographic Level of the Print Edition

		Geographic Level of Print Edition (Cell entries are percentages)		
		Community	Metro	National
Geographic Level of Online Long-Distance Market	Community	0	0	0
	Metro	6*	13	0
	Regional	13	25*	0
	National	6	13	0
	International	20	25	100*
	Psychicspace / Other**	56	25	0
(Valid cases)		(16)	(8)	(3)

*Note: These are long-distance market levels predicted by the umbrella-upgrading hypothesis. (Community → Metro; Metro → Regional; National → International).

**Note: The "Psychicspace or other" category included responses with no references to specific geographic areas, e.g. "former residents regardless of place," "people who are going to move to this area," "geography is irrelevant on the Web," etc.

To explore the relationship between the print market and the online long-distance market in terms of market size, correlation analysis was performed. Print circulation was positively related to page views in the long-distance market (Pearson's $r = .5788$, $p < .001$) and unique users in the long-distance market (Pearson's $r = .6366$, $p < .001$). The results implied that umbrella-correlation also occurs between the print market and the online long-distance market. In other words, the larger the print market is, the larger the online product's long-distance market is.

Overall, it is evident that the Internet enables online newspapers to expand their geographic market outside the print edition's circulation area both in terms of actual

usage and targeting intention. Many online newspapers practically target and serve multiple audiences in multiple markets at multiple geographic levels. As to whether the long-distance market is "one level above" the print edition's market, data did not fully support this part of the umbrella-upgrading hypothesis.

Profitability and Revenue Models

To examine the relationship between market size and economic viability -- a major concern in the online newspaper industry, the survey included questions about profitability and current/expected revenue sources. Respondents were asked whether their online newspaper was making a profit. About 27 percent said yes, while the majority (73%) said no. Although online newspapers with larger audiences seemed more likely to make a profit, no relationship between profitability and market size (of the print market, the online market, the online local market, and the online long-distance market) was statistically significant.

Respondents were asked to specify their current revenue sources. Almost 80 percent said online advertising was a revenue source. About 40 percent generated revenues by creating Web sites for clients. Classified advertising (which was meant to be part of the "advertising" category) was specified by as many as 18 percent of respondents in the "other" category -- an indication of the great potential of online classified ads. E-commerce, the ISP business, and pay-per-use services also generated revenues for more than 15 percent of online newspapers, while subscription was ranked the lowest among all -- only 3 percent of the online newspapers surveyed charged users a subscription fee. A couple also mentioned sponsorships as a revenue source in the "other" category. (Table 10).

Table 10: Current Revenue Sources

Revenue Models	Percent Who Use Model
Advertising	79
Web Site Development	39
Classifieds*	18
E-Commerce	18
Serving as ISPs	16
Pay-per-Use Services	15
Subscription	3
(Valid cases)	(64)

* Advertising includes both banner ads and classified ads, but 18 percent of respondents specified classifieds separately.

Since the online environment quickly changes, plausible models which may play a role in the future also are of interest. Asked to evaluate the likelihood of using these revenue models -- subscription, advertising, pay-per-use services, Web site development, ISP, E-Commerce -- on a 5-point scale, almost all the respondents agreed that online advertising is "likely" or "very likely" to serve as an important revenue source for their online newspapers within the next two years. E-commerce, and Web site creation also were rated as "likely" or "very likely" by over 50 percent of the online newspapers. (Table 11).

Table 11: Evaluation of Plausible Revenue Models in Two Years

Revenue Models	%					
	Very likely	Likely	Neutral	Unlikely	Very unlikely	Rank
Advertising	88	7	2	0	0	1
E-Commerce	35	29	15	7	11	2
Web Site Development	33	35	13	0	17	3
Pay-per-Use Services	27	21	21	10	16	4
ISP	10	0	14	18	59	5
Subscription	4	2	14	15	65	6

Note: Ranks were calculated based on the average scores assigned by respondents using the 5-point scale measures.

Comparison of the current and future revenue models specified by these online newspapers showed advertising dominated and probably will continue serving as a primary revenue driver. On the other hand, e-commerce, although being used by only 18 percent of the sites, was expected to play a more important role in the near future.

SUMMARY & DISCUSSION

Of the 64 online newspapers surveyed, while five percent had more than 100 employees, the median staff size was three. While 10 percent had over 10 million page views per month, the median was 240,000. While 12 percent had more than 50,000 unique visitors per day, the median was 2,300.

Staff size, page view, and unique user statistics seemed to show that the online newspaper industry resembled a "bi-modal market structure" -- on one tier is an oligopoly (3-4 large firms) that controls 70-90 percent of the market, while on the other tier a large set of small firms fighting for remaining shares (Albarran, 1998).

The umbrella-transferring hypothesis (H_1a) -- which specifies the relationship between an online newspaper's local *market boundary* and the print edition's *market boundary* -- was fully supported. Almost 90 percent of online newspapers targeted audiences within the print edition's primary circulation area. In addition, excluding those who did not know the geographic distribution of their audiences, almost all (98 percent) reported having users from within the print edition's market, and 52 percent estimated that the local audience accounted for more than 50 percent of total traffic. Therefore, both measures of online market boundaries (targeting intention and geographic distribution of users) indicated that an online newspaper's local market boundary is largely defined by the print edition's market boundary.

The umbrella-correlation hypothesis (H_1b) -- which specifies the relationship between the print market and the online *local* market in terms of *market size* -- also was supported. In addition, umbrella-correlation also occurs between the print market and the online *long-distance* market. Correlation analysis showed a substantial relationship between print circulation and online market size -- for local (r = .8581 with page views; r = .6509 with unique users) and long-distance (r = .5788 with page views; r = .6366 with unique users). In other words, the larger the print market is, the larger the online market is.

The umbrella-upgrading hypothesis (H_2) -- which identifies the existence and the location of online newspapers' *long-distance* market -- was partly supported. More than 60 percent of online newspapers targeted audiences outside the print market. Excluding those who did not know the geographic distribution of their audiences, 88 percent reported having users from outside the print edition's circulation area, and 56 percent had more than 25 percent of online readership from outside the print market. Both measures of online market boundaries (targeting intention and geographic distribution of users) indicated the existence of a long-distance market. Furthermore, 55 percent of online newspapers simultaneously targeted local and long-distance audiences, seeking markets

at multiple geographic levels. It is evident that the Internet has the market-upgrading capacity that expands the online market up from the print market to a higher geographic level.

As to whether the long-distance market is "one level above" the print market, results were mixed. The argument was supported among all national newspapers, some metro newspapers, and few community newspapers. Several reasons may explain why this "one level above" rule was not fully supported. First, when an online newspaper has a specific niche (e.g. San Jose Mercury Center's coverage of high-tech industries in nearby Silicon Valley), geographic proximity alone can no longer explain the geographic distribution of the online audience. Second, asked to describe where their target long-distance audience resides, many respondents didn't make references to specific geographic areas but mentioned that their long-distance audiences were former or future residents. The geographic distribution of these people probably also is to a certain extent subject to proximity. (e.g., former or future residents of Houston are more likely to be found in Texas than in Pennsylvania or in Europe.) Finally, analysis relied on the 27 self-reports on their target long-distance market because online usage data for multiple geographic levels were not available. However, targeting intention may not reflect actual usage. Therefore, the "one level above" part of the umbrella-upgrading hypothesis should be re-examined when more specific usage data are available.

To compare the local and long-distance markets, 89 percent targeted the local audience, while 61 percent targeted the long-distance audience. Therefore, the local market outweighs the long-distance market in online publishers' minds. In terms of online usage, on average, online newspapers reported 60 percent of audiences are within and 34 percent are outside the print edition's circulation area. The comparisons showed the local market is the primary market segment, and the long-distance market is secondary.

Overall, empirical evidences have demonstrated that the new umbrella model effectively captures the relationship between a newspaper's print and online markets.

In terms of profitability, no relationship between market size and profitability was statistically significant. An explanation is that larger newspapers (in print) tend to attain a larger online audience, which may generate more revenues. However, larger newspapers also tend to devote more resources to their online product -- as evidenced by higher percentage of unique content -- and thus are less likely to be profitable in the short term. Therefore, market size probably is more related to revenue rather than profit, but this study didn't examine revenue and cost figures separately.

Most online newspapers experiment with different revenue models and hope to become an economically viable medium. Advertising and e-commerce were expected to serve as primary revenue drivers in the near future, while the subscription model probably won't work for the online medium.

Most online newspapers measure their market performance by market size -- i.e., page views and unique users. Since most revenue sources are traffic-related -- the more users, the more revenues -- online publishers hope to increase site traffic. Market size seems to be a key variable differentiating online newspapers in terms of economic viability. As to what determines an online newspaper's market size, umbrella-correlation demonstrated a significant relationship between print circulation and online market size.

Print circulation in this study ranged from less than 1,000 to more than 1.5 million. The variance in print circulation largely explains the variance in online audience size among the 64 newspapers which are equally accessible on the Web. In other words, the print edition's market size would affect the online newspaper's market size, which, in turn, would affect an online newspaper's revenue-making capability.

Therefore, it is unrealistic to think about an online newspaper without taking into account the role of its print edition in the marketplace. Although the Web technologically is a distinct medium, with 11 percent of online newspapers operating as independent

firms (Thompson, 1999), while others deny being categorized as an online "newspaper," the market relationship between the print and online editions is too influential to be ignored.

Therefore, newspapers at higher geographic levels -- usually larger in size -- tend to have the greatest potential to make their online ventures profitable. They can take the most advantage of the Internet's boundary-transcending capacity and pursue market opportunities unthinkable in the past. In contrast, newspapers at lower geographic levels -- usually smaller ones -- may suffer from limited resources and relatively limited market-expanding capacity when operating online unless they have special niches. The Internet probably will not provide them with business opportunities comparable to those possessed by larger players. But they can utilize the online medium in various ways -- as a marketing tool, a communication window, or a public service. The Internet provides many possibilities.

Conclusions

Geography is not irrelevant in cyberspace. Although the online newspaper is an inherently global medium, it still has market boundaries. Online newspapers still are a local product for all intents and purposes, despite the Internet's boundary-spanning capabilities. The ramifications shouldn't be lost on most media managers and, to a lesser degree, on media scholars.

The former should beware that -- unless they are employed at one of the larger (possibly national) newspapers -- even if their online long-distance audience is substantial, the product still is local because the print edition largely defines the online local market boundary. The consequences lie in the issue of substitutability; i.e., how substitutable is an electronic product that -- as this study's data suggest -- essentially mimics the print product? Obviously, the more substitutable, the less should be the intent to target readers of the print product. But given the fact that the papers in the sample

averaged 22 percent of unique online content, one would expect more would say they intend to target long-distance audiences. However, almost 90 percent said they targeted local audiences, of which 81 percent targeted readers of the print edition -- an indication of a heavy focus on local audiences. In contrast, only 61 percent targeted long-distance audiences. This may be a reflection of lack of resources and profits or, at the very least, an emphasis (on the part of the newspaper) on attracting new readers via the Internet. Still, it presents cause for concern because it assumes people who don't read the newspaper will, instead, read it in electronic form.

On a theoretical level, this clarifies earlier suggestions regarding product differentiation (Chyi and Sylvie, 1998). Conventional economic wisdom says online newspapers must show their products can adequately complement traditional media and other online offerings, "to develop distinctive content and to draw a distinctive audience that is as homogeneous as possible" (p.16). And yet, as this study shows, that's exactly what newspapers are *not* doing. In fact, they seem to be doing the opposite. Whether this is a short-term phenomenon prompted by lack of profits or by ignorance remains to be seen, but the lesson for scholars may be that profits are not the barometer for success at this time.

If the profit motive continues to be the goal, this study's findings call into question the economic, long-term viability of the local electronic newspaper operation bent on relying on shovelware for content -- unless advertising strategies are changed or market demographics and technology usage alter their present course substantially. The finding that the print market defines the online market indicates that local advertisers would only be attracted to a less-than-unique product if it delivered an audience that is new or unique, i.e., one that is not similar to one delivered by the print product. The likelihood of the Internet and the printed product delivering the same type of audience is potentially small, but then so is the likelihood that the Internet-savvy audience would be attracted to the online newspaper. So that means electronic newspapers wouldn't deliver

attractive local audiences in sufficient numbers. The key then, for online newspapers, is to market that less-than-unique local product to an audience that *would* find it unique: a long-distance audience, one in "psychicspace." This strategy would make the smaller online operations more likely to be profitable because they could match the long-distance audience to appropriate, non-local advertisers. In short, newspaper executives must stop thinking "local" when it comes to online markets because such thinking short-circuit's the medium's advertising potential. As this study shows, the larger the print market, the larger the online product's long-distance market. And as the umbrella opens, profitable newspaper operations must follow.

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New Entrant, Competitive Strategy, and Consumer Welfare in the Cable Television Industry

By

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Abstract

This study analyzes the characteristics and strategic behaviors of competing versus monopoly cable television systems. It finds that competition results in better consumer welfare, such as lower monthly prices and more programming channels. The intensity of competition will decline as duopolistic cable systems operate for a longer time, and the entrant usually provides more basic cable television channels, instead of much lower prices to compete with the incumbent. New entrants from telephony provide a much larger number of channels and interactive service at competitive prices in order to enter cable television services. Although the degree of overlapping is associated with the number of subscribers and the household density of the cable plant, those economic rationales can account for little and other political process play a more important role in explaining the possibility of a cable television overbuilt in a community.

I. Introduction

Cable TV in local markets has historically been considered a natural monopoly with competition being infeasible in the long run. Much of the empirical work concerning scale economies and cost conditions present conflicting results and conclusions (Webb, 1983; Noam, 1985). A few studies confront the question of whether competitive or duopolistic conditions are viable within municipal cable markets (Hazlett, 1986, 1987, 1990; Smiley, 1986, 1990). Some scholars argue that the lack of competition in local markets has been due more to artificial constraints to the potential entrants than on any "natural" characteristics of cable TV delivery. Beil, etc. (1993), Hazlett (1990), and Zupan (1989) explain that benefit seeking by local governments, like franchise fees and bargaining power, explains the monopoly franchise in cable services. Except for those economic rationales, however, the status of natural monopoly was successfully challenged in cases such as *Preferred Communications, Inc. v. City of Los Angels, Cal.* (1985). Later, the Telecommunications Act of 1996 supposedly removed the governmental barriers to entry and allowed telephony to compete with cable systems.

Although direct competition is gradually considered possible, Smiley (1986) found that both the degree of overbuilding and the resulting welfare effects are highly sensitive to supply and demand factors of market conditions, such as the intensity of demand, the cost of cabling the community, and the strategic interaction between firms. At this point, exclusive franchises are still the overwhelmingly dominant market structure in the cable TV industry, and direct competition, an overbuild of cable systems in the same geographic area, exists only in few jurisdictions nationally. In 1983, only 14 of approximately 5,600 cable operators faced competition over substantial portion of their service territory, and by 1997, the number of competing systems totaled around 150 out of 10,838 systems nationwide, less than 2% of all cable franchises (*TV and Cable Factbook, 1998*). However, the 1996 Telecommunications Act partially removed the legislative barrier to entry, and Local Exchange Carriers (LECs) can begin to provide cable TV services. The home video market has substantial revenues and good growth potential that help telephony to compensate for their losses in the more competitive telephone industry (Foley, 1992). According to a

Federal Communication Commission (FCC) summary (1997), overbuild cable franchises have been awarded to LECs in 81 communities of 14 states to compete with the cable incumbents.

Overbuild competition is the preferred market structure by customers and policy-markers because it results in much better consumer welfare than monopoly. Several case studies found that the emergence of competition made lower prices, better customer service, more choices in programming, and better technological improvements (Hazlett, 1990; Barrett, 1995, 1996). Others applying econometric methods also find similar evidences (Levin and Meisel, 1991; Beil, 1993; Jayaratne, 1996; Emmons and Prager, 1997). In addition, competitive strategies used in duopoly markets, such as price setting, product differentiation, and technological progress, affect the results of consumer welfare and market structure. Hazlett (1990) and Barrett (1996) examined several cases and confirm that price and revenue cutting are usually applied to deter new entrants from the duopolistic cable market. On the other hand, new entrants have the advantages of technological progress to reduce the total average cost and provide new services.

Prior research usually focused on case studies or a limited sample of few communities. This study includes all existing duopolistic cable systems of 1997 (excluded LEC's systems) and applies a statistically economic approach. It compares consumer welfare, such as monthly rate, degree of program diversity, and channel capacity, between the monopoly and duopoly cable markets. The results are consistent with prior studies that the competing systems provide 18.4% lower monthly prices and more basic cable TV channels than monopoly. In addition, it finds that different competing characteristics, for example competition time and relative size between the entrant and incumbent, affect the results of consumer welfare. The longer time they compete and the larger difference in size they have, the more monopolistic behaviors they do. Because most LECs' systems had only operated in several months and it was too early to achieve subscription equilibrium, they are not included in the above analysis. However, this study still explores these new entrants' strategic behaviors to compete with the incumbent cable systems, and finds that more channels and higher degree of programming diversity in competitive prices are applied by LECs to increase their cable subscription.

This study starts with a theoretical discussion and literature reviews about the relationship between new entrants, competitive strategies and consumer welfare. It then presents the hypotheses and describes methodology, as well as, the proposed models. The data analysis and examination of the econometric results then follow. Brief discussion and policy implications are presented in the final section.

II. Theory and Literature Reviews

A. Structural barriers to entry and new entrants:

Economies of scale, absolute cost, product differentiation, barrier to exit, and governmental regulation are pointed out as the structural barriers preventing entrants from competing with incumbents (Litman, 1998, pp.271-278). Cable systems were considered as a natural monopoly as other public utilities in order to operate efficiently and duopolistic markets were not considered to be survivable in the long run (Wirth, 1987). However, some research argues that economies

of scale are relevant but not so important as to rule out the possibility of competition (Owen & GreenHalgh, 1986). Dunn and Johnson (1992) found that cost estimates do not rule out profitable duopoly operation at penetration rates of 25 to 30% with two entirely separate physical networks. Others have argued that the lack of direct competition in local markets has been due more to artificial constraints placed on would-be entrants than on any "natural" characteristics of cable TV delivery. Rent seeking by local governments, such as franchise fee and public access channels, explains many of the non-optimal institutional features of franchised cable services (Beil etc., 1993; Hazlett, 1990; and Zupan, 1989).

Although competitive or duopolistic structure is considered possible at least within certain municipal cable markets (Beil etc. 1993; Hazlett 1986, 1987, 1990; Smiley 1986, 1990; Zupan 1989), the multiple system operators' (MSOs') clusters are converging bigger and they seldom enter each other's service area to compete in a duopolistic market (Chipty, 1995; Chan-Olmsted, 1996; Ford and Jackson, 1997). In the FCC fourth cable report, those big MSOs usually trade their systems with other MSOs' to become larger clusters of cable systems with the advantage of economies of scale. They would not establish a new one from scratch and operate in a monopoly market when the cable systems have passed 98% of total TV households in 1997. Therefore, by 1997, the number of competitive systems totaled only around 150 out of 10,838 cable systems nationwide (*TV and Cable Factbook, 1998*). In fact, it seems that some big MSOs have unofficially agreed to operate monopoly in their own territories. In order to have more duopolistic cable systems, new entrants are expected more from outsiders than the MSOs.

From the beginning of 1990s, LECs have needed other income revenues to compensate for their loss from the increasingly competing telephone market. The cable TV industry appears to provide the best current suggestion of revenue that could be expected from home video distribution. Foley (1992) suggests that there are several economic factors that make video service a particularly appealing route to local telephone companies for diversification: (1) digital technologies are changing in ways that make combining voice and video increasingly attractive; (2) the home video market has substantial revenues and good growth potential; (3) there are economies of scope that suggest that home video would be a "good fit" with the telephone business.

In addition, the 1996 Act terminated the rate regulation of cable programming service tiers for small cable systems immediately and for all other cable systems on March 31, 1999. The Act also adopted an alternative option for rate deregulation: when a LEC that is unaffiliated with the cable operator serving the area offers video programming services comparable to those of the cable operator. According to the Consumers Union, cable rates have jumped 11.7 percent between February 1996 and July 1997, while inflation rose 3.6 percent over the same period (September 24, 1997, New York Times).

For the coming information superhighway age, the big MSOs are continuously upgrading their cable systems with digital capacity to provide integrated video, voice, and data communication services. Instead of waiting for MSOs to entering their original telephone services, LECs need to begin providing cable TV services early. By 1997, cable franchises have been awarded to LEC's in 81 communities in 14 states

covering 5.43 million homes. This activity results almost entirely from LECs entering the market as permitted by the 1996 Act. Among them, Ameritech has acquired 63 cable franchises, primarily overbuilds, in Illinois, Michigan, Ohio, and Wisconsin, potentially passing into over 1.1 million homes and continues to seek new franchises. Others, such as BellSouth, GTE, and SNET, also are beginning to launch cable services in their territories (FCC fourth cable report).

B. Strategic behaviors of duopolistic market: price setting and product differentiation

Duopoly markets, where two cable operators compete with each other in the same geographical area, can be described as a special case of oligopoly. Scherer and Ross (1990) stated that in oligopolies, each firm must carefully consider mutual interdependence: how its actions will affect its rivals and how its rivals are likely to react. In oligopolistic competition, strategic interaction involves competition through price setting, product differentiation, or both. In the short run, price is often the main instrument that a firm can change easily. In the somewhat longer run, cost structures and product characteristics can be altered (Tirole, 1997).

The Betrand model partially describes this type of competition. This model assumes that firms produce a homogenous good but compete by setting prices with each firm taking the prices of its competitors as fixed, and the firm with the lowest price capturing all the sales. In this case, each firm has an incentive to undercut the price of its competitor until price is driven down to marginal cost (Triole, 1997). However, this assumption ignores that product differentiation is possible and that other reasons such as good service and company reputation may also exist which discourage an individual from switching to a lower priced producer (Sherer and Ross, 1990).

In terms of both price setting and product differentiation strategies, Vandenbosch and Weinberg (1995) state that a two-stage game theoretical analysis, in which two firms compete first on product positions, and then on price is conducted. Pepall (1997) also found that the more similar the two products are, the more intense the price competition is between the two firms. Therefore, the FCC (1997) summarizes that, in duopolistic markets of the cable industry, incumbent cable operators face competition from multichannel video programming distributions (MVPD's) using wired delivery appear to be responding: (1) by offering better customer services, new services, and new products; and (2) by offering lower prices or some form of price discounting. MVPD's entrants appear to be focusing on similar strategies in their efforts to win customers.

Hazlett (1990) found evidence of price cutting in his case studies of direct competition in several Florida markets and in Sacramento, California. Barrett (1996) also found evidence from case studies of Montgomery, Alabama and Paragould, Arkansas to explain the strategic behavior of firms in these markets. Incumbents used a variety of tactics including price-cutting and litigation to deter entry by a rival. On the other hand, as the entrant begins to serve, Emmons and Prager (1997), suggested that the intensity of competition might diminish when the duopolistic cable operators have been competing for about ten years, reducing the competitive price differential from -20.9% to –12.3%.

Barrett (1996) mentioned that in cable TV delivery, product differentiation is likely to be done in terms of both the

number and types of channels offered. Jayaratne (1996) found that entrants provide significantly more number of channels than those offered by incumbents, whose basic channels are not significantly different from those of monopoly operators. Emmons and Prager (1997) also found, when the incumbent enters a market, it expects to operate as a monopolist and chooses a quality level similar to that offered by other monopolists the serving market with similar characteristics. When a new company decides to enter the market, it must offer a higher-quality product (at a lower price) to attract consumers away from the incumbent.

Furthermore, programming diversity and number of channels are directly related to channel capacity. Jayaratne (1996) found that a monopoly operator adds cable-only channels up to the point where the added revenue from increased demand for cable stimulated by better service quality equals the cost of the last channel. If two cable operators were in the same market, each would perceive that added quality would draw not only more households to subscribe to cable but would also draw current subscribers away from its competitor. Hence, an overbuild is likely to add more channels than a monopolist in equilibrium. In addition, Emmons and Prager (1997) conclude that quality-based competition is no less intense when firms have been competing with each other for a long time than when competition is relatively new. That is, programming differentiation is the more often used strategy than price-cutting in the long run.

C. Duopolistic competition and consumer welfare

Barrett (1995) explored some case studies and found that the emergence of competition increased consumer welfare, such as lower prices, better customer service, increased choices in programming, and technological improvements, as the market structure moved from monopoly to duopoly and achieved an equilibrium in which each service company served a 50% market share. Much of the empirical work also supports the same result. Merline (1990) found that the price of basic cable TV service was 18.4% lower and the number of basic channels 21.2% higher in a 1990 sample of competing markets relative to matched sample of monopoly cable markets. Applying more sophisticated analytical techniques to the same sample, Levin and Meisel (1991) concluded that overbuild competition reduced the price of basic cable service by 22% to 30%. Beil etc. (1993) found that competition significantly increases the total number of subscribers and decreases the prices of both basic and pay cable services. Jayaratne (1996) also found that the overbuild's rates are, on average, 12 percent lower than monopoly rates, and overbuild operators offer better service quality than monopoly systems; the average overbuild offers up to 34 percent more non-broadcast channels. Emmons and Robin (1997) concluded that the competition is associated with lower prices for basic cable TV service without any loss of quality.

III. Hypotheses

Prior research applies case studies to analyze the performance and strategic behaviors of direct competition in a couple of communities (Hazlett, 1990; Barrett, 1995, 1996) and other empirical research usually samples a few competitive markets (Merline, 1990; Leivin and Meisel, 1991). This study includes all existing 150 competing cable systems (excluded LECs' systems), and applies empirical analysis to examine

their competitive strategies and consumer welfare. In addition, new entrants from LECs have made over 81 communities competitive and increased half of the total overbuild cable markets in two years. With financial and technological support from local telephone carriers, these new entrants may implement different strategies to enter the duopolistic cable market. On the basis of the aforementioned theoretical discussion and historical literature reviews, four hypotheses are formulated:

H1: Cable subscribers in direct competition markets pay a lower subscription fee average per channel and enjoy a greater degree of channel diversity, compared to those in a monopolistic cable market.

This hypothesis is to test the influence of competition on price and programming diversity when other system characteristics are held constant between the competition and the monopoly. The basic monthly rate is strongly related to the programming cost and the number of channels included. Cable systems operators could charge a lower price by placing cheaper or few channels in the basic service. In addition to compare the monthly prices and the total number channels, this research also analyzes the subscription fee average per channel and average per channel diversity.

H2: New entrants from local exchange carriers (LEC's) provide more channels and higher degree of programming diversity while charging more competitive prices than those of the traditional cable systems to enter the overbuild market.

The number of programming channels offered is strongly related to the channel capacity. With technological progress, new entrants from telephony can build their cable systems with larger capacity at lower cost. Therefore, the number of channels and types of programming might become the competitive advantage strategies of LECs. Smiley's (1990) argues that achieving significant programming differentiation has proven to be difficult in practice because producers of the programming are anxious to reach as many consumers as possible so that most of the systems provide similar types of channels. However, this argument is based on the assumption that the incumbent has adequate channel capacity to accommodate most of the popular channels. When LEC's build the new coaxial-fiber cable systems, the LEC entrants have a larger channel capacity and digital addressable capability, which makes it possible to carry many different types of channels and interactive services to create product differentiation.

H3: Strength of demands, reduction of construction cost, and economies of scale: such as higher median household income, higher density of household of cable plant, and relative larger size of subscriber group, support the success of direct competition. LECs choose those characteristics markets to initially launch cable services.

The degree of overbuilding is sensitively related to the intensity of demand and the cost of cabling the community, and direct competition will be available only in certain areas. Although new entrants of telephony are beginning to provide cable services and increase the possibility of direct competition, there are still less than 2% of overall cable systems facing overbuild competition nationwide now. If effective competition is the desirable result of public policy, instead of rate regulation, it is important to evaluate whether certain portions of communities are available to support duopolistic cable markets in a long run.

H4: Different competing characteristics in the duopolistic systems affect consumer welfare. The more similar the size of subscribers, the more intense the competition. The longer competition time is, the less intensity of competition they will have.

Barrett (1995) found that the emergence of competition, as the market structure moved from monopoly to duopoly, achieved an equilibrium in which each service company serviced a 50% market share. Because neither firm is producing a profit under the current competition, in the long run the competitors may switch to oligopolistic pricing behavior and focus on nonprice competition in an effort to achieve profitability. Emmons and Prager (1997) suggest that the intensity of competition may diminish when cable operators have been competing for a longer time. If the duopolistic behaviors are becoming monopolistic ones, consumer welfare will be diminishing.

IV. Data and Methods

In this study, the term direct or overbuild competition is operationalized as the market where there are at least two cable systems in the same franchise areas. New entrants into the traditional cable systems are included for econometric analysis but those from LEC's are included only for later descriptive comparison. Competitive strategies include price setting and programming differentiation, and consumer welfare refers to lower subscription fees average per channel, greater degree of channel diversity, and larger channel capacity.

Data on traditional cable system characteristics are collected from the *TV and Cable Factbook 1998 Edition*. Based on the list of cable systems, there are around 150 operating cable systems facing direct competition in duopolistic markets. However, this study drops around 40 cases where the new entrants passed less than five hundred homes in an over ten thousand household community. This is because those entrants could only operate in Multiple Dwelling Units (MDU) and overlap a very small area of the incumbent's franchise area, instead of directly competing with the incumbent in the whole community area. Additionally, due to incomplete or out-of-date information on systems, 22 systems were eliminated, resulting in the analysis of 88 total cases. Within the 88 cable systems, less than 20 of them are restricted to compete with each other only in a single community, and most of them cover and operate across several communities.

The other 217 monopoly cable systems for comparison are selected based on a random sampling method from the 10,838 cable systems, and Table 1 illustrates the sampling results. Comparing the distribution range of the basic subscribers and channel capacity to the whole population, this sample reflects nearly the same percentage as the population. However, due to incomplete and out-of-date information, this study drops 26 cases and results in 191 monopoly systems. Those dropped cases usually lost lots of important information, like price and number of subscribers, and cannot be used for further analysis. Most of them are small ones with either less than 1,000 subscribers or 30 channels. Although this may skew a little toward to larger systems, it does not significantly influence the comparison between the competition and the monopoly. The average basic subscribers and the channel capacity of monopoly systems are still smaller than those of the competing systems (Table 2).

----- Table 1 about here -----

New entrants from LECs are chosen according to the FCC's Fourth Cable Annual Report. 81 communities are selected and most of the new entrants come from Ameritech, SNET, GTE, and BellSouth. Data on cable system characteristics of new entrants from LEC's are collected from Internet and mail surveys. Another 81 incumbent cable systems with respect to those LEC's new entrants are also selected for comparison from the *TV and Cable Factbook 1998 Edition*. Demographic data on franchise areas are collected from the *County and City Data Book*. The definitions of dependent and independent variables are listed in Appendix 1.

----- Appendix 1 about here -----

The dependent variables of consumer welfare are monthly price and the degree of programming diversity. The price is measured in three dimensions: the monthly subscription fee for the basic service, the price average per basic channel, and the price average per diversity. Diversity is divided into two categories: absolute and relative. The absolute measure indicates how many different channel types are found in a cable system. The relative diversity indicates how many diverse programming services a system carries, given its available channel capacity (Levin, 1971). Programming categorization types are summarized in Appendix 2.

----- Appendix 2 about here -----

There are three subcategories of independent variables: type of competition, characteristics of cable system, and demographic information of franchise area. In the subcategory type of competition, this research includes variables to measure the degree of overlap and their characteristics of competition, for example: the relative basic subscriber size between new entrant and incumbent, the sequence of entry, and the period of competition time.

In the subcategory of system characteristics, those independent variables, such as number of subscribers, age of system, miles of plant, vertical integration, and the number of broadcasting stations, are included to control for the same variation of system characteristics to examine the performance of dependent variables.

In the subcategory of demographic data in the franchised area, those variables, such as median household income and household density of miles of plant, are included to evaluate whether community characteristics would play an important role to make direct competition viable in most communities.

The following econometric equations are to examine the hypotheses mentioned above.

(1). ln(BASICPRICE), ln(BASICCHAN), or ln(SATDIVERSITY):
= f (COMP/OVERLAP, BASICSUBS, MSO, MUNI, BROADCAST, SYSAGE, (BASICCHAN))

Equation (1) is to examine what factors account for the variation of monthly rates, the degree of programming diversity, and number of basic channels, especially to find out what role OVERLAP plays in duopolistc markets. Instead of only applying binary variable COMP to indicate competition, OVERLAP is defined as fraction of households passed by

competition, (HPi+HPj-H)/HPi, which avoids misinterpretation of all communities facing the same 100% degree of overbuild competition.

(2). COMP and OVERLAP:

= f (INCOME, DENSITY, BROADCAST, MSO, BASICSUBS, SYSAGE)

Equation (2) is to examine what community and cable system characteristics can explain the binary dependent variable COMP in the possibility of overbuild markets. Both linear and probit (logit) models are applied for comparison. INCOME represents the intensity of demand. The density of household per mile of cable plant affects the total average cost. The number of subscribers determines the influence of economies of scale. Then by applying those variables to analyze other monopolistic communities, we can find out whether other potential monopoly markets can be transformed to the overbuild ones.

(3). ln(BASICPRICE) , ln(SATDIVERSITY), or ln(BASICCHAN):

= f (COMP, OLDCOMP, NEWCOMP, SIMSIZE, DIFSIZE, INCUMBENT, ENTRANT, BIGMSO, NOTBIGMSO)

Equation (3) is to examine the influence of competition time, the relative subscriber size between the incumbent and entrant, and the sequence of entry on price, programming diversity, and number of channels. Based on the theoretical discussion above, it is expected that as the duopolistic systems compete for a long time or one of them has relatively large subscriber size, they will behave more like the monopoly.

V. Results and Analysis

A. Descriptive analysis

Table 2 presents the general system characteristic differences between the monopoly and the competition. The competing systems have passed more households and more miles of the total plant, and served more basic subscribers and have larger channel capacity than the monopoly. This means that the competing systems usually need to operate in a larger scale to have efficiency from economies of scale. This is a similar situation found in the newspaper markets where larger cities are more likely to have directly competitive newspapers than are small cities (Rosse and Dertouzous, 1979). The overbuild communities also have higher average household income to accommodate demand of subscription and have more households passed per mile of cable plant (69.8) than that of the monopoly (49.6) to reduce the average construction cost. On the other hand, the average penetration of basic subscribers of the competing systems (59.1%) is lower than the monopoly (63.4%) because they have to compete with each other for subscribers in the overlapping service area. However, because some of the competing systems also partly operate in other monopoly areas, the average overlapping rate (52.9%) should be slightly higher than 50%.

----- Table 2 about here -----

The competing systems have larger channel capacity and more number of channels in the basic cable TV services, which could result in a higher degree of programming diversity. Also, the competing systems have smaller portion of no use channels (9.4%) than the monopoly (21.6%) because

they would include more programming to compete with each other and attract subscribers, instead of just leaving them dark. In addition to the basic service, the competing systems also have more pay channels and more Pay-Per-View capacity than the monopoly, because those services can provide product differentiation and attract subscribers from rivals to switch to their services.

The average monthly prices of basic cable TV service provided by the competing systems are only little lower than the monopoly. However, combining the lower monthly price with the higher degree of variety and larger number of channels, the price per channel and the price per diversity are significantly lower in the competing systems than in the monopoly. In addition, because of competition, the installation fee of the overbuild system is also lower than the monopoly, but there is no significant difference in the pay channel price between the competing and monopoly systems.

For programming diversity, the absolute diversity of the competition is larger than that of monopoly systems, but however, the relative diversity of the competition is a little smaller than that of the monopoly. The larger absolute diversity of the competing systems means that they carry more different types of programming channels than the monopoly because of their larger channel capacity. However, when the number of satellite channels is given the same, there is little difference of the relative programming diversity between the competing and the monopoly. This means that competition did not encourage more programming diversity while the channel capacity is being controlled.

B. Differentials of consumer welfare

From Table 3, this study finds that COMP, OVERLAP, BASICSUBS, MSO, MUNI, and BROADCAST had statistically a significant effect on monthly price and the number of basic cable TV channels. Among them, COMP and OVERLAP explain the difference of consumer welfare between the competing and monopoly markets when other factors are being controlled.

----- Table 3 about here -----

Cable systems facing overbuild competition offered basic service at prices that were 8.4% lower than those charged by monopoly operators while other factors are the same. Additionally, when the OVERLAP variable replaces the COMP one, it means that instead of using a binary variable of competition, the OVERLAP represents the continuous degree of overlapping between the incumbent and entrant. In this study, it finds that as the overlapping increases 10%, the basic cable TV price will decrease 3%. When it reaches 100%, that is the same as COMP=1, the basic monthly price will decrease 30%, which is higher than -18.4% when COMP=1. The inconsistent result might rise from the misassumption of linear approach or the approximate calculation of overlapping when it is impossible to know the exactly overlapping condition. When the COMP variable is applied, it means that all overlapping communities are the same as the 100 percent complete coverage by the duopolistits. However, in fact, there are only less than 20% of them are complete directly competing with each other in a single community, others are only overlapping in portion of their service areas. In this study,

the average overbuild area of the duopolists is 59.2% (Table 2). In addition, except for charging a lower monthly price, the competing systems also provide 8% more basic channels when COMP=1, however, this study does not find enough evidence from OVERLAP to affect the number of basic channels.

The market structure of municipal ownership, vertical integration, and number of subscribers also affect the monthly price and number of channels offered. The municipally owned cable systems significantly offered 39% lower prices in basic cable TV service and 45% more channels than other private systems. It is because the goal of the municipally owned cable system is not to make only excess profit but achieve other public goals, and cross subsidy might happen there. Also, the cable systems with vertical integration of programming supply, such as TCI, Time Warner, Cox, and Comcast, offer 9% lower prices than the non-vertical integration systems. With the efficiency advantage of economies of scale, the coefficient of BASICSUBS suggests that as the subscriber size of a cable system increased, the price of the basic cable TV service will decrease and the number of basic channels will increase.

With regard to the effects of the availability of alternative entertainment media, the coefficient of BROADCAST in the price equation is negative and statistically significant, suggesting that over-the-air broadcastings were a substitute for the basic cable TV service. On the other hand, with the obligation of the must-carry rule, the more broadcasting stations in the cable service area, the larger number of basic channels are needed for transmitting those broadcasting programming.

From Table 3, the major factor affecting the degree of programming diversity is channel capacity or number of channels in the basic cable TV service, and the COMP does not significantly influence. Although the competing cable systems provide more absolute diversity than the monopoly (Table 2), this difference does not come from competition but from channel capacity. Therefore, their relative diversity of the competition and the monopoly is very close. That is, there is no difference in degree of relative programming diversity between the competing and the monopoly systems when they have the same number of channels in the basic cable TV service. The degree of programming diversity would be used as a competitive strategy only when the competing cable systems have larger number of channel capacity.

The degree of programming diversity increases with the growth of the satellite channels at the beginning. However, as the satellite channels continuously increase, the programming diversity slows its increase or even sometimes decreases a little when the number of satellite channels becomes very large. The turning point can be computed from the coefficients on SATELLITE, using a simple formula (T.P.= B1/2B2, 0.1215/2*0.0016) which yields 37.9. This means that as the satellite channels reach around 38 the number of the programming diversity begin to fall. This might happen because this study defines only 34 different programming types in Appendix 2. As the number of satellite channels becomes very large, the programming types might approach to 34 but both the absolute and relative diversity will decrease.

C. Factors explain the success of overbuild

From Table 4 and Table 5, the variables DENSITY and BASICSUBS explain partially in economic rationales why some communities can support the duopoly and others can not.

In the overbuild community, duopolists have to compete with each other for subscribers in the overlapping area. This results in lower penetration and less revenue for the duopolists than the monopoly when other cable system and community characteristics are the same. Therefore, for the duopolists, they have to reduce their average total cost to survive. The larger the average density of households per mile of plant, the lower average construction cost is. Similarly, the larger the number of subscribers is, the larger efficiency of economies of scale is in order to reduce the total average cost. Therefore, most of the overbuild cable TV systems operated in the big and urban communities.

----- Table 4 and Table 5 about here -----

Table 4 is the linear model and there might be some systematic bias on the coefficients to estimate binary dependent variable. On the other hand, in Table 5, probit model estimation is a statistical technique designed to take account of the fact that the variable to be explained can take only two possible values. Table 5 illustrates that the more density of household of cable plant and the more subscribers are, the higher probability of overbuild is. In Table 6, the probability of the overbuild v.s. the sampling monopoly increases from 5.2% of density less than 20 to 75.4% of density larger than 100. Similarly, the probability increase from 12.8% of subscribers less than 1,000 to 69.2% of subscribers larger than 50,000.

----- Table 6 about here -----

The similar situation was found in the newspaper market. There were 1,536 U.S. cities that had daily newspapers but, at the end of 1977, only 35 (2.3%) had directly competitive dailies. Ross and Dertouzous (1988) found that based on the economies of scale, larger cities are more likely to have directly competitive newspapers than are small cities. The newspaper had nearly 0% chance of being faced with direct newspaper competition in 1973 if it were located in a city of 10,000 population. However, it increases to 10% for a city of 100,000 and to 74% for a city of one million.

However, those variables do not explain much about why overbuild systems existed in some communities and did not in others. A lot of communities, with larger population and household density, still grant only one cable franchise. In fact, as expected, the process of issuing a new franchise to an entrant is decided by more political factors than other economic consideration. Brenner (1991) mentioned that the franchise bidding process, rather than a market mechanism, has determined the level of cable service in a given area. Cable operators have been required to satisfy the wishes of the franchising authority, not their ultimate subscribers. The economic rationales for new entrants, such as lower average cost and higher revenue, are only the basic and necessary factors, but not the absolute and final determinants. Especially in 1980s, before court cases allowed new entrants, (*Preferred Communications, Inc. v. City of Los Angels, Cal.*, 1985), many of the second cable franchise applications were simply being rejected because of political influences. Those kind of barriers to entry are created by government favorites but not determined by marketplace.

D. Behaviors of overbuild competition

From Table 7, this study explores the effects of competition on prices, number of basic cable channels, and the degree of programming diversity by dividing the competing systems into subgroups along several different dimensions, including the competition time, the relative subscriber size between entrant and incumbent, the sequence of entry, and the ownership of the top four MSO's.

----- Table 7 about here -----

The first hypothesis is that the effects of competition diminish or even disappear over time as the duopolists "learn to live with each other". The competing sample is separated into OLDCOMP and NEWCOMP, drawing the dividing line between the two groups at various points from three to twenty years. This study finds that regardless of where the sample was divided, the hypothesis can not be rejected that the effects of OLDCOMP and NEWCOMP on price are the same. The difference is greatest, and closed to statistical significance, when the line is drawn at twelve years. The analysis suggests that the intensity of competition may diminish when cable operators have been competing for about twelve years, reducing the competitive price differential from –23.0% to –11.3%. With respect to the number of basic channels, NEWCOMP systems offered 12.3% more cable channels than the monopoly while OLDCOMP ones did not. This difference might come from the technological progress when new cable systems were constructed.

The other hypothesis considered is that the relative subscriber size of two competing cable systems influences their behavior. The more similar relative size they have, the more intensity of competition would occur. This study finds that systems of similar size might face more severe competition and have 29.7 % lower price than would –12.4% that of systems of quite different size. This result is associated with the OVERLAP variable. The more different the relative size of the two systems is, the less area they could overlap and the less intensity of competition could occur.

This study also tests the hypothesis that the order of entry into a market influences a firm's behavior. It finds that the prices of both the entrant and incumbent are significantly lower than that of the monopoly and their coefficients are also very close. The coefficient on INCUMBENT is only a little more negative (-19.8%) than the coefficient on ENTRANT (-18.9%). However, on the other hand, the number of the basic cable channels on ENTRANT is 15.6% significantly larger than that of the monopoly systems, but the incumbents have the similar number of channels as the monopoly. It seems that new entrants usually provide more channels and associate with a higher degree of programming diversity, while incumbents can not substantially increase their number of basic cable channels in a short time because of fixed channel capacity. So incumbents usually charge a slightly lower price to compete with the more basic channels and programming diversity of new entrants.

The last hypothesis tests whether the top four MSO's, with vertical integration of programming and horizontal would directly compete with each other on price and number of basic channels the same as other smaller MSOs. The result shows

that either the BIGMSO or NOTBIGMSO duopolistic markets have lower prices than the monopoly and the difference is small between them. Both of them do not have significantly more or less channels than that of the monopoly.

In terms of the degree of programming diversity, since there are no influences from the competition variable COMP=1, this study did not find any significant evidences to support that there is difference within those competing dimensions either. Although there are significantly more channels found in the NEWCOMP and ENTRANT, it did not increase the degree of programming diversity at the same significant portion.

E. Comparing new entrants from LECs

From Table 8, comparing to the incumbents of LECs' with that of the traditional duopolistic markets, LEC's incumbents have substantially more homes passed (110,948 than 46, 992) and larger miles of plant (934.4 than 598.7), which operate in a much larger scale than other either monopoly or duopoly systems. In addition, the penetration and household density per mile of cable plant are also significantly higher in LEC's incumbent systems. Because it is easier to switch rival's current subscribers than to attract the non-subscribers, LEC's select those big cities, with higher penetration rate (69.4%), household density of miles of cable plant (108.1) and median household income ($43,222), to begin their entries. For example, most of the new franchises from Ameritech are around the cities of Detroit MI, Columbus, Cleveland OH, and Chicago IL.

----- Table 8 about here -----

To compare the new entrants of LEC's with that of the traditional cable systems, the major difference is that the new entrants from LECs provide significantly larger channel capacity, more number of basic and premium channels, more degree of absolute channel diversity, and more other interactive services. Several research studies find that subscribers' satisfaction came from more channels, greater variety, better reception, and less advertisements with relatively low monthly prices (Rothe, et al., 1983; Atkin, 1992, Jacobs, 1995). Therefore, LEC's try to provide those services and match satisfaction.

The average monthly price of LEC's entrants is not lower than that of the entrant and incumbent of the traditional cable systems. However, their competition powers come from providing more programming choices to subscribers in competitive prices and better digital quality sound as well as picture. Although this competitive strategy would not attract a lot of subscribers who are only interested in some basic broadcasting or limited basic cable services, it can increase the subscription from those who are interested in digital cable services and premium channels.

The initial average homepass by LEC's is smaller than that of their incumbents (17,831 to 110,948). It is expected that LEC's will begin their services from the area with lower construction cost and higher intensity of demand. The average household density of mile of cable plant is up to (108.1) and their median household income is around $43,000. Those characteristics fit the necessary economic factors mentioned above to support a duopolistic market. The current average homes passed of LEC's is 17,832 with the average 3,551

subscribers, but those systems are expected to merge to big clusters for economies of scale. The expected average penetration of LEC's is around 15% to 20%, but some areas might have reached up to 35% soon (FCC cable report, 1997). It is too early to examine the equilibrium results of competition. However, the new entrants of LEC's definitely increase pressures on their incumbents.

In order to compete with those new entries from LEC's, the big MSO's have begun to upgrade their systems and provided digital cable services, with hundred of channels and addressable pay-per-view capacity (Table 9). The upgraded digital cable systems of MSO's are the example of technological process from the competition of LEC's entrants. There are a couple of cases described in detail from the FCC annual cable report. Most of the MSO's respond very quickly to keep their current subscribers. They decrease the monthly price and add more programming in the basic service as LECs enter. In the long run, they have to upgrade their systems digitalization to compete with new entrants.

Conclusion

It has been suggested that the performance of the duopolistic market should be better than that of the monopoly (Barrett 1995; 1996 and Hazlett 1990). The results of this study find that prices charged by competing systems for basic cable TV service are significantly -18.4% lower than the monopoly. It is consistent with other prior research where competing systems charge around -20% lower prices than monopoly (Merline, 1990; Levin and Meisel, 1991; Emmons and Prager, 1997). In addition, this study also finds that the competing systems provide 8% more basic cable TV channels, and the competing systems have more absolute programming diversity because of more basic channels. However, when the number of basic channels is held constant, there is no significant difference in programming diversity between the competing and monopoly systems.

The competitive strategies applied by the duopolistic cable systems affect the results of price and programming quality. Price cutting is the major strategy to compete with in the short run. However, as the competition time increases, the intensity of competition declines. The incumbent and the entrant are learning to live with each other, and they might not cut price much. In this study, it finds that after twelve years of the competitive time the price will decline from –23.0% to –11.3%.

Although the incumbents and entrants charge nearly the same lower prices than the monopoly, the entrants provide 15.6% more basic channels but not the incumbents. The incumbents usually have similar channel capacity as the monopoly and they could not increase the channel capacity in the short run. On the other hand, When the new entrants begin to provide cable TV service, regardless of their price cutting strategy, they construct cable systems with larger channel capacity at a lower cost because of technology progress.

Baldwin, Ono, and Shrikhande (1991) mentioned that because price competition would be constrained by the need to recover high capital costs from only a share of the homes, the result of price competition would be of marginal benefit to the consumer. Therefore, the inevitable product differentiation would be the major consequence of competition to be felt by consumers in the long run. On the other hand, Berrner (1988) argued that in a 54 channel system it is unlikely that there will

be much difference in the selections made by two different operators for forty or so channels, although there may be variations in the last dozen or so. However, as the number of cable programming channel increased up to 134 channels in 1998 and continuously increase, those whose system has over a hundred in channel capacity, like digital cable operators and LEC's cable systems, would make the programming differentiation become more significant.

This study applies OVERLAP to describe the degree of overbuild competition and the result significantly shows that with the increase of 10% of overlapping, the price declines 3%, but there is no significant effect on the number of channels and programming diversity. The degree of overbuild significantly grows as the size of subscribers and the household density of cable plant increases. The factors of economies of scale and cost reduction explain why most of the new entrants of LEC's initially launch their cable services in big cities.

LEC's do not emphasize only on price-cutting to enter the duopolistic market. With the digital advantage, they provide more pay channels and convenient pay-per-view services, or even Internet access to make product differentiation and increase revenues. If the demand for integrated multimedia services and its potential revenues continuously grows, it might likely increase the incentive for LEC's to enter a duopolistic market in certain communities where the household density and median income are large enough to support. It is not expected that most of monopoly markets will be transformed to duopolistic ones in a short time. That is, even without exclusive licensing, long-term, sustainable head-to-head competition in the cable industry is more likely to happen where there is a high demand for digital and interactive cable service.

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Table 1. Comparison of U.S. Cable System and Sampling Monopoly System

	U.S. Cable System		Sampling Monopoly System		Modified Monopoly Systems	
	No. of Systems	% of Total	No. of Systems	% of Total	No. of Systems	% of Total
Size by Subscribers						
50,000 & over	265	2.45%	6	2.76%	6	3.14%
20,000 – 49,999	446	4.12%	11	5.07%	11	5.76%
10,000 – 19,999	508	4.69%	10	4.60%	10	5.24%
5,000 – 9,999	665	6.14%	12	5.53%	12	6.28%
3,500 – 4,999	399	3.68%	9	4.15%	9	4.71%
1,000 – 3,499	1,967	18.15%	44	20.28%	43	22.51%
999 & under	6,225	57.43%	119	54.84%	100	52.36%
Not available	363	3.35%	6	2.76%	0	0.00%
TOTAL	10,838	100.00%	217	100.00%	191	100.00%
Channel Capacity						
54 & over	1,886	17.40%	42	19.35%	42	21.98%
30 – 53	6,374	58.81%	125	57.60%	118	61.78%
20 – 29	971	8.96%	20	9.22%	15	7.85%
13 – 19	309	2.85%	6	2.76%	4	2.10%
12 & under	409	4.58%	9	4.15%	7	3.66%
Not available	889	8.20%	15	6.91%	5	2.62%
TOTAL	10,838	100.00%	217	100.00%	191	100.00%

Note: Data of US Cable Systems from "*TV and Cable Factbook, 1998*"

Table 2. Descriptive Analysis of Monopoly and Overbuild Cable Systems

Variable	Monopoly Number = 191	Overbuild Number = 88	Difference
SYSTEM CHARACTERISTICS			
OVERLAP (%)	0	52.90	52.90***
BASICSUBS	6,759.00	26,840.00	20,081.00***
SYSAGE	22.18	21.51	-0.67
FRANCHISE TERM	24.23	25.60	1.37
CAPACITY	40.94	49.68	8.74***
NO USE	9.30	5.37	-3.93***
NO USE/CAPACITY (%)	21.64	9.41	-12.23***
NETWORK	4.80	6.17	1.37***
BROADCAST	6.63	8.50	1.87***
SATELLITE	18.29	25.43	7.14***
BASICCHAN	24.92	33.93	9.01***
PAYCHAN	3.64	4.50	0.86
HOMEPASS	11,267.00	50,159.00	38,892.00***
MILEPLANT	155.66	513.56	357.90***
DENSITY	49.63	69.79	20.15***
PENETRATION (%)	63.37	59.08	-4.29*
SYSPPV (%)	20.42	50.00	29.58***
PPVCAP (%)	31.00	24.96	-6.04
INCOME	23,873.00	26,076.00	2,203.00*
PRICE			
BASICPRICE	22.10	19.69	-2.41*
BASICPRICE/SATELLITE	1.66	0.88	-0.78***
BASICPRICE/BASICCHAN	1.01	0.62	-0.39***
BASICPRICE/DIVERSITY	2.26	1.20	-1.06***
PAYPRICE	10.74	10.47	-0.27
INSTALLATION	38.32	32.84	-5.48**
DIVERSITY			
SATELLITE DIVERSITY	13.23	17.94	4.71**
ABSOLUTE DIVERSITY	0.43	0.57	0.14**
RELATIVE DIVERSITY	0.75	0.73	-0.02

Note: *, **, and *** represent significance of 10%, 5%, and 1%.

Table 3. Regression Analysis of Price, Channel and Diversity

Variable	ln(BASICPRICE)			
	Coefficient	t-statistic	Coefficient	t-statistic
COMP	-0.1838	-4.051***	--	--
OVERLAP	--	--	-0.0031	-4.129***
BASICCHAN	0.0216	9.197***	-0.0209	8.971***
MSO	-0.0900	-1.916*	0.0617	-1.304
MUNI	-0.3878	-4.191***	-0.4477	-4.735***
LBASICSUBS	-0.0370	-2.475**	-0.0391	-2.615***
LBROADCAST	-0.1014	-2.012**	-0.1094	-2.155***
LSYSAGE	-0.0151	-0.365	-0.0439	-1.023
CONSTANT	3.0030	35.006	3.1301	21.936
R2	0.3222		0.3317	
Adj R2	0.3022		0.3105	
Variable	**ln(BASICCHAN)**			
	Coefficient	t-statistic	Coefficient	t-statistic
COMP	0.0846	1.738*	--	--
OVERLAP	--	--	-0.0011	1.299
MSO	-0.0196	-0.386	-0.0192	-0.361
MUNI	0.2242	2.261**	0.2364	2.248**
LBASICSUBS	0.1364	10.343***	0.1412	10.392**
LBROADCAST	0.1361	2.523**	0.1295	2.286**
LSYSAGE	-0.0432	-0.967	-0.0408	-0.846
CONSTANT	2.0490	13.491	2.0293	12.612
R2	0.5066		0.5123	
Adj R2	0.4942		0.4991	
Variable	**ln(SATDIVERSITY)**			
	Coefficient	t-statistic	Coefficient	t-statistic
COMP	0.0099	0.212	-0.0162	-0.549
SATELLITE	0.0454	18.158***	0.1215	28.135***
SATELLITE2	--	--	-0.0016	-18.938***
MSO	0.0792	1.508	0.0860	2.817***
MUNI	0.0356	0.374	0.0186	0.309
LBASICSUBS	0.0047	0.305	-0.0015	-0.152
LBROADCAST	0.0870	1.680*	0.0644	1.970**
LSYSAGE	0.0211	0.498	-0.0279	-1.029
CONSTANT	1.3408	9.255	0.8414	8.840
R2	0.7360		0.8952	
Adj R2	0.7282		0.8917	

Table 4. Estimates Overbuild and Overlap by the Liner Probability Models

Variable	COMP		OVERLAP	
	Coefficient	t-statistic	Coefficient	t-statistic
LINCOME	-0.1567	-1.523	-15.313	-2.326**
LDENSITY	0.1142	1.661*	9.8407	2.200**
LBASICSUBS	0.0839	3.960***	4.6229	3.430***
LBROADCAST	0.2303	2.751***	6.4968	1.199
MSO	0.0643	0.847	2.2629	0.460
MUNI	0.1459	0.984	1.6019	0.172
LSYSAGE	-0.2223	-3.110***	-18.5185	-4.060***
CONSTANT	1.0108	0.969	137.6417	2.071
R2	0.2505		0.1932	
Adj R2	0.2227		0.1622	

Note: *, **, and *** represent significance of 10%, 5%, and 1%.

Table 5. Estimates Overbuild by the Probit Model

Variable	COMP		dF/dX	
	Coefficient	Z-statistic	Coefficient	Z-statistic
INCOME/1000	-0.0165	-1.280	-0.0060	-1.280
DENSITY	0.0071	1.768*	0.0026	1.768*
SUBS/1000	0.0074	1.706*	0.0027	1.706*
BROADCAST	0.1555	3.770***	0.0560	3.770***
MSO	0.2324	0.954	0.0860	0.954
MUNI	0.7878	1.667*	0.3055	1.667*
AGE	-0.0087	-0.823	-0.0032	-0.823
CONSTANT	-1.6164	-3.883	--	--

Note: *, **, and *** represent significance of 10%, 5%, and 1%.

Table 6. Probit Estimates: Estimated Probability that an Incumbent has overbuild Competition by Household Density of Cable Plant and Size of Subscribers.

Density	0-20	20-50	50-70	70-100	100-
Probability (%)	5.2%	23.9%	30.9%	44.1%	75.4%
Subscribers	0-1,000	1,000-5,000	5,000-20,000	20,000-50,000	50,000-
Probability (%)	12.8%	29.7%	57.2%	60.8%	69.2%

Note: The estimated probability here is respected to the sampling monopoly systems, not the population.

Table 7. Summary of Behaviors and Effects of Competition

Variable	ln(BASICPRICE)		ln(BASICCHAN)		ln(SAT DIVERSITY)	
	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
COMP	-0.1838	-4.051***	0.0846	1.738*	0.018	0.434
OLDCOMP	-0.1132	-1.721*	0.0185	0.251	-0.5318	-0.299
NEWCOMP	-0.2209	-4.064***	0.1233	1.870*	-0.0077	-0.118
SIMSIZE	-0.2971	-4.602***	0.2787	1.235	-0.0214	-0.300
DIFSIZE	-0.1236	-2.411**	0.0890	0.749	0.0075	0.128
INCUMBENT	-0.1985	-3.441***	0.0194	0.048	0.0136	0.318
ENTRANT	-0.1893	-3.036***	0.1562	2.263**	-0.0228	-0.220
SIMUL	-0.0282	-0.828	-0.0959	-0.703	-0.1298	-0.985
BIGMSOS	-0.1748	-2.336**	-0.0515	-0.647	0.0003	0.004
NOTBIGMSOS	-0.1670	-3.033***	0.0472	0.560	0.0159	0.278

Note: *, **, and *** represent significance of 10%, 5%, and 1%.

Table 8. Descriptive Analysis of New Entrants and Incumbent

Variable	Monopoly	Incumbent		Entrant	
		Traditional Cable Systems	Facing Competition from LECs	Traditional Cable Systems	New entrant from LECs
BASICSUBS	6,759.00	24,211.00	69,476.00	14,164.00	3,551.00*
SYSAGE	22.18	27.47	19.20	14.77	1.60
CAPACITY	40.94	48.09	62.44	51.27	125.00
BASICCHAN	24.92	32.54	38.71	34.49	62.35
SATELLITE	18.29	23.78	22.58	26.68	45.26
BROADCAST	6.63	8.44	8.90	8.34	10.75
NETWORK	4.80	6.20	6.33	6.12	6.84
PAYCHAN	3.64	4.73	5.71	4.27	17.50
SYSPPV (%)	20.42	54.54	51.16	45.45	100.00
HOMEPASS	11,267.00	46,922.00	110,948.00	35,287.00	17,832.00*
MILE OF PLANT	155.66	598.70	934.43	419.68	--
PENETRATION (%)	63.37	59.34	69.44	56.94	15.00-35.00*
DENSITY	49.63	67.70	108.08	72.22	--
INCOME	23,873.00	25,875.00	43,222.00	24,585.00	42,778.00
BASICPRICE	22.10	19.05	21.01	19.87	26.56
PRICE/SATELLITE	1.66	0.93	1.05	0.85	0.59
PRICE/DIVERSITY	2.66	1.24	1.34	1.19	1.06
PAYPRICE	10.74	10.80	10.65	10.14	11.95
BASIC DIVERSITY	13.23	17.27	16.26	18.61	25.25
RELATIVE DIVERSITY	0.75	0.74	0.74	0.72	0.55

Note: * Without specific subscription data of each LEC cable system, the calculation here is to divide the total subscribers by number of systems.

Table 9. Comparison of Digital Cable Systems

	TCI	COX	Ameritech	GTE
Channel:				
Capacity	150	150	120	150
Basic Service	64	70	65	60-90
Pay Channel	15	15	15	26
Pay Per View	12	10	20	10-30
Digital Music	30	40	--	40
Digital Cable	24	20	--	--
Price:				
Basic Service	27.99	29.99	26.55	26.95
Pay Channel	11.95	11.95	11.95	11.95
Pay Per View	3.99	3.99	3.99	3.99
Digital Cable	14.95	11.95	--	--
Other Services:				
Cable Modem	Y	Y	N	Y
Digital Music	Y	Y	N	Y
Telephony	N	Y	Y	Y
Interactive	Y	Y	Y	Y

Note: Data from Company Customers Services and Internet Webpages.

Appendix 1. Variable List

Variable	Description
Price, Channel Number, and Programming Diversity:	
BASICPRICE	= Monthly subscription rate for basic service
PAYPRICE	= Monthly price of HBO pay channel
INSTALLATION	= Fees from equipment and installation
BASICCHAN	= Number of basic channels offered
SATELLITE	= Number of basic channels offered excluding broadcasting and PEG channels
SATELLITE2	= Square of SATELLITE
PAYCHAN	= Number of pay channels offered
SATDIVERSITY	= How many different satellite channel types are found in a cable system by Appendix 2
ABSDIVERSITY	= Number of channel types/Number of channel types in the industry of Appendix 2
RELDIVERSITY	= Number of channel types/Number of SATELLITE channel in the cable system
Competition Characteristics:	
COMP	= 1 if franchise is an overbuilt market
OVERLAP*	= (HPi+HPj-H)/HPi x100, percentage of degree of system overlap
COMPTIME	= Number of years of competition (if franchise is an overbuilt one)
OLDCOMP	= 1 if COMP=1 and COMPTIME>=12
NEWCOMP	= 1 if COMP=1 and COMPTIME<12
RELSIZE	= Ratio of smaller system's number of basic subscribers to the larger's
SIMSIZE	= 1 if RELSIZE is greater than 0.5
DIFSIZE	= 1 if RELSIZE is less than or equal to 0.5
MUNI	= 1 if franchise owned by municipality or competing against a municipal franchise
MSO	= 1 if franchised systems is affiliated with Multiple System Operators
INCUMBENT	= 1 if system was first to begin operation in a market where firms compete
ENTRANT	= 1 if system was second to begin operations in a market where firms compete
BIGMSO	= 1 if COMP=1 and both of the dupolistics are one of the top four MSOs
NOTBIGMSO	= 1 if COMP=1 and BIGMSO=0
System Characteristics:	
SYSAGE	= Number of years since the cable system began operations
BASICSUBS	= Number of subscribers to basic service
HOMEPASS	= Number of households passed by cable franchise
PENETRATION	= Penetration rate, defined as BASICSUBS/HOMEPASS
CAPACITY	= Channel capacity of cable system
NO USE	= Number of channels useless
MILEPLANT	= Miles of plant
SYSPPV	= Percentage of systems in the monopoly and competition category with PPV capacity
PPVCAP	= Percentage of Per-Per-View capability for subscribers available
BROADCAST	= Total number of nonduplicate broadcasting signals available over the air in franchise
NETWORK	= Number of the six broadcasting networks in franchise area
Demographic Information on the Franchise Area:	
INCOME	= Median household income
DENSITY	= Household density defined as Household per mile of cable plant

Note: * Where HPi represents the number of households passed by the ith system in an overbuild franchise area; and HPj is that of the competitor. H is the total number of households in the franchise area.

Appendix 2. Categorization of Channel Types:

Basic or Expended Basic Channels:

1. Broadcasting network affiliates: ABC, CBS, NBC, FOX, UPN, WB
2. Independent local broadcasting stations
3. Superstation: TBS, WGN, WPIX, WSBK
4. Public broadcasting stations: PBS, Local orientation: PEG access and other (weather, time, ad and etc)
5. General interest: USA, TNT, Nick at Nite
6. News: CNN, HLN, MSNBC, Fox News, New England Cable News
7. Sports: ESPN, ESPN2, Fox sport, Golf Channel, Prime, PASS Sport, Madison Square Garden Network, Sunshine Network
8. Business/finance: CNBC, CNNfn, BIZNET
9. Public affairs: CSPAN I & II, Court TV, Political Newstalk Network
10. Music/videos: MTV, VH-1, TNN, CMT, Hit Video USA, Z Music, Video Jukebox Network/The Box
11. Religious programming: ACTS, EWTN, TBN, VISN, Odyseey, The Inspirational Network, Worship
12. Education: The Learning Channel, Knowledge TV
13. Women: Lifetime
14. Family: Disney, The Family Channel
15. Children: Nickelodeon, Carton Network
16. Shopping: QVC, Q2, HSN I & II, Catalog 1, ValueVision, Access TV Network
17. Nature and science: Discovery, NASA TV, Animal Planet, Planet Central TV
18. Outdoor activity: Outdoor Life Network, The Outdoor Channel, Speedvision, The Auto Channel
19. Health/fitness channel: Fit TV, America's Health Network, Recovery Network, Better Health Network
20. Arts/cultural emphasis: A&E, History Channel, Bravo, Applause Networks, Ovation
21. Entertainment emphasis: E! Entertainment TV
22. Comedy emphasis: Comedy Central
23. Travel programming: Travel channel
24. Scientific fiction: Sc-Fi Channel
25. Home programming: HGTV, Home Improvement TV Network
26. Food programming: TV Food Network
27. Weather programming: Weather channel
28. Game programming: Game show Network, Gaming & Entertainment Network, The Lottery Channel
29. Love programming: Romance Classics, The Love Network/Amorvision
30. Minorities/special interest: BET, America's Disability/Silent Network, Kaleidoscope TV
31. Foreign language: SCOLA, International Channel, Galavision, Univision, Telemundo, Jewish TV Network, The Greek Channel
32. Preview channel: Prevue Network, Sneak Prevue, EPG
33. Independent film: Independent Film Channel, Sundance Film Channel, U Network
34. Movie/classic: American Movie Classics, Turner Classic Movies, Encore, Nostalgia Good TV, Flix

Pay Channel:

35. Adult programming: Playboy, Spice, Adam & Eve Channel
36. Movie/current: HBO, Showtime, Cinemax, The Movie Channel, Starz!

Pay Per View:

37. Pay Per View: Action PPV, Cable Video Store, Guest Cinema, Request TV, View's Choice I, II, Prism

Note: Categorization was referred to cable programming of *Broadcasting & Cable Yearbook 1998*.

History of a Business Decision:
Ralph Ingersoll II Decides to Create the *St. Louis Sun*

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History of a Business Decision: Ralph Ingersoll II Decides to Create the *St. Louis Sun*

Abstract

This paper analyzes the decision by Ralph Ingersoll II to launch the *St. Louis Sun* in 1989. The paper, which is based on personal interviews, *Sun* documents, and other sources, shows that the new daily was created as a defensive measure to protect Ingersoll's chain of suburban St. Louis weeklies from domination by the *St. Louis Post-Dispatch*. The *Sun* lasted only seven months, and analysis of its failure could help newspaper managers avoid similar mistakes.

The 1989 decision to launch a metropolitan daily newspaper in St. Louis seems hopeless in retrospect, given the scarcity of American cities with competing daily newspapers 10 years later. The new daily, the *St. Louis Sun*, ceased publication after only seven months, and it seems now to be nothing more than a historical curiosity. But its story is of more than passing interest when one considers the current era of online newspapers and the possibility for even just one person—Matt Drudge's report for example—to start a new publication. The entrepreneurial spirit is still alive in journalism and arguably is more accessible than ever before. In such an era, the lessons that might be learned from a previous start-up could be valuable.

This research paper uses the traditional historical method to analyze the decision to launch the *Sun*. The historical method permits the author to combine a variety of sources and social science methods to write a narrative explanation of his subject.[1] Of course it is difficult if not unwise to generalize the results from a single case such as the *Sun's* to other publication start-ups. Nevertheless, an analysis of the *Sun's* launch can certainly add to the existing body of knowledge of newspaper start-ups.

Previous research on major metro start-ups is scanty, probably because so few have been attempted in the past 50 years in the United States. Since Alicia Patterson started *Newsday* in 1940, new metro dailies had been attempted in scarcely a half dozen cities. Some were started to make money; some to present a viewpoint that the owners felt was not being presented in the existing media. But they all had one thing in common: None had lasted even five years.[2] Perhaps the most dramatic failure was a New York tabloid called *The Trib*, which lost $4 million in only three months of publication in 1978. Founded in part to provide a conservative political voice, critics called it "bland" and "decidedly unready" when it started publication.[3] Its passing was deemed worthy of only a paragraph

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[1] James D. Starrt and Wm. David Sloan, *Historical Methods in Mass Communication* (Hillsdale, NJ: Lawrence Erlbaum Associates, 1989).
[2] The Oklahoma Journal lasted 16 years, from 1964 to 1980, but Oklahoma City is not a major metropolitan area in the same sense as Philadelphia, New York, Atlanta, Minneapolis, and Phoenix.
[3] "*The Trib* Takes the Plunge," *Columbia Journalism Review*, March/April 1978, 4, 9.

in the *Columbia Journalism Review*, which wrote rather archly that its best chance for survival would have been filling a void during a newspaper strike.[4] The closest thing to a success was the *Philadelphia Journal*, which lost only about $15 million in a little over four years, a minuscule amount per month compared to *The Trib* .[5] The *Journal's* founder, Canadian publisher Jacques Peladeau (sometimes known as Pile-o-dough in Canada), made no pretensions toward political ideology.[6] He instead rode his formula of "sports, cheesecake and sensationalism" to 100,000 circulation.[7] But he shut it down in 1981, saying the advertising pie was too small to be split among all the media in Philadelphia and leave him with a big enough slice to nourish a new daily.[8]

The only exceptions were the *Washington Times* and *USA Today*. The *Times*, it is true, has been going since 1982, but it has always been subsidized by the Rev. Sun Myung Moon's Unification Church and has never challenged the *Washington Post* as a true second metropolitan daily for the District of Columbia region. Its focus is decidedly national. *USA Today* is, of course, a national paper, not a metropolitan daily.

While the *Sun's* failure has been the subject of a handful of published academic studies, most have focused on particular aspects of the newspaper such as its content or its circulation problems.[9] The background of Ingersoll's decision to launch the *Sun* is usually only given a few sentences, if that much. This paper, which is part of larger project on the *Sun*, is an attempt at a more detailed account of the period between Ingersoll's purchase of two chains of weeklies in the St. Louis area and his announcement of his plan for a new daily. It is thus hoped the paper will contribute to an overall understanding of the *Sun's* story.

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[4] "*Trib* Death," *Columbia Journalism Review*, May/June 1978, 10.
[5] "*Philadelphia Journal* Dead, Quebecor Says," *Editor & Publisher*, 26 December 1981, 10.
[6] "Hoagie City Hero," *Time*, 19 December 1977, 47.
[7] "Peladeau's Entree," *Columbia Journalism Review*, March/April 1978, 9.
[8] "*Philadelphia Journal* Dead, Its Owner Says," *The New York Times*, 18 December 1981, 33A.
[9] See for example, James E. Mueller, "Delivery System Disaster: Circulation Problems of the *St. Louis Sun*," in *Media Management Review* (Mahwah: N.J.: 1997), 115-125; and Wayne Wanta and Thomas J. Johnson, "Content Changes in the *St. Louis Post-Dispatch* During Different Market Situations," *The Journal of Media Economics* 7, no. 1, (1994), 13-28.

A good place to begin the story is 1984, when Ralph Ingersoll II bought two chains of competing suburban papers in St. Louis for $80 million. Ingersoll's father was the founder of the revolutionary New York newspaper *PM,* but the younger Ingersoll was already making a name for himself as an acquisitive newspaper baron at the time he entered the St. Louis market. In 1984, St. Louis newspapering was still dominated by the competition between two major metros: the *Globe-Democrat* and the *Post-Dispatch.* But Ingersoll used his expertise at revamping small papers to turn the Suburban Journals of Greater St. Louis into a suburban newspaper superpower. He quickly absorbed other independents into his group until his chain ringed St. Louis. Revenue for the suburban papers doubled from $35 million in 1984 to $70 million in 1986.[10]

He made various improvements to the chain, including the installation of a $2 million computer system and the addition of a weekend issue for most of the weeklies, which normally only published on Wednesdays.[11] He also created a regional press association which promoted professionalism among his suburban journalists through things like seminars and writing contests.

In a speech to the Suburban Newspapers of America, Ingersoll said that the formula of free newspapers saturating a market was one "that just can't be beat." He said the Journals would go head-to-head with the *Post-Dispatch* to be the "paper of record" for St. Louis. "Not one of our St. Louis newspapers can stand on its own feet, but together they stand so strongly that the Pulitzer organization is indeed an endangered species," he said.[12]

By 1989 Ingersoll had compiled a chain of about 35 dailies and more than 200 weeklies in Europe and the United States, and *Fortune* magazine named him one of the 25 most-fascinating business people of the year. In the meantime, the *Globe-Democrat* had become extinct. It had been an agonizing death for the once-proud daily. Like an old

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[10] Greg Bailey, "Ingersoll Challenges Pulitzer; Blunders Attacking May Co., *The St. Louis Journalism Review*, July 1986, 4.
[11] Staci D. Kramer, "Ingersoll Adds 17 Friday Editions, Promises Expanded Local Coverage," *The St. Louis Journalism Review*, March 1987, 11.
[12] Bailey.

elephant seeking a place to die, the *Globe* had gone through three sets of owners and had even stopped publishing for a time between owners before it finally passed on for good. The *Post* and the *Globe* had entered a the Joint Operating Agreement in 1979, but it did not work, and Newhouse, the *Globe's* owner, wanted to close the paper. But under pressure from the Justice Department it sold the *Globe* on Feb. 24, 1984, to magazine publisher Jeffrey Gluck, whose main claim to fame had been publishing the *Campus Digest*, a now-defunct newspaper for students of the University of Missouri-Columbia. The *Post*, smelling blood, switched to morning publication the day after Gluck took over. It also increased its newshole by 25 percent and added more columns and local news.[13] Gluck could do little against the deep pockets of Pulitzer, and a bankruptcy judge seized the *Globe* in December 1985. Conservative St. Louis businessmen William E. Franke and John B. Prentis III revived the *Globe* in January 1986, but closed it for good on Oct. 29, 1986.

The *Post*, noting how the *Globe* had risen from the dead twice before, quickly consolidated its position to avoid the charm of a third resuscitation. On November 2, while the corpse of the *Globe* was still warm, the *Post* announced it would pick up the most popular *Globe* comics and features "to ease the loss of the *Globe-Democrat* to thousands of newspaper readers."[14]

What went unsaid was that scooping up those features would make them unavailable for a revived *Globe-Democrat* or a completely new newspaper, either of which would need quality syndicated material to attract readers. The *Post* even took the "Dear Abby" column to run side-by-side with Ann Landers' column. There seems little reason for a paper to run two such similar columns other than to squelch competition. Prentis said of

[13]William H. Taft, *Missouri Newspapers*, (Columbia, Mo.: University of Missouri Press, 1964), 76-77.
[14] "*Post-Dispatch* Adds Features, Comics From *Globe*," *St. Louis Post-Dispatch*, 2 November 1986, 1A.

the *Post's* actions: "It is clear evidence of their desire to make sure that they have the monopolistic position that they have been working on for so long."[15]

Ingersoll had been watching the *Post* grope toward monopoly ever since he moved into St. Louis, and it worried him for the future of the Suburban Journals. He even quietly negotiated to buy the *Globe* from Gluck in order to keep the *Post* in its place. He knew the *Globe's* days were numbered as soon as it lost the protection of sharing the revenue of the JOA.

"The Justice Department had messed around enough to delay what would happen by two or three years, and it was quite obvious what was going to happen once the *Globe-Democrat* was deprived of the revenue from the Sunday *Post*," Ingersoll said. "There was no possible economic way the *Globe-Democrat* could survive. There was no way Gluck could cut costs enough. We saw what was going to happen; we were professionals; it was only a matter of time."[16]

The professional judgment of Ingersoll and his staff was that the *Post-Dispatch* would pick up the majority of the *Globe's* subscribers and double its paid circulation from roughly 300,000 to 600,000 or more. "That was going to cut the knees out from under the Suburban Journals," Ingersoll said. "We were limited to the number of households, and that was 900,000. They were ABC (Audit Bureau of Circulation)—they were audited—and if they had paid circulation that was two-thirds of ours—we figured that was good-night for us."[17]

So the problem for the Suburban Journals was identified. But what was the solution? Ingersoll and his staff considered several options for keeping the *Post* in check, including buying and revamping the *Globe* or starting their own newspaper from scratch.

Some market analysis was done for Ingersoll by BFV&L Advertising, a St. Louis firm. It wrote one report, entitled "Operation Phoenix," which was labeled "confidential."

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[15] Charles L. Klotzer, "John Prentis Talks About Past and Future," *The St. Louis Journalism Review*, February 1987, 9.
[16] Ingersoll interview.

[18] The report lived up to the CIA-style mystery of its code name—suggestive of the possibility that an Ingersoll-run *Globe* might rise from the ashes of newspaper competition—by including a plan for an Ingersoll campaign of rumor and subterfuge to confuse *Post-Dispatch* executives.

Operation Phoenix looked at three possible scenarios: publishing a new daily after buying the *Globe-Democrat's* trademark; launching a completely new daily after the *Globe-Democrat* folded; and launching a new daily while the *Globe-Democrat* was in its death throes.

Operation Phoenix noted that revamping the *Globe* would necessitate a takeover/transition phase during which the *Post-Dispatch* could be expected to increase advertising and subscriber sales efforts to "capture any *Globe* readers who may 'fall out' during the transition phase." But the report stated that "The majority of (*Globe* readers) will probably continue to subscribe IF the new product delivery and pricing continue at acceptable levels and IF content quality perceptions and expectations are maintained and improved." *Post-Dispatch* and non-readers would have to be lured with a superior product, it stated.[19]

The second Operation Phoenix scenario tried to gauge what would happen if the *Globe* died and its assets were tied up in litigation so that it was unavailable for purchase. In this case, BFV&L recommended a disinformation strategy in which Ingersoll would keep the *Post-Dispatch* guessing by dropping hints that he might do several things such as adding a Sunday Journal, buying the *Belleville* (Ill.) *News-Democrat* (a suburban daily) or starting a *St. Louis Journal*.[20]

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[17] Ibid.
[18] This report, which is in the *St. Louis Sun* papers at the St. Louis Public Library, is not dated and has no page numbers. However, the contents strongly suggest it was written in 1985. Other documents in the *St. Louis Sun* papers from BFV&L and from Birkenmeier, including a bill for about $16,000 for Ingersoll Publications, Inc., are dated 1985.
[19] Ibid.
[20] Ibid.

"The strategy of keeping the PD (*Post-Dispatch*) in an Ingersoll smokescreen will force them to make decisions and formulate plans based on information that is unfocused, confusing, incomplete, plausible and threatening from a number of viewpoints," Operation Phoenix argued. "Management functioning in this kind of environment will make few right decisions. They will lose any 'offensive momentum' they might otherwise have derived from the *Globe's* demise. They will have to shift into a 'defensive mode' to counter a myriad of possible Ingersoll moves."[21]

In addition to keeping the *Post* off-balance, BFV&L predicted that the disinformation campaign would persuade *Globe* advertisers and readers to wait to see what would happen in the local newspaper scene instead of immediately switching to the *Post*. The report forecast that "hardcore PD haters may move to the PD but not willingly AND NOT without resentment. *Globe* readers who want only local news will have a Journal option on Wednesday," and it correctly predicted that non-readers would not flock to the *Post*.[22]

The third scenario outlined planning a new daily to be launched immediately upon the demise of the *Globe* or even while it was still publishing. BFV&L predicted that launching a new paper would hasten the end of the *Globe*, which it noted already had "fiscal cancer." The report did not offer any final recommendation, instead concluding that "there is simply NO way to intelligently plan for every possible contingency."[23]

But the negotiations for purchasing the *Globe* never worked out; Ingersoll said Gluck had not done very well with the paper and was an "asset stripper."[24] Ingersoll also negotiated with Prentis and Franke, but the discussions broke down because Ingersoll wanted a controlling interest in the paper. When pressed about the details shortly after the talks ended, Ingersoll said he was surprised the negotiations had failed, but he also sounded disinterested when he said: "I couldn't tell you exactly why (they failed) because I

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[21] Ibid.
[22] Ibid.
[23] Ibid.

frankly don't remember the details. Reasonable people quite often fail to reach agreement."[25] The blasé attitude suggested Ingersoll had made up his mind he was better off starting his own newspaper.

Tom Birkenmeier, who was the "B" in BFV&L and worked for Ingersoll at both the Journals and the *Sun*, said the *Globe* had the advantage of a "loyal and conservative base of readers" and that revamping it would have been less expensive than starting a paper from scratch. But he said there is no way of telling whether a new *Globe* would have survived.[26]

"Ralph described the *Globe* as a bucket with holes in it because it didn't have its own presses and couldn't control costs," Birkenmeier said. "Its only asset was its name and subscriber list. . . . When it went away, Ralph had reached a decision that what St. Louis really needed was a new daily newspaper with a different feel than the old *Globe* and *Post* and that was an easy read for a new generation of readers."[27]

Starting a metro daily from scratch would seem to be merely an exercise in burning money given the recent history of such attempts in the United States.
But Ingersoll, who graduated from high school at the International School in Geneva, Switzerland, looked outside the U.S.A. for the future of journalism. He knew that several start-ups had succeeded recently outside the United States, and Ingersoll through his contacts in the publishing industry personally knew many of the people involved.

"We did not think this up in a vacuum," Ingersoll said of the *Sun*. "There were at least five other places in the world in the 1980s where major metropolitan newspapers had been started from scratch and gotten into the black by some degree or another."[28]

In San Juan, Puerto Rico, *El Vocero* had been launched in a market that, like St. Louis, already had a deeply entrenched daily rival. "It's been profitable from its earliest

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[24] Ibid.
[25] "Last-minute Demands by Franke Caused Collapse of Talks, *Globe* Demise—Ingersoll," *The St. Louis Journalism Review*, March 1987, 11.
[26] Tom Birkenmeier, interview by author, St. Louis, Missouri, 14 March 1995.
[27] Ibid.

days, and it's a success by any standard," Ingersoll said. "It's also highly original and fairly salacious in terms of high-profile crime coverage. It was very tabloidy in that sense, but it's a completely serious paper and campaigns very effectively for an agenda that is important to the national agenda of Puerto Rico."[29]

Ingersoll said his friend, Carlo Caracciolo, launched *La Repubblica* in Rome in a market that had relatively low penetration for newspapers, but he was able to sell it for a high cover price and "really do a bang-up job." The *Independent* in London and *El Pais* in Madrid were other start-ups with which Ingersoll was familiar.[30]

But the prime model for Ingersoll and his staff was the Toronto Sun Corporation, which had launched the highly successful paper of the same name against entrenched opposition in a North American city not dramatically larger than St. Louis. The company had followed the *Toronto Sun*, which was launched in 1971, with the *Edmonton Sun* in 1978, the *Calgary Sun* in 1980 and the *Ottawa Sun* in 1988. All were still publishing in 1998.

Ingersoll's knowledge of successful start-ups was bolstered by some local analysis. In addition to the Operation Phoenix report on various scenarios, BFV&L looked at the pluses and minuses of starting a new newspaper and came up with some positive conclusions.

BFV&L's report included some rather fanciful suggestions for the proposed newspaper such as a fleet of identifiable reporters' cars like those used by TV stations and a guarantee to advertisers of 400,000 daily circulation—a figure almost double that of the *Post-Dispatch* at the time. Others were more realistic and would eventually be adopted in some fashion by the *Sun*. These ideas included hiring a local publisher and editors and giving St. Louis civic leaders an advisory role to the publisher.[31]

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[28] Ibid.
[29] Ibid.
[30] Ibid.
[31] *St. Louis Sun* papers, St. Louis Public Library, St. Louis, Missouri.

But the most significant part of the report discussed the weaknesses of the *Post-Dispatch*, particularly that its management was "close-minded" and distracted by the Pulitzer Co.'s recent purchase of some small Chicago-area newspapers and that there was strong anti-*Post-Dispatch* feeling among certain segments of the St. Louis population. Perhaps most significant for a new daily's success, the report noted that Ingersoll's base at the Journals was "more than a substantial launch pad" and listed 11 specific advantages for a start-up under a heading called "Inventory of Unique Strengths." These strengths included an existing distribution system, a local talent pool, local market knowledge, press capacity and financial strength.[32]

"The army is in place," the Inventory of Unique Strengths concluded. "It needs to be mobilized. But, this is a unique situation, not comparable to other major markets where a daily paper has folded."[33]

Of course, every situation is unique in some respect; no two historical events are completely parallel. But it is still wise to learn from previous examples, and the example of the Toronto Sun Corporation was to launch its new daily less than two months after the death of the *Toronto Telegram*. Such a quick start prevents readers from getting used to having only one daily.

But in a schizophrenic fashion that characterized much of the *St. Louis Sun's* history, the BFV&L report both acknowledged the wisdom of starting immediately, yet at the same time stressed the importance of starting when ready.

"A bold initiative is the key to success," the report cautioned. "We should not let the timing of the *Globe's* demise make us slaves to a timetable. The alignment of stars will occur only once. . . We must move boldly with due diligence."[34]

Ingersoll's company boldly started starting printing prototypes in Orange County, California, where he owned a paper with color printing capability. But although the army

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[32] Ibid.
[33] Ibid.
[34] Ibid.

was in place and the stars were aligned, the general ultimately postponed the marching orders.

The Journals' new Friday editions were struggling, so Ingersoll shelved the plans for a new daily in order to devote his attention for a time to managing the suburban chain.[35]

Most of the Journals were published on Wednesdays—the prime day to reach households with the all-important grocery ads. The Friday editions were launched with an emphasis on entertainment—a way for St. Louisans to plan their weekends. Ingersoll's research showed that the new entertainment sections were not well read, and that readership for the Wednesday edition was slipping. A 1985 survey had showed 70 percent of respondents had read the Wednesday paper the week before; in 1988 readership was down to 60 percent.[36] The Wednesday Journals were considered so important that internally they were called the "Mother product." It is easy to see how such problems led the Ingersoll company leadership to panic over an ascendant *Post-Dispatch.*

In the meantime, Ingersoll followed the BFV&L Advertising advice by talking about expansion of the Journals and keeping the *Post* off-balance. Some of his rhetoric was boastful and not a little aggressive toward the Pulitzer Co. In a 1986 speech to the Suburban Newspapers of America, Ingersoll declared that the Journals' free distribution readership was higher than that of a typical paid circulation newspaper. He said he had improved the editorial content of the Journals since he bought them in 1984 and that, "We are intending to go head to head with the Pulitzer people as the paper of record in St. Louis." He predicted the Journals would win what he termed the "end-game struggle" for dominance of the St. Louis newspaper market, but that he hoped the *Post* would "prosper as a sort of boutique operation, one that will serve the understandable need for a local daily newspaper."[37]

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[35] Ingersoll interview.
[36] Clark, Martire & Bartolomeo, Inc., "A Study of the Friday Issue of the Suburban Journals," January 1988, *St. Louis Sun* Papers, St. Louis Public Library, St. Louis, Missouri.
[37] Mark Fitzgerald, "Ingersoll Boasts, Pulitzer Co. Laughs," *Editor & Publisher*, 14 June 1986, 14.

Ingersoll noted that ad sales departments at the Journals had also been improved, and that he expected to increase the local chain's operating profit by $500,000 a month. "Individually, they (the Journals) may be weak but together they stand so strongly that the Pulitzer Publishing Co. is an endangered species today," Ingersoll said.[38]

In a later St. Louis speech officially announcing the start of the Friday Journals, Ingersoll toned down his comments on the *Post*, saying that the Pulitzer daily and his suburban weeklies complemented each other and could "work very effectively in the public interest."[39] But many would remember instead his boast about crushing the Pulitzer Co.

As for creating a new daily, Ingersoll had only to deny the subject to fuel speculation about it. Rumors of expansion at the Journals or starting a new daily were a constant topic of conversation among the rank and file of the suburban chain, and given the proclivity of reporters to gossip, it is no surprise the rumors were often carried to the other media in town.

When Ingersoll spoke at a St. Louis Advertising Club luncheon, he was pressed by a *St. Louis Journalism Review* reporter about whether he would buy the *Belleville News-Democrat*. He replied simply that he didn't discuss acquisitions.[40] In 1987, the *Review* quizzed David Carr, a partner in Ingersoll Publications, about the "rampant rumors" that Ingersoll was planning a new daily. It noted that the rumors were fueled by job advertisements for experienced journalists to be sent to a Project Director. Carr flatly denied the rumors.[41]

Ingersoll said the idea for a new daily as a way of fighting the *Post-Dispatch* was eventually resurrected by Bob Jelenic, president and CEO of Ingersoll's Journal Register Co.[42] Jelenic had risen from accountant to general manager in the Toronto Sun Corp., where he had worked on a number of newspapers, including the *Houston Post*, and had

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[38] Ibid.
[39] Kramer, 11.
[40] Roland Klose, "Free Suburban Weeklies are Carrying the Torch for the Rest of the Industry Says Ingersoll II," *The St. Louis Journalism Review*, April 1995, 4.
[41] Charles L. Klotzer, "Here," *The St. Louis Journalism Review*, January 1987, 2.

been "the golden boy of the corporation."[43] Jelenic's enthusiasm for start-ups, which he had seen done successfully in the Canadian chain, hit fertile ground with Ingersoll, who personally knew other people who had launched start-ups and now had in his employ someone who had done it in Canada.[44] Jelenic had a reputation in the Toronto Sun Corporation for being able to cut costs and raise profits. As general manager at the *Houston Post,* he had been able to save $4 million a year through measures like early retirements, buyouts and tough negotiations with the paper's unions.[45] Jelenic, Ingersoll and his staff did the math for their own project and figured they could afford the initial losses a start-up would entail if it was managed well.

"We thought we'd create another *Toronto Sun*, a low-cost daily newspaper—high quality, low production and distribution costs," Ingersoll said. "We thought that even if it cost us a million or two million a year for five years to subsidize it, it would be well worth it to protect the Journals franchise because the Journals were making pre-tax $12 million a year and conceivably could have made $16 to $17 million if they continued to progress. We weren't at that time aware of the drop in readership at the Journals. So the upshot was the increased profitability of the Journals could easily subsidize the *Sun*, and that's how we made the equation."[46]

The new daily was announced with a splash that startled the moribund newspaper industry and the St. Louis establishment. On March 28, 1989, Ingersoll held a press conference at the MCI Building, a high-rise at 100 S. Fourth St. in the heart of St. Louis, within walking distance of the Gateway Arch, Busch Stadium and many prominent St. Louis companies. He announced that three floors of the building would be the home of a dynamic, visually exciting "post-modern" newspaper—the *St. Louis Sun* .

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[42] Ingersoll interview.
[43] Jean Sonmor, *The Little Paper That Grew*, (Toronto: The Toronto Sun Publishing Corporation, 1993), 245.
[44] Ingersoll interview.
[45] Sonmor, 259-260.
[46] Ingersoll interview.

"It's time for a new daily newspaper that is in tune with St. Louis' renaissance—a newspaper that won't stand on the curb watching the parade, but a newspaper which will take its place and join in," Ingersoll said, announcing that the paper would start publishing in September.[47]

Ingersoll announced he had $100 million in cash reserves to sink into the newspaper, which would be separate from the Suburban Journals. He said it could make a profit on 100,000 circulation, but he declined to speculate what the initial circulation would be. Ingersoll said he would hire about 100 journalists from around the country, compared to the *Post-Dispatch's* newsroom of about 300. But he said the talent of the staff would compensate for the small size and stressed the newspaper would be high quality, including the best sports coverage in the country.[48]

"I assure you that the *Sun* will not be just a good newspaper; it will be a great newspaper," Ingersoll said of the new daily, which he called "my personal invention."[49]

Both St. Louis Mayor Vincent C. Schoemehl Jr., a Democrat, and St. Louis County Executive Gene McNary, a Republican, attended the press conference. Both had battled the *Post-Dispatch*, and both reveled in the break-up of the *Post's* monopoly, predicting success for the *Sun*.

"I don't think they can be as Democrat as the *Post-Dispatch*, so it'll give us a different point of view," McNary said.[50]

Ingersoll spoke in front of a large red *Sun* banner, with the type in Olde English just like the *Globe-Democrat's* flag. But anyone who was hoping for a replacement of the *Globe*, particularly in its stance opposite the *Post*, had reason for concern. Ingersoll said the *Sun* would be the "conservator of traditional values" in St. Louis, but he emphasized it would not ape the *Globe-Democrat* as the political counterpoint of the *Post*. As a post-

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[47] Bill Smith, "New Daily Paper is Planned," *St. Louis Post-Dispatch*, 29 March 1989, 1A.
[48] Ibid.
[49] Ibid.
[50] Ibid.

modern newspaper, the *Sun* would offer a variety of views on the issues of the day, he said.[51]

Regardless of the type of paper it would be, the announcement triggered national coverage because it had all the elements that journalists love in a story: a highly quotable source in Ralph Ingersoll, an extremely rare subject matter in a daily start-up, and a classic conflict between the establishment and the upstart. And—best of all—it was about the media. Most of the country's major newspapers weighed in story with about Ingersoll and his dream. The judgment of these individual stories was—as journalists like to say when conducting a non-statistical sample—mixed.

The Los Angeles Times, for example, stressed the odds against Ingersoll and quoted newspaper analyst John Morton as saying the "conventional wisdom" is that a new daily can't be started in a market that already has a successful one. The story mentioned Ingersoll's illustrious namesake father, who had been a pioneering magazine journalist and had founded the revolutionary newspaper *PM* in the 1940s. But the story noted that the younger Ingersoll, unlike his father, was "known for paying little attention to the editorial side."[52] The story implied Ingersoll wouldn't succeed, but it didn't matter because he wasn't a good journalist.

The New York Times included much of the same information, even quoting the same newspaper analyst's skepticism, but was more positive about the planned content. It quoted Ingersoll's goal to emphasize local news like schools and small business and that the *Sun* would be modeled on quality tabloids like *The Rocky Mountain News* and *Barron's*.[53]

Perhaps the most in-depth coverage was provided by *The Wall Street Journal*, which focused on Ingersoll's business success. Although it acknowledged that "many

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[51] Ibid.
[52] Thomas B. Rosenstiel, "St. Louis May Again Be a 2-Paper Town," *The Los Angeles Times*, 29 March 1989, 3N.
[53] Albert Scardino, "Ingersoll Paper to Challenge *Post-Dispatch* in St. Louis," *The New York Times*, 29 March 1989.

doubt his chances," the story noted that if successful Ingersoll planned to launch papers in other cities, which could revitalize the daily newspaper industry.[54]

The *Journal* implied that Ingersoll had a chance to succeed based on his past record, which included turning around the *Delaware County Daily Times* in suburban Philadelphia. That paper had been ready to fold, but Ingersoll redesigned it into an eye-catching tabloid with the tightly written stories he had learned to write when he was a reporter. He lowered the price to a dime and the circulation went from 40,000 to 52,000 in a year.[55]

The *Journal* duly noted Ingersoll's financial structure and his method of junk bond financing to buy more and more newspapers. Ingersoll told the *Journal* he had plenty of money: "If I sold all the assets and paid all the debts, I'd still have about $1 billion left. I'm bored by acquisitions. As Michael (Milken) might say, I want to create value rather than acquire it."[56]

The *Post-Dispatch* was the most critical of all. *Post* executives were quoted in their own newspaper with rather cocky and combative statements. Publisher Nicholas Penniman IV said he believed there was room for only one daily in St. Louis. Editor William Woo said he welcomed the competition but would not "concede a single reader to Ralph Ingersoll." Joseph Pulitzer Jr., chairman of Pulitzer Publishing Co., said simply, "We'll beat the pants off them."[57]

In the end Pulitzer proved correct, at least in predicting which paper would be left standing. The *Sun* it was a quick failure, closing in only seven months despite selling all 200,000 copies printed for the first day of publication. Circulation never stabilized after the initial success, and Ingersoll shut the paper down rather than take further losses in what he

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[54] Joe Sharkey, "Ingersoll Wants His St. Louis Daily to Spur a New Era for City Papers," *The Wall Street Journal*, 31 March 1989.
[55] Ibid.
[56] Ibid.
[57] Smith, 4A.

saw as a futile cause.[58] A detailed account of all of the reasons for the *Sun's* failure are beyond the scope of this paper, but explanations for its demise have included poor content,[59] the collapse of the junk bond market,[60] and circulation delivery system problems.[61] This paper's account of the motivation for launching the *Sun* adds at least one more key reason to that recipe for failure, and it can be traced to the decision process.

One crucial mistake or rather lost opportunity, was not launching immediately upon the death of the *Globe*. The successful *Toronto Sun*, for example, had immediately jumped into a vacancy, and Ingersoll's paper no doubt would have benefited in a similar fashion by picking up more former *Globe* subscribers than it did in 1989.The interest in the announcement of the newspaper's creation and the initial success it achieved testify to the desire of a core of St. Louisans for an alternative to the *Post-Dispatch*. But there weren't enough to keep the paper going, at least in 1989.

A salient fact Ingersoll and his staff overlooked was what had happened to the *Post-Dispatch* since the *Globe-Democrat* went under in 1986. It never picked up the expected circulation bonanza. In 1986, the *Post-Dispatch* had almost 274,000 weekday circulation and almost 512,000 Sunday.[62] In 1989, the weekday circulation was up to almost 377,000, an increase of more than 100,000, but nowhere near the 300,000 increase that Ingersoll feared. Sunday circulation had gone up only to about 558,000.[63] (The *Globe-Democrat* did not publish on Sunday, so the Sunday *Post-Dispatch* had always had a strong readership among *Globe* subscribers.) But in 1989 the thought of a brand-new daily was so seductive that the changes in St. Louis reading habits since the death of the *Globe* were overlooked.

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[58] Ingersoll interview.
[59] Charles L. Klotzer, "Here," *The St. Louis Journalism Review*, May 1990, 2.
[60] Ben Eubanks, "Maverick Ingersoll Bet Against Odds and Lost," *St. Louis Business Journal*, 30 April-6 May 1990, 1(A).
[61] Mueller.
[62] *Editor & Publisher International Yearbook*, New York: Editor & Publisher, 1987.
[63] *Editor & Publisher International Yearbook*, New York: Editor & Publisher, 1990.

"These things tend to take on a life of their own," Ingersoll said of planning a new daily. "It was very exciting at the time because five other parties in first-world countries had succeeded in doing it in the same decade—this was not a 30-year-old story. We believed that since it had succeeded in five other countries—non-U.S. markets— that we could make it work. Our cost structure was right, and we had all the inherent advantages of the Suburban Journals. We were incorrect."[64]

Another problem was that Ingersoll and his staff launched the *Sun* for the wrong reason. They did not want to create a newspaper because they thought it would work or there was a market for it but simply to keep their rival in check. When they began to have problems with their local chain, they postponed the project only to resurrect it without thorough analysis. The launch apparently was done because momentum was pushing it—it had a life of its own, as Ingersoll said.[65]

Some observers commented that the *Sun* was created as vehicle for Ingersoll to make a mark in journalism as his father had with *PM*.[66] But the years before America's entry in World War II—when PM was launched—were so different from 1989 that there is little comparison between the two newspapers, Ingersoll said.[67]

His father, Ingersoll said, was vitally concerned about the issues of his day and used his position to try to galvanize public opinion.

"It wasn't my lot in life to arrive in a position of launching a publication when either newspapers were the only voice around, which they were effectively in 1940; nor were there large issues which you could easily articulate," Ingersoll said. "In the 1940s it was clear. There were white hats and black hats. And there were fascists. And Democrats—the Allies and the Axis. It was pretty clear how it was structured, and we didn't have anything that was remotely like that. So I never saw a lot of parallels. The truth is—we launched the *Sun*—the initial motivation was defensive. It was a business reason."

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[64] Ibid.
[65] Ingersoll interview.
[66] William A. Henry III, "Sun-Rise in St. Louis," *Time*, 25 September 1989, 60.

But defensive measures were not really needed against a *Post* that in the three years after the *Globe's* death couldn't capitalize fully on gaining a monopoly.

"It is richly ironic, when you think about it, that if we had done nothing, we would have been much better off economically," Ingersoll said with a slight smile, apparently being able to find amusement 10 years later at the mistake that contributed to the loss of $25 million.[68]

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[67] Ibid.
[68] Ibid.

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The Myths and Realities of Newspaper Acquisition Costs: Fiduciary Responsibilities, Fungibility of Assets Winners' Penalties & Excess Cash "Problems"

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The Myths and Realities of Newspaper Acquisition Costs

When McClatchy Newspapers announced in late 1997 that it would buy Cowles Media Company, whose primary holding was the Minneapolis Star Tribune, McClatchy Newspapers' stock took a beating. It is typical for an acquiring company's publicly-held stock to drop, whether because the acquirer is borrowing heavily, diluting earnings per share by issuing more stock, diversifying outside core markets, spending cash reserves potentially needed for inevitable economic downturns, growing at the "wrong time" of an economic cycle, or paying too much for the acquisition. In fact, when The New York Times Co. bought Affiliated Publications (The Boston Globe), its stock also dropped, as did Knight Ridder's when it bought four former Capital Cities/ABC papers from Disney. What was unusual in the McClatchy-Cowles deal was how much McClatchy stock dropped, how quickly, and how vocal Wall Street analysts were about the deal: Knight-Ridder's acquisition caused its stock to drop 7% in seven days, and New York Times Co.'s acquisition prompted its stock to drop 16% over a month, but McClatchy's stock dropped **17% in two days.**

McClatchy Newspapers made defensive statements to the press (for example, see Gremillion, 1998), and John Morton, a well-paid newspaper management consultant popular with many chains, devoted his column in the January-February 1998 American Journalism Review to justifying McClatchy's action. His column was headlined, "Expensive, Yes, But Well Worth It." (Apparently still feeling defensive, Morton's column in the July-August 1998 AJR used the subject of high-priced acquisitions as his starting place to affirmatively answer the question, "Can High Profits and High Quality Coexist?")

Well, was the Cowles purchase worth it? This paper, in addition to answering this question from a perspective that is surely more objective than Morton's (who seems to have been a consultant and/or expert witness for almost every large newspaper company), takes the opportunity of the McClatchy-Cowles deal to more generally address the question of newspaper acquisition prices, referring to recent economic and financial research.

The Myths and Realities of Newspaper Acquisition Costs

Overview of the Issues in this Paper

The three major "stories" in the U.S. newspaper industry during the 20th century surely have been increased competition from other media; a substantial decrease in household penetration and stagnation of total circulation numbers; and the consolidation of the industry through both shutdowns and the growth of commonly-owned "groups" or "chains." Other phenomena that have been arguably as important have included the professionalization of journalism, implementation of new technology and the decline of newspaper unions, and the "corporatization" of the management and organization of both individual newspapers and newspaper chains/groups.

It is important to differentiate between the growth of corporations consisting of numerous newspapers and the corporatization of individual newspapers to introduce this paper. Individual newspapers' corporatization has received nearly encyclopedic treatment in the book, The Menace of the Corporate Newspaper: Fact or Fiction? by David Pearce Demers (Iowa State University Press, 1996). But Demers discusses newspaper groups often only incidentally to his topic of "corporate newspapers," and it must be noted that trends, issues and cause-effect relationships within an individual newspaper as an organization do not necessarily apply to group of newspapers as an organization, or vice versa. For the purposes of this paper, the most obvious case of this phenomenon, to which this paper returns below, concerns economies of scale. Demers cites a paper by Rosse, Dertouzos, Robinson and Wildman (1978), and a book by Dertouzos and Thorpe (1982a) while discussing economies of scale enjoyed by larger individual newspapers (Demers, p. 131). But Demers does not cite the Dertouzos and Thorpe book, nor a Dertouzos article (1982b) or Dertouzos and Trautman (1990) article, when and where these researchers concluded that newspaper chains as organizations **do not** enjoy further economies of scale above and beyond those obtained at individual large newspapers.[1]

This paper addresses yet another aspect of newspaper chains, frequently mentioned in trade and professional publications but not by Demers and seldom by other scholars or the trade press[2]: are the prices paid by newspaper chains to acquire additional properties, such as in the McClatchy-

Cowles deal, too high, too low, or about right, and does it or should it matter? It should be noted here that this question is of more than ephemeral interest: U.S. corporate boards of directors and executives are legally and ethically bound -- their "fiduciary duty" -- to prudently manage their corporation to the maximum benefit of stockholders; doing so means, among other responsibilities, making the right acquisitions at the right time at the right price.

In other words, despite the "default" rationalization that an acquired company is worth whatever someone is willing to pay for it, and despite prices of high technology and some other stocks during the last few years that bear no relationship (or an inverse one!) to companies' earnings and/or liquidation value, the fact remains that widely-accepted, long-used formula exist to value any company that is an acquisition target. And directors and executives who fail to fulfill their "fiduciary duty" run the risk of being sued by stockholders for breach of fiduciary duty; this was the rationale for stockholders' suit against Disney when Michael Eisner gave Michael Ovitz a "golden parachute" worth as much as $100 million after Ovitz had worked for Disney for only about a year and accomplished almost nothing. The only reason why more such suits are not filed is that individual stockholders have little to gain and much to lose (time and legal costs) from filing such suits; unlike the 1980s "corporate raiders" who took over allegedly mismanaged companies, average stockholders either hold their stock and hope the company's error is corrected, or simply sell their stock, hope to still make a profit on the sale, and invest their money elsewhere. An excellent example of the latter case recently occurred at A.H. Belo Corp., owner of The Dallas Morning News, the Providence Journal Bulletin, and a flock of television stations; in February 1997, Belo paid $1.5 billion for the Providence newspapers and nine television stations, and by late October 1998, its stock had dropped 50% from its 52-week high (to about $17 from about $34) because of declines in newspaper classified advertising revenue and the parent corporation's staggering debt load -- a direct result, of course, of the 1997 acquisition (Media Bites, 1998).

The Myths and Realities of Newspaper Acquisition Costs

Modern Period of Newspaper Acquisitions and Its Historical Context

Newspaper chains have existed for about 125 years -- the first one was assembled by E.W. Scripps and his siblings, and they were followed by William Randolph Hearst, Joseph Pulitzer, Frank Munsey, Frank Gannett and many others. Many scholars/observers trace the modern frenzy of newspaper mergers and acquisitions to the Newspaper Preservation Act of 1970, and certainly that law has played a key role in several mostly large cities. But for this paper a better date may be 1976 -- when Advance Publications, Inc., headed by S.I. Newhouse, bought Booth Newspapers, Inc. Today that deal may appear to be nothing more than a historical footnote of sorts, but it was the first major newspaper acquisition whose sheer size prompted widespread comment: Newhouse paid $260 million for a group of "out-state" Michigan newspapers and Parade magazine, a bigger deal than when Knight merged with Ridder.

It wasn't only the size of acquisition transactions that caused comment, but also the number of acquisitions -- which became a dizzying parade by the early 1980s. Ghiglione (1984) attempted to put the times into perspective with his book of case studies of acquired newspapers, and he leaned over backward to be fair to group owners by picking equal numbers of instances in which post-acquisition papers improved or deteriorated. In his introduction, he even wrote (p. xii),

> "It's virtually impossible to generalize -- good guys or bad? -- about groups' impact. If you believe the chains are destroying American journalism, read how McClatchy Newspapers brought back from death's door (and lost $2 million a year while doing it) the Anchorage Daily News. And review the impact of Knight-Ridder on the Centre Daily Times: tighter writing, better layouts, more training, and tougher editorials, including political endorsements where before there were none"

But still, there was no little doubt where Ghiglione's sympathies lay:

> "At the current rate, there will be no single, family-owned dailies by the year 2000. And, as groups buy groups, the American press of tomorrow may begin to look like the Canadian press of today -- two groups, Thomson and Southam, control about half the nation's circulation, and ten groups control 80 percent... (p. xi).

And Ghiglione called a "more common pattern" the phenomenon of acquiring chains that were blatantly greedy and unconcerned about local communities:

> "First, many groups set high profit goals for their papers -- as much as 40 percent before taxes -- and these goals, in turn, push the companies to operate tightly budgeted, often miserly, news operations.
>
> "Second, the people running the papers reflect the bottom-line mentality of the ownership. Some groups replace the old-fashioned editor-owners, who often wrote their own columns and editorials, with business-side people -- in some cases, M.B.A.s who worry only about M.B.O.s.
>
> "Third, while virtually every group (except perhaps Freedom) leaves the editorial-page policies to the local management, more than one de-emphasizes the importance of a paper's voice by chopping the editorial-page budget and staff. The editor responsible for editorial writing at the Transcript, North Adams, Massachusetts, was fired (and not replaced) within two weeks of Ingersoll's purchases."
>
> "Fourth, the paper's relationship to the community, as one might expect of absentee ownership, is more distant. This isn't necessarily all bad (one person familiar with the Centre Daily Times said that, prior to purchase by Knight-Ridder, it 'had sort of become slaves of community organizations'). But some group-owned papers participate less actively in the life of their communities and make less effort financially to support local projects" (p. 12).

Ironically, as Ghiglione's book tried to make sense of newspaper industry M&As in 1984, chains' spending spree was just warming up. For in the 1980s, Gannett Co. alone paid $300 million for the Louisville Courier-Journal, $600 million for the Detroit News, and $400 million more for the Des Moines Register. Self-described "S.O.B." Al Neuharth, then chairman of Gannett Co., when asked how he could justify to stockholders losing $1 billion on USA TODAY's start-up, said that he would have paid $1 billion to buy a paper like USA TODAY if such a paper had already existed. Nearly every medium- to large-sized newspaper group made acquisitions during the 1980s.

And just when observers thought, in the early 1990s, that newspaper M&A activity had to slow down -- on the theory that most family-owned newspapers that were ever going to sell to a chain already had done so -- chains were sold to other chains (such as Stauffer to Morris Communications, or Multimedia to Gannett Co., or some Disney papers to Knight-Ridder and others to Lee Enterprises, or Thomson papers to numerous buyers) and chains stepped up the swapping of newspapers to form advertising sales-oriented "clusters" (Fitzgerald, 1997). One observer called 1997 the "year of the deal" in the U.S. newspaper industry, as 162 dailies changed hands in transactions valued at a total of $6.23 billion. Not surprisingly, prices generally -- not just those of plums such as Cowles, Affiliated or the former Capital Cities/ABC papers -- continued at jaw-

dropping levels. The New York Times Co. paid about $1 billion for The Boston Globe, and then Knight Ridder paid $1.65 billion to Disney for four former Capital Cities/ABC papers (Kansas City Star, Fort Worth Star-Telegram and two others). And in February 1998, Newspaper Media LLC paid $95 million for the Quincy, Mass., Patriot Ledger -- a newspaper that all analysts agreed was worth no more than $70-75 million. (The new owner, with the generic name, immediately cut the newspaper's operating budget by 20%.)

Why Newspaper Chains Can and Should Make Acquisitions

Newspaper groups have numerous motivations to make acquisitions, and independent publishers have numerous motivations to sell their newspapers to someone and even at least two major motivations to sell to chains. But what this paper hopes to suggest is that chain executives have several motivations to pay "too much" for their acquisitions, and conversely have few binding reasons not to pay "too much."

Tax Laws. U.S. tax laws have favored mergers and acquisitions for decades, and newspaper groups have taken advantage of tax laws, anti-trust laws, banking laws, stock market rules and other forces in the economy as much as other corporations. (Adams [1995] found that merger and acquisition activity in the newspaper industry has generally been closely related to M&A activity in the rest of the U.S. economy throughout the 20th century.) Dertouzos and Thorpe identified five tax-related motivations for chains to make acqusitions, all five separate from the motivations that sellers may have for selling: capital gains taxes (the bigger the difference is between taxes on unearned income [such as dividends] and capital gains [and it is much smaller than it was in 1982], the more incentive corporations had to pay small dividends *now* and use cash for acquisitions that would make the stock's price go up -- resulting instead in capital gains taxes *later*); accumulated earnings provisions (the Interal Revenue Service forces corporations eventually to do *something* with accumulating cash); tax carry-forward provisions (but of course newspaper chains rarely acquire newspapers that have been losing money); depreciation (historically, the IRS has allowed acquiring firms to depreciate assets that already have been depreciated by the acquired company);

and tax-free stock exchanges (an independent owner could swap stock in his firm with stock in the chain's firm, and pay no capital gains taxes on the sale until he sold the chain's stock). While all five of these tax-based acquisition motivations may be powerful, and one might think they were embedded in U.S. tax codes for clearly justifiable economic reasons, Dertouzos and Thorpe speculated that they do not result in any new economic activity, and concluded, "If these tax laws do not truly stimulate any real investment activity and merely encourage mergers, they deserve review" (p. 72). (Of course U.S. tax laws have been revised in hundreds of ways since 1982, but one certainly could not argue that mergers for the sake of mergers have been discouraged or that mergers and acquisitions create any more fresh economic activity than they ever did.)

Optimal Use of Capital. A second major reason for media corporations to make acquisitions is that even rigorous financial analysis may show that making acquisitions will increase the company's short-term and/or long-term profits more than would investing in current operations. And to use built up cash from profits to buy stock on the open market and/or to pay higher dividends would be something of an admission that management is unable to come up with more strategic uses for the money. (And we address executives' personal motivations for acquisitions at this paper's conclusion.) Newspaper executives also are implying, by retaining cash rather than boosting dividends, that boosting dividends will not increase interest in the stock on the open market to a sufficient degree to be the cause, by itself, of the stock's price going up; interestingly, no media company has yet adopted the model of many public utility stocks, that is, decide that additional acquisitions are ill-advised; reinvest some profits in current operations; and pay the rest in high-level, steady dividends.

Non-Fungible Assets. A newspaper chain's executives, compelled by the non-fungibility of some assets, may believe they have little or no alternative but to make an acquisition when one presents itself. For example, The Boston Globe had been in Taylor family hands for more than a century, and when it became known to New York Times Co. executives that it was for sale, surely Times Co. executives realized that there is only one Boston Globe, that once sold it

was unlikely to be for sale ever again, and thus a Times-Globe deal literally was a "now-or-never" situation. Thus, even if the Times Co. paid too much for the Globe (and this paper does not address that question), Times Co. executives are unlikely to admit it.

Synergy. Synergy, a concept related to but different from economies of scale, is sometimes given as a reason why corporations make acquisitions. It is, for example, a "buzzword" at Chicago-based Tribune Co., as it develops closer working relationships between its newspapers, television stations and websites, and at The Gwinnett (Ga.) Daily Post in its partnership with Genesis Cable Communications (Georgia newspaper, 1997). Exactly how well synergy is working at Tribune Co. -- primarily because of possible long-term negative effects on its newspapers -- and at other media firms is unclear, but generally appears to be exaggerated. In fact, management experts agree that although synergy has occurred at some corporations and is possible at others, synergy was oversold in corporate America and that it has failed in most instances (Conniff, 1994; Landro, 1995; Geneen, 1997; LaFranco, 1997; Sirower, 1998).

Why Newspaper Chains Should Not Make Acquisitions

There are several reasons why corporations do not and/or should not make even friendly acquisitions when the opportunity presents itself.

Newspaper Chains Do Not Enjoy Additional Economies of Scale. Dertouzos and Thorpe (1982) found, "Economies of scale resulting from conglomeration appear to be nonexistent" (p. 22), on both the input and demand sides; in other words, chain newspapers on average are neither more highly demanded by readers nor by advertisers, nor do they enjoy lower fixed or marginal costs. Chain newspapers did not have lower newsprint costs (p. 35), or lower wage and salary costs (p. 35), nor were chain newspapers more likely to adopt new technology (p. 50)[3], than were independently owned newspapers. Needless to say, Dertouzos and Thorpe's findings, supported by both empirical evidence and econometric analysis, flies in the face of both a common assumption made in capitalist economies (and in the U.S. newspaper industry) and earlier literature. For example, Herbert Lee Williams' classic newspaper management textbook, Newspaper

Organization and Management, 5th Ed. (1978), listed seven advantages to chain ownership of newspapers, and five of them were economies of scale. But clearly, in both the newspaper industry and in the economy as a whole (Miniter, 1998), economies of scale -- like synergy -- have been widely overestimated.

Newspaper Company Prices are Sometimes Considered Too High. The first reason why a potential acquisition should not be made is when the price is so high that it cannot be justified to stockholders. Corporations often make these acquisitions anyway, believing that ultimately the acquisition will pay off and/or that stockholders will not hold them accountable if it does not. The second hunch is usually a safe bet, while the first often is not. Gannett's expenditure of $600 million for The Detroit News has turned out to be such a bad "investment" that it is charitable to call Gannett's purchase an investment at all: Gannett has not even earned back the purchase price let alone profits on its purchase. Moreover, because of inflation and capital costs, Gannett now will never be able to make back in profits the inflation-adjusted purchase price and required profits. For a second example, Ralph Ingersoll II paid too much for everything or nearly everything that he bought and ended up essentially losing his company, although he partially saved face by emerging with a few newspapers in the British Isles; as The Wall Street Journal reported when Ingersoll bought the New Haven (Conn.) Register, "The price...about four times annual revenue -- stunned some on Wall Street. 'I just find the price breathtaking,' said John Morton....'I'll be interested to see how Ingersoll gets a return on that investment'" (Landro, 1986, p. 7).

Prices asked for newspapers for sale are often too high for the reasons one would guess: the potential seller has an inflated view of the newspaper's value; the owner is not really interested in selling, but simply wants to test the market; the owner is willing to sell, but not unless the property commands a premium price; the seller is using an old valuation for a newspaper whose value actually has declined due to competition (such as the smaller of two metro dailies in the same market) or lack of buyers (this author believes that many small town weeklies currently face this problem); or the owner does not demand a premium price, but the supply-demand environment for

newspaper properties allows the owner to ask for it. Morton (1998c), for instance, attributed high acquisition prices to, "big demand and short supply drives up prices, as it always does," as if newspaper chains can make acquisitions like an individual makes short-term liquid investments in stock rather what newspaper chains really are doing in acquisitions: making long-term, capital investments.

And of course even when a potential seller doesn't ask for a premium price, potential buyers may engage in a bidding war, sometimes significantly jacking up the price. This is the point at which the "winner's penalty" (which has been discussed in scholarly literature [see, for example, Varaiya, 1988] on corporate finance but apparently never before mentioned in mass communication literature) comes into play: let's say that two newspaper chains each believe that a newspaper company for sale is worth $100 million -- but no more. Each is willing to bid the company's value to buy it, but one must be willing to bid more than the company's value -- say $110 million -- to complete the deal. Anyone who has ever participated in an active auction has witnessed this phenomenon. Obviously, the question is whether stockholders and executives should take the position that any newspaper that is worth $100 million must be worth $110 million (and, after all, what's $10 million between friends?), or should they reject the deal because it would cause them to "waste" $10 million?

To complete this picture, it must be noted that some media companies have refused to make bids when asked and, even if they have done so, refused to overpay for newspaper acquisitions. Thomas Murphy, the highly-respected, long-time former chairman of Capital Cities/ABC, Inc., was quoted in 1976 as saying, "Newspapers are the best unregulated business and television is the best regulated business to be in" ("Capital Cities predicts healthy second quarter"). The Capital Cities annual report for 1977 informed stockholders,

> "With properties available for acquisition being extremely high price/earnings multiples, and with our stock trading at a low price/earnings multiple, we believed that the repurchase of our stock was one of the better opportunities to deploy our assets. During 1977, your company acquired 321,000 shares of its common stock at an aggregate price of $17,111,000...."

The 1980 annual report added, "It is increasingly difficult for the Company to invest prudently in broadcasting and publishing acquisitions at the multiples being asked for the properties." Indeed, Capital Cities acquired no daily newspapers after the Wilkes-Barre (Pa.) Times Leader in 1978, and its acquisition of magazines was almost limited to those owned by ABC, which Capital Cities bought in 1986. In 1986, at the height of one newspaper M&A frenzy, Forbes magazine asked,

> "Isn't this a business in which people, seemingly smart people, are paying 20 times cash flow and more -- not earnings, cash flow -- for distinctly ordinary newspapers and other media properties? Indeed it is, but where others see glamour, Don Reynolds [founder of Donrey Media] recognizes that newspapers are a business like any other -- you make the money a dollar at a time -- and nobody has yet repealed the basic laws of economics.
>
> "'I look at each new property as if it was my only,' says Reynolds....His statement is a dig at the media moguls who blithely buy properties at prices so high that their cash flow cannot yet support the interest on the debt incurred in buying them. Says Reynolds, 'If you're going to obligate yourself for a fantastic payoff, I feel you shouldn't look to another property to carry it'....
>
> "Not long ago Reynolds eyed the 104,000-circulation Tacoma News Tribune, but dropped out when the bidding got too rich. He says to pay about 20 times cash flow for Tacoma -- as McClatchy Newspapers did when it paid $112 million -- would have required a 30%-to-35% profit margin, no easy trick in Tacoma, with eight strong labor unions and a small operating margin" (Behar, 1986, p. 144).

It should be noted here that Reynolds was not known for his commitment to editorial quality. It was mostly likely Reynolds's company (or perhaps Thomson) that was being referred to when a newspaper publisher wrote that a friend of his at a group-owned daily "was required to return 40 percent net on sales. That lasted, I believe, only two or three years. Yet I cannot conceive the impossibility of the task or the wretchedness of the product he was forced to deliver" (Udell, 1978, p. 75).

In the 1980s and 1990s, many newspaper chains have repeatedly made bids or considered making bids on newspapers for sale, and ultimately made few if any acquisitions. These included Capital Cities/ABC prior to its sale to Disney, The Washington Post Co., Tribune Co., Scripps Howard, Newhouse and others.

Spending Too Much of Cash Reserve and/or Borrowing "Too Much." As noted above, average stockholders -- after sensing that their company has made a blunder -- have three options: either hold their stock and hope the company's error is corrected; sue their company

for breach of fiduciary duty; or simply sell their stock, hope to still make a profit on the sale, and invest their money elsewhere. Note the case of A.H. Belo already mentioned above.

Acquiring Chain is Diluting Ownership (and Earnings Per Share). Particularly in family-controlled companies, such as The Washington Post Co., Dow Jones & Co., The New York Times Co., or companies with individual outside stockholders who own large percentages (such as Warren Buffett after the Capital Cities/ABC merger), stockholders may object to a potential merger or acquisition if it would dilute their control through the issuance of new or treasury stock, enlargement of the board of directors and other mechanisms. Likewise, average stockholders are not likely to balk at having less control after mergers and acquisitions, but they may balk at dilution of earnings and/or the decrease in dividends that may result -- particularly if they think that the seller got the better end of the deal.

Acquiring Chain is Diversifying Outside Its Areas of Expertise. Historically, newspaper chains have grown horizontally -- by getting into magazine publishing, book publishing, broadcast TV and radio, cable TV, shoppers, wire services, feature syndicates, and more lately into the internet, databases, and so on -- or vertically -- by buying paper manufacturers, forest land, printing plants independent of their newspaper and magazine production plants, parts of newspaper technology companies, and so on. And IRS regulations historically have encouraged, if not required, that U.S. corporations use built-up cash to start or acquire businesses that can reasonably be said to be closely related to corporations' core business(es); moreover, some broadcasters originally got into publishing because of FCC rules limiting the number of television and radio stations they could own. The decision about how a newspaper chain should expand is, of course, based on much more than what the IRS allows it to do (and in fact, given the growth of diversified conglomerates in the mid-20th century, newspaper chains arguably could have expanded outside the spheres of news, advertising and entertainment): another crucial factor is management expertise. And management talent -- or the lack thereof -- has had all kinds of "interesting" results.

For example, Capital Cities/ABC (as it was known prior to its purchase by Disney), was -- first, last and always -- primarily a broadcasting company, but its ownership and management of a group of daily newspapers and a huge group of magazines was, overall, spectacularly successful. Capital Cities Communications' excellent management allowed it to borrow enough money from Buffett to buy ABC, and Capital Cities/ABC's continued excellent management allowed it to command a premium price from Disney. Those who have followed the former Capital Cities Communications' operations for 20 years, as has this writer, are tempted to speculate that the company would have performed well almost regardless of what new businesses it entered. But other chains have been much more successful with TV stations than with newspapers or vice versa; just because both TV stations and newspapers are mass media doesn't mean that they can be managed similarly.

To use a particularly graphic example, McClatchy Newspapers in the early 1990s shut down a chain of senior citizens' publications all over the western U.S. with the ex-planation that McClatchy couldn't make them profitable; incredibly, this happened at the same time at which profitable senior citizens' publications were popping up all over the United States and senior citizens were finally recognized as both one of the wealthiest and fastest-growing segments of the U.S. population. Other chains primarily in the business of publishing daily, general interest, mass circulation newspapers, have had similar failures with suburban weeklies, urban neighborhood weeklies, shoppers, alternative newsweek-lies (Wilburn, 1995), and other specialty or niche publications. Clearly, such chains should stick to their daily newspapers -- or, at the least, acquire a company with excellent manage-ment and keep those managers in place. In short, while Morton (1998c) claims that news-papers' "professional management" has resulted in the industry "getting ahead of the curve with initiatives that prevent threats" and not relying on "seat-of-the-pants expertise," a more objective view of this usually reactive, rarely proactive, industry suggests otherwise.

Finally, it must be noted that some daily newspaper chains aren't even very talented at managing daily newspapers. In particular, the histories of the Hearst Corp. and Scripps-Howard Co. during the 20th century display a continuing series of shutdowns, forced sales of newspapers,

disastrous strikes, persistently poor quality news products, missed opportunities and in many cases, of course, low profits. Likewise, many observers who associate the Tribune Co. with the Chicago Tribune don't know or forget that Tribune Co. now owns only four newspapers; over the past 20 years, the corporation has sold off or shut down several other newspapers and passed on the opportunity to buy dozens of others. Yet for all of Tribune Co.'s *de facto* efforts to almost exit newspaper publishing (implied but not stated by Auletta, 1998), its frequent mismanagement of the newspapers it no longer owns, and its less-than-optimal management of the four papers that remain, it is noteworthy that Tribune Co.'s much-touted broadcasting division is only very slightly more profitable than its publishing division.

The moral of these stories is that newspaper chains need to be extremely careful in making judgments about their ability to manage potential acquisitions -- in part because they must be realistic about how well they are managing what they already have. The best use of capital in some situations is for the corporation to boost its share price and dividends by buying up its own stock as Capital Cities/ABC did; the only downside to this is that the IRS may investigate whether the repurchase is a "disguised dividend payment."

Corporation has Better Alternative Uses of Capital. All of the above may suggest that when a newspaper chain has built up tens of millions or hundreds of millions of dollars of cash, the best use of its capital may be to buy its own stock and/or increase its dividends, hold the cash until it is questioned by the IRS (assuming this will occur at all), buy companies outside the media and entertainment industries, invest in current operations, or buy companies inside the media and entertainment industries. All of these options should be periodically reviewed. A general argument for corporations buying their stock is that when corporations build up cash rather than buying their own stock and/or increasing their dividends, they are assuming that unknown future acquisitions or internal investments will benefit their stockholders more than paying cash to stockholders who are willing to sell now. As we already have seen with post-acquisition stock price de-

clines and a new study on corporate mergers (reported in Hiday, 1998), this assumption is highly questionable.

Valuing Acquisitions

One of the strengths -- and weaknesses -- of many corporate finance theories is the difficulty of taking into consideration aspects of corporation management such as management expertise, executive egos, possible synergies resulting from the acquisition, irrational demands or reactions by stockholders, and so on. The prestige value of a particular acquisition -- which, if high enough, may warrant increased interest from potential stockholders that the corporation otherwise would not receive -- must be reflected (if at all) in the goodwill value assigned to a potential acquisition (if one allocates part of the purchase to goodwill at all anywhere other than public financial statements and tax returns). Obviously, the prestige value of a particular acquisition -- such as when The New York Times Co. bought The Boston Globe -- can be potentially huge; the more significant such unique and often intangible benefits are, the more likely that acquisition can be called "non-fungible" -- in other words, it is not simply interchangeable with another, similar potential investment, because no other potential investment is very similar.

Such questions as whether the acquiring corporation will need to spend "too much" cash and/or stock -- in reserve, from borrowing cash, and/or issuing additional stock -- or whether the corporation has more profitable and/or more strategic uses of capital, must be answered as a separate question before or after conducting rigorous, traditional financial analysis of a potential acquisition's effect on profitability and cash flow. In sum, the tradi-tional method of valuing a potential acquisition is relatively simple, but important because that method cannot be directly influenced or clouded by other acquisition considerations.

The first of Dertouzos and Thorpe (1982, p. 65) two models for valuing an acquisition is:

$$"P = (1/r)\ n + T$$

"where P is the observed purchase price, $ million; r is the relevant discount rate; n is the level of expected gross annual profits of the newspaper, $ millions, and T is the tax benefit associated with

the purchase of the property." And because profit figures for various newspapers included in Dertouzos and Thorpe's empirical analysis were usually not known to those researchers, they calculated estimated revenues based on "firm circulation, media competition, publishing schedules, input prices, and aggregate advertising activity" (p. 67).

Dertouzos and Thorpe used actual acquisition prices, estimated profits, a discount rate (cost of capital) of 12% (standard in corporate finance equations), and then -- assuming on average that acquisition prices accurately reflected acquired companies' true financial value -- assigned the rest of the purchase price to tax benefits. As asserted above and discussed below, to assume that on average acquiring companies did not pay too much (which, by the way, assumes that for every acquiring company that paid too much, another company paid too little) was a big assumption for Dertouzos and Thorpe to make. This is especially true after they already had admitted that, "it is not uncommon for firms to sell for amounts far in excess of what is justified on the basis of annual earning" (p. 57) and their reminder later that, "Reported price-earnings ratios [of acquisitions] often exceed 20 to one and have been known to climb as high as 60 times annual pretax profits!" (p. 77).

And having already assigned significant value to tax benefits, Dertouzos and Thorpe go on to state that if the 12% discount rate is too low, "the predicted profit measures may overstate expectations and understate the magnitude of the tax factor" (p. 72); they leave it for their footnote #28 to remind us that "the wedge between the actual selling price and the value which is justified by the predicted future profit stream is presumed to be due to tax laws" (p. 81). In other words, again, Dertouzos and Thorpe had no empirical evidence of acquisitions' tax benefits.

Their second model, developed to take into account exogenous variables, was:

$$P = B_0 + B_1 n + \text{Sigma } B_i \, n \, Z_i$$

The regression analysis indicated three statistically significant variables, which were:

"Growth = The difference between the percentage change in the number of households in the local county and the United States between 1967 and 1975. The U.S. growth was 24.0 percent for this period while county changes ranged from 3.0 to 40.7.

"Dom = A dichotomous variable equal to one if the newspaper was dominated by competitors (as indicated by having lower circulation levels) in the local county subscription market.

"Weekly = A dichotomous variable equal to one if the sold newspaper was competing directly with a weekly newspaper located in the same town.

Based on 22 mergers and acquisitions, no one of which (according to Dertouzos and Thorpe) was large enough or small enough to skew estimated coefficients, Dertouzos and Thorpe found that:

$$P = 5.32 + 11.17n + .26\text{Growth} - 3.39\text{Dom} - .68\text{Weekly}.$$

While this equation makes some intuitive sense (a daily paper's acquisition price is highly correllated with its profitability, a fact tempered significantly if the daily paper is dominated by its competitors and temperedly very slightly if the daily paper's city also has a weekly newspaper), Dertouzos and Thorpe do not discuss their findings and instead immediately launch into a discussion of whether 12% is the most appropriate discount rate (cost of capital). Thus it is difficult to make substantial comments on the model.

Claussen (1986), then unaware of the Dertouzos and Thorpe study, proposed a different model -- the traditional net present value (NPV) model used in corporate finance -- of valuing newspaper publishing companies that are potential acquisitions:

$$NPV = -P + A + n/(r-G)$$

where NPV = net present value of making the acquisition; -P is the observed purchase price, $ million; A is the value of hard assets obtained in the purchase; n is the level of expected gross annual profits of the newspaper, $ millions; r is the relevant discount rate, and G is the real growth rate.

Claussen applied his equation to McClatchy Newspapers' purchase of the Tacoma News Tribune for $112 million. Liberally assigning a $2 million liquidation value to the News Tribune' s hard assets, assuming the standard 12% discount rate, assuming the standard 3% real growth rate, he concluded that the News Tribune would need to net about $9.8 million per year for the net present value of McClatchy's purchase to be zero. (Remember that net present values should be significantly positive in order for an acquisition to be advisable; a zero NPV means the deal is worth the price but no more.) Assuming that the then-104,000-circulation News Tribune was annually grossing about $28 million, Claussen concluded that the required $9.8 million annual profit represented McClatchy's need to net about 35% per year, in perpetuity, for the acquisition to have been even justifiable to stockholders; he implied that this was unlikely. Claussen's equation was even more telling about Gannett Co.'s acquisition of the Louisville Courier-Journal for $300 million. Here, Claussen plugged in the purchase price, an assumption of $6 million in hard assets (liquidation value), the 12% discount rate, the 3% real growth rate, a liberal estimate of 21% profit in perpetuity (about $7.6 million in 1986), and found a hugely negative net present value: -$209.5 million.

In sum, the Dertouzos and Thorpe models assumed acquisition prices to be rational, assigned value otherwise accounted for to tax benefits, and neglected to include the liquidation value of an acquisition's hard assets; their models would be immediately disproved, if -- after asking newspaper executives what financial basis they had for making acquisitions -- newspaper acquisition prices could not be financially justified; the quickest way to discover that would be checking Dertouzos and Thorpe estimates of acquisitions' tax benefits with actual tax benefits. In contrast, Claussen's equation sought to discover if acquisition prices were rational -- a question that challenges assumptions and doesn't make any. The major flaw in Claussen's equation was that it omitted tax benefits above and beyond what would be reflected in the acquisition's profits in perpetuity. In short, after including tax benefits in an analysis of McClatchy's News Tribune acquisition, that deal may have been more likely to have a significantly positive NPV, but it still is obvi-

ous that Gannett's purchase of the Courier-Journal (and the Detroit News, for that matter), was fiscally irresponsible; under no possible scenario could Gannett have obtained $210 million in tax benefits in a $300 million acquisition of a profitable publishing company.

Moving forward in time to McClatchy's recent acquisition of Cowles Media, let's restate Claussen's equation, with a new variable added for tax benefits. The suggested new equation is:

$$NPV = -P + T + A + n/(r-G)$$

where NPV = net present value of making the acquisition; -P is the observed purchase price, $ million; T is the tax benefit associated with the purchase of the property; A is the liquidation value of hard assets obtained in the purchase; n is the level of expected gross annual profits of the newspaper, $ millions; r is the relevant discount rate; and G is the real growth rate. Applying this amended equation to the McClatchy-Cowles deal, the mathematics (after deducting $200 million from the acquisition price for Cowles operations that McClatchy immediately sold off; using purchase price, hard assets and profitability figures from Morton, 1998a; a tax benefit estimate from Dertouzos & Thorpe, 1982; and standard assumed discount and growth [Claussen, 1998]) are as follows:

$472.1 million = -$1.45 billion + $366.5 million + $200 million + $122 million/.12-.03

Assuming the figures used are correct, the McClatchy-Cowles deal was a good buy. But if the tax benefits -- which this paper concludes were significantly overestimated by Dertouzos and Thorpe -- were substantially less than $366.5 million, and/or if Cowles' hard assets were not realistically worth $200 million, and/or if the Minneapolis Star Tribune cannot annually net, in perpetuity, an inflation-adjusted $122 million, and/or if McClat-chy's cost of capital was more than 12% (which is possible considering both McClatchy's acquisition alternatives and the beating its stock took), then one can easily see how the acquisition's net present value would be much smaller. In other words, if, for example, the tax benefits and hard assets were worth only 50% of these estimates and profits only slight-ly less, the net present value quickly moves toward zero. Time will tell.

Conclusion: Why Chains Make Acquisitions When They Are Irresponsible

Assuming for the moment that newspaper executives work with financial formula of their own in making acquisitions, and -- using conservative rather than wildly optimistic numbers -- can tell for themselves that some acquisitions (such as Detroit or Louisville) don't make sense financially,[4] why do executives make such acquisitions anyway?

Fortunately, scholarly research into corporate finance has finally caught up to journalists[5] and other observers to largely give up the naive assumption that corporate executives act only in the best interests of their stockholders (Singh, 1991, detailed what was known *and unknown* at that time about takeover behavior). Caves (1989) concluded that contrary to the impression given by the "corporate raiders" in the 1980s (T. Boone Pickens, Carl Icahn, etc.), the performance of target firms' managers (whether particularly good or particularly poor) usually is an "inefficient deterrent to mergers"; on the other hand, some acquiring firms' executives make so many acquisitions so often that it results in "excessive mergers," which inevitably are followed by "selloffs and spinoffs."

More specifically, a three-pronged theory of motivations for acquisitions has been developed and successfully tested. Corporate executives -- and there is no reason to believe, especially in the 1990s, that media executives are different from any other -- make acquisitions for reasons of corporate synergy, agency (executives increasing their own income and/or net worth, also known as utility), and hubris (the dictionary definition of this word, of course, is pride, self-confidence and arrogance, but I call it simply "ego" for short). Gupta, LeCompte and Misra (1997) found evidence for all three motivations.

The agency/utility motive was clearly supported by Firth (1991), who found that an acquiring firm's "senior management remuneration increases substantially after an acquisition" *regardless* of whether their corporation's stock goes up or down; Berkovitch and Narayanan (1993), who found that "agency is the primary motive in takeovers with negative total gains"; Zantout and O'Reilly-Allen (1996) found circumstantial evidence that when a corporation's CEO is also its

board chairperson, acquisitions were less likely to benefit stockholders (the chairperson/CEO still would benefit from increased salary, bonuses and/or stock options); and Loderer and Martin (1997), who found circumstantial evidence that executives benefit from acquisitions even when they own little stock in their companies because, of course, they have other ways to benefit besides increases in stock value and/or stock ownership. (One wonders if newspaper chain executive compensation will go down now that several chains are selling or closing down less profitable -- not to say unprofitable -- newspapers [Morton, 1998b].)

Roll (1986) was the first to suggest the hubris hypothesis, but the first empirical evidence of hubris was offered by Berkovitch and Narayanan (1993), who surprisingly found evidence of synergy indistinguishable from evidence of synergy. No research has refuted the hubris hypothesis.

In sum, in contrast to the traditional assumption that newspaper executives formed chains primarily because of chains' economies of scale, research conclusively proves that newspaper chains do not enjoy economies of scale above and beyond individual large newspapers. It then become necessary to understand that newspaper executives have numerous personal, corporate tax related, and fiduciary motivations for making acquisitions, and further, that while some of those motivations benefit stockholders or do not noticeably affect stockholders at all, other motivations have been shown in research on other industries to benefit primarily executives and to be contrary to stockholders' interests (if only in lost opportunities). In assessing mergers and acquisitions in the newspaper industry, each transaction needs to be examined individually, and no assumptions should be made as to why a particular transaction was made or whether it was in stockholders' best interests. Fortunately, models developed by Dertouzos and Thorpe (1982), and Claussen (1986) can serve as the basis for further refined models -- such as the revised equation offered by this paper -- that can soberly and objectively begin to analyze acquisitions' financial value.

Notes

1. That individual newspapers enjoy economies of scale, and/or the extent to which economies of scale are or are not related to most newspapers' quasi-monopolistic status has been well-documented by Primeaux (1975, 1977); Sherman (1976); Bogart (1977); Ferguson (1983); Thompson (1988) Bucklin, Caves and Lo (1989); Reimer (1992); and Blair and Romano (1993), among others.

2. These questions are neither asked nor answered in a recent American Journalism Review cover story on remaining independent papers (Risser, 1998), an entire "Media Mergers" issue of Media Studies Journal (1996), such articles as Neiva's history (1996), and almost all other sources consulted for this paper.

3. "The empirical evidence presented suggests that the changing structure of the newspaper industry is not due to differential abilities to adapt to rapid technological change. Econometric analysis of two distinct data sets with disparate statistical models yield quite similar conclusions. First, individual newspaper size does enhance the probability of diffusion of VDTs. However, an examination of residuals and estimation of separate slopes by circulation category indicate that size matters only to a point. Evidence suggests that the higher probability of VDT diffusion does not stem from efficiencies or capital market advantages but rather from the fixed-cost nature of certain production processes. In addition, group newspapers, in general, have not adopted electronic technology at a faster pace. There is some evidence that small, regional groups began using VDT input equipment in classified departments earlier, but this phenomenon is probably a result of the higher benefits of computerization for such firms. In fact, the regressions for display VDTs indicate no apparent advantage for group newspapers.

"The dramatic growth in newspaper chains can not be explained in terms of more efficient adaptation to technological change. In some cases, chain-owned establishments exhibit inferior levels of development. They appear to enjoy no apparent capital market advantages nor is the purported sequential adaptation of technology or "learning by doing" very important. Also, there are no strong economies of scale in technological innovation. There is a pronounced threshold for the adoption of computer technology, but it occurs at a level which is much lower than the size of most firms" (pp. 50-51).

4. Simply making this assertion is contrary to Seyhun's conclusion (1990) that no evidence exists that "bidder managers knowingly pay too much for target firms." Is even the most cynical observer ready to allege that newspaper executives are so sloppy in their due diligence and/or financial analysis that they "unknowingly pay too much for target firms"? In other words, this paper concludes that bidder managers must knowingly pay too much for target firms, and that numerous explanations exist for that behavior.

5. For example, journalist Jenkins (1998) has written that the diversification of stockholders means that the "stock barometer can humble our corporate leaders and make them better. The risk of persistent folly has all but disappeared from large-cap stocks, making the S&P 500 a consistently safe bet. Management noses are held to the grindstone by continuous, direct and searching accountability." I am not as optimistic as Jenkins that "persistent folly" is now almost impossible, but obviously I agree that in the past there has been "folly" and a lack of "continuous, direct and searching accountability."

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