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MEDIA MEGA MERGERS CATCHING ON

IN SOUTHEAST ASIA.

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INTRODUCTION

In 1967 when Marshall McLuhan predicted that electronic media, specially television, would alter the human central nervous system, his thoughts were dismissed with scorn. Television as a medium is less than sixty years old, but it has influenced societies across the globe. The fall of the Berlin Wall, the break-up of the Soviet Union are all attributed to the impact of television. Some countries believe that it is responsible for electronic imperialism and others try to shelter their cultures from the homogenizing influence of television. But so far it has been a one-way medium attracting entranced viewers to watch its programs. But with the introduction of digital compression, Direct-to-Home broadcasting, fiberoptic cables and the promise of 500 channels for viewing, the television medium is about to undergo a phenominal change.

Multimedia innovations are set to revolutionize the entertainment industry as interactive television takes over the interest and the attention of the viewers. A wide array of technological changes are transforming homes and workplaces

and making consumers captive to huge media monopolies. The spread of mega mergers both in the United States and in Asia are about to control both information and entertainment and limit consumer choice to whatever interactivity comes over the 500 channels. Narrow casting over the airwaves is not welcomed by all sections of society. Jeffrey Chester of the Center for Media Education (1995) describes it as an electronic land grab to dominate the future of this trillion dollar industry in the 21st century.

Two centuries ago Thomas Paine was the first to use media as a powerful weapon against an array of monarchies, feudal lords, dictators and repressive social systems. He not only invented political journalism but created a public awareness of the right to participate in politics (Jon Katz 1995). His spirit has permeated both the old media and the new of cable, computers and the Internet bringing in its wake a new form of media ownership resulting in the largest mega mergers the world has known.

OWNERSHIP CHANGES IN THE UNITED STATES

Seismic shifts in the media business took place in July, 1995 when Michael Eisner put the powerful Magic Kingdom on top of the world of entertainment, with his \$19 billion takeover of Capital Cities/ABC Inc. It was such a dramatic move that it triggered a frenzied mergers not only in America but across Asia as well, with Rupert Murdoch seizing the opportunity to extend his empire in different continents.

The Disney deal has a widespread effect inasmuch as the corporation that determines children's viewing habits in the world, now owns America's most successful broadcast network. Since ABC owns ESPN, the sports channel with the widest coverage, the merger has created the second largest corporate merger in U.S. history, with Kohlberg Kravis's acquisition of RJR Nabisco in the lead. The Disney channel is the second largest pay channel on cable after HBO. The theory underlying this acquisition is not only the advantages of economies of scale but the advantage of synergy in programming and in technological advancement.

Disney's cultural influence is spreading more rapidly internationally than in the United States. Its international revenues were \$2.4 billion in 1994, almost a quarter of the company's total revenues. With the new merger Disney can enter all the 100 countries that host ESPN, even China and India. When Mickey meets ABC the company's revenue will be \$19.3 billion, and cash flow \$4.6 billion with 85000 employees.

Despite the fervor for the Global Information Infrastructure (GII), and the growth of cable and satellite delivery, the networks continue to be powerful. In a world of increasing viewing choices, the networks continue to exercise awesome influence over every home in America and continue to

rake in vast amounts of advertising dollars. The
Telecommunications ^{Reform Act 1996} ~~Bill now moving through Congress~~ will
allow networks to own more stations and eventually create new
digital channels. The more forms of information delivery that
a channel owns, the bigger will be its potential profits. Now
dominance of the media has become a function of
owning both programming and content and the distribution
assets needed to deliver it. Rupert Murdoch did this with his
Fox network and satellite delivery systems in Asia and Europe
and made Fox the most profitable part of his U.S. holdings.
Following Murdoch's example, Viacom and Time Warner have been
building television networks through which to sell their own
programming. On the other hand Telecommunications Inc which
is the largest cable operator is collecting programming
assets. But the Disney-ABC merger is about more than
capturing distribution . Ultimately Disney will take on \$10
billion in debt but ABC will add to Disney's cash flow per
share which is the key indicator on Wall Street(*Business*
Week, August 14, 1995, 32).

Very soon on the heels of this mega merger came
Westinghouse's offer of \$5.4 Billion to buy CBS. The landscape
for the entertainment industry is changing rapidly making it
possible for more consolidations to take place legally. The
Westinghouse deal became another big takeover resulting from a
ferocious battle between media giants trying to wire the
world. CBS still delivers to 18% of the prime time audience

and the advertising market is enhancing broadcasting revenues immensely. In November 1995, Westinghouse shareholders approved the \$5.4 billion purchase of the struggling broadcaster. In the past, in 1986, Viacom bought MTV for \$500 million and now MTV business is valued at \$6 billion. Even Asia started its own MTV originating from Hong Kong. The CBS record business sold to Sony in 1988 for \$2 billion is now worth \$6 billion. MCI has infused \$2 billion in Murdoch's News Corp and prevented it from sinking. The principal allure for the CBS purchase is its distribution channels. The timing of the deregulation intensifies the interest of Hollywood studios in network television. The FCC is providing new rationale for media mergers. It is eliminating the arcane financial interest/syndication rule which kept the networks dependent on studios. Now combining two sides of the media business makes economic sense. The Fox network is already part of a global media empire that includes major film studios.

Intense global competition, changing technology and the U.S. Congress's desire to make the regulatory climate friendly, have all unleashed a wave of corporate mergers in America. In the media industry the deals are gargantuan as shown by Time Warner's \$8 billion bid to acquire Turner. In the last decade the mergers were based on leveraged buy-outs, but today's strategic alliances are of similar companies joining to expand their reach and reduce their costs. Under

the agreement with Time Warner, Turner Broadcasting which includes CNN, the Cartoon Network, movie studios, a movie library, would all become a wholly owned subsidiary of Time Warner through a stock swap of \$8 billion. Time Warner would become the world's largest entertainment company with projected 1996 revenues of \$20 billion. Telecommunications Inc (with CEO John Malone) holds a 21% stake in TBS which will make that company a significant shareholder of the new Time Warner. Even though US West tried to block the deal as a major shareholder of Time Warner, the deal still went through. The issue is whether the media moghuls are paving the I Way or whether the Anti Trust division will stem the merger frenzy. The public interest becomes an important issue because these companies are not only entertainment ones but also cable operators and there is an overlap between the two businesses. It is apparent that an oligopoly is ensuing in the entertainment industry which competitive market forces are supposed to hold in check. Are the new mergers able to corner the market? It is a huge marketplace in the telecom industry embracing competition in telephony, cable, cellular, satellite, the Internet, broadcast and utilities. In such a large market, oligopoly in one section of it does not make it illegal (*The Wall Street Journal*, September 29, 1995). The FCC is concerned about the educational aspects and the Westinghouse CBS merger was made to agree to air three hours of educational programming for children every week. The

dilemma for the FCC is that while these broadcasters are supposedly protecting the public interest they are asking for free spectrum allocation for digital broadcasting. Congress has acceded to their demand. That leaves consumers wondering if vertical integration is the best way of producing good programs or films. The case for vertical integration is based on the inherent risks in losing production costs which tend to be high and would be lost without proper distribution channels. Vertical integration would ensure that programs reach the largest possible audience. Control over content and distribution is what these mergers are aiming at. The scarcity of mass distribution systems has magnified the economic value of networks and made them strategic targets for the studios. There is only one company that commands as powerful a combination of content and distribution and that is Murdoch's News Corporation. This current advantage will shift when satellites, cable and telephone companies offer 500 channels of mass distribution to every home. But the global market still remains to be captured by the networks and the vertical integrations are also taking care of that as seen by the coverage that CNN and ESPN enjoy in world markets. This advantage has also been taken care of by Network News Corporation.

OWNERSHIP OF MEDIA IN ASIA

Outside of the United states , Ted Turner is synonymous with CNN International, the channel on which the

world watched the Gulf War, the invasion of Haiti, the events in Bosnia and other international crises. Likewise the BBC over the years has built up a reputation for reliable world news. BBC World Service on radio has an audience of 133 million, but its television operations lost \$8.3 million in 1994. The problem is that BBC World Service has to pay for the programs it buys from the BBC. In order to justify its public service operations, BBC formed joint ventures with a British media group called Pearson and Cox Communications an American company that operates in Europe and with Nissho Awai, a trading company in Japan. BBC's partners bring the advertising. These companies along with CNN and Network News expect their revenues to increase in the global markets in the next five years. CNN anticipates an increase in revenues from Asia and Latin America to increase by 15 to 20% a year over the next five years according to *The Economist*, (September 2, 1995).

An important player on the merger scene in Asia is Asian Sports Channel which teamed up with Telecommunications Inc. of the U.S. which also supplies programming to Star TV's Prime Sports channel. Murdoch's News Corp is an Australia based group that already owns distribution channels by satellite, cable and terrestrial networks and is competing with the Asian Sports channel. The latter has political backing from India's Doordarshan (a state owned Broadcaster) and from Radio Television Malaysia and Television New Zealand.

Since TCI also owns stakes in Asian Business News and the Discovery Channel, it may bundle the sports channel with these. Star TV however is not doing well because its losses in 1995 are about \$45 million and its estimated losses in 1996 are \$80 million. News Corporation can afford such losses since its net profit in 1995 rose to \$10 billion, a 10% increase over 1994. On the other hand TCI's net profit for 1994 was \$55 million. The scene ~~will~~ changed when AsiaSat 2 ^{was} ~~is~~ launched at the end of 1995 when Star plans to offer more local language programs.

Another merger in the Asian market has been the purchase of Zee TV by Rupert Murdoch's Star TV which has several problems not the least of which has been Mr. Murdoch's declaration that satellite TV is an "unambiguous threat to totalitarian regimes everywhere", a statement that led to anger the Chinese government and the dropping of BBC World Service from the northern beam of AsiaSat. The media mogul recognized that programming has to take care of differences in political, social and cultural mores in Asia for Star's southern beam that stretches from Israel to Indonesia. He therefore bought a Chinese language film library called Golden Harvest in order to cater to Star's northern beam viewers.

Most of the cross ownership of media channels in Asian television mergers realize that a pan Asian market will not become a reality in the near future. Even MTV has made its product localized by splitting in two. One will

concentrate on Hindi pop for India while the other on Canto pop and Mandarin for Hong Kong and Chinese viewers.

Both MTV Asia and BBC are now not worried about their future because a dozen new regional satellites have been launched since 1994 and data compression techniques will give them more room for competition in the Asian market. Already Turner Broadcasting is in a loose consortium with ESPN and Australia's AUSTV along with TVB which is Hong Kong's big broadcaster and the world's biggest producer of Chinese language programs. TVB's strengths are Rupert Murdoch's weaknesses, namely its local programming, its cash flow and its political connections. Currently Star's five channels are broadcast free to anyone with a satellite dish but TVB gets its revenues from cable operators and does not rely on regional advertisers as Star does. Wharf Cable is wiring Hong Kong to cover 90% of homes and Murdoch entered a deal with them to provide English language channels in addition to their Cantonese broadcasts.

Households Viewing Star TV as of October 1993

China	30.5 million
India	7.2 million
Taiwan	2.3 million
Israel	620,000
Saudi Arabia	369,000
Hong Kong	331,000
Philippines	187,000

South Korea	184,000	
Thailand	142,000	
UAEmirates	117,000	10
Pakistan	77,000	
Indonesia	50,000	
Kuwait	31,000	

Source: Economist Intelligence Unit

While Western broadcasters are not new to Asia they are now marketing entire channels and preparing to challenge Star TV. While viewers are ready to taste the fare, their governments are not quite happy with what is being offered by the Western media conglomerates. Malaysia's Prime Minister Datuk Seri Mahatir Mohamad disapproves of the cultural "corruption" that threatens Asian viewers. Local broadcasters, however, have taken up the gauntlet and are prepared to succeed with their audiences. Competitors vieing with Star TV are called "the Gang" made up of TVB Hong Kong, CNN, HBO, ESPN, Discovery Channel, Viacom, and Time Warner. The lure of the market for all these broadcasters is the size of the market, i.e. two thirds of all mankind, a swelling middle class in vibrant economies, and pent up demand for television. The picture is not as rosy as it sounds. The Pan-Asian market draws only 2% of advertising spending, and the bulk goes to local media. Adverisng alone is not sufficient to support Western media conglomerates. It was satellite communications that sparked the growth of

the television revolution in Asia while the cable penetration was just beginning. In India and Taiwan program suppliers are unable to collect program royalties from hoardes of cable operators. Technology is helping as HBO and ESPN are encrypting their signals to Asia forcing viewers to buy expensive decoders. South Korea is vigorously expanding its cable services in an effort to win back viewers from U.S. and Japanese programs beamed by satellite and to control its content.

In China alone advertising revenues are expected to reach \$250 billion in 1995 according to *The Far Eastern Economic Review*, January 27, 1994, but the problem for Western broadcasters is to bring local language broadcasting for viewers who are not literate in English or their own language. Murdoch acknowledged this need when he announced that Star TV would create separate services for Mandarin, Hindi and Indonesian. This caught on with other broadcasters and ESPN now dubs a Mandarin track for some of its programs. The BBC offers news in Mandarin. Perhaps the best example is MTV which adapted the U.S. format to appeal to Chinese and Taiwanese audiences. With all these changes Western broadcasts will remain a niche rather than a mass product.

Television in the Pacific Rim has become a magnet for investment capital. Corporations wanting to benefit from seemingly endless opportunities find that the Asian market will outpace the rest of the world for atleast the coming

decade. In a competitive frenzy, western broadcasters are scrambling to reach Asia's three billion viewers, many of whom are increasingly wealthy and most of whom have been starved for entertainment. Lesser known than Star TV is TVB Hong Kong owned in 1994 by Run Run Shaw a Hong Kong movie maker and by a Malaysian entrepreneur Robert Kuok. Realizing that most Asian countries were tied down to government owned channels used for propaganda, TVB started to respond to the region's cultural and language needs by beaming Chinese programming to Taiwan, and dubbed programs to South Korea, Thailand, Malaysia and now to Vietnam. Time Warner has a 10% stake in the company. Lured by the profits of TVB, and Star TV, another cable TV company in Hong Kong called Wharf Cable started its operations in October 1994. It offers seven channels in Cantonese plus CNN for a monthly fee of \$26. It now has 500,000 subscribers. Even Singapore has started to beam its own programs to Southeast Asia via the Palapa satellite. It is also connecting every home with fiberoptic networks in order to be able to compete and to limit western influences on its culture. In November 1994 another innovative merger started operating from Singapore called Asia Business News. Its principal owners were Dow Jones, TCI and TV New Zealand. By 1995 it started to reach almost five million viewers via cable systems and local stations. Likewise HBO Asia a joint venture between Time Warner and Paramount Communications, it is based in Singapore and sends its movie

channel via satellite to Pay TV services in Singapore, Taiwan Thailand and the Philippines.

Despite this tremendous growth in cross media ownership and its success in Asia, there is no quick or sure way to make profits. Spending on advertising in Asia rose in 1995 to \$10 billion (by 15%) excluding Japan. The bulk of that amount went to local broadcasters rather than to the regional satellite broadcasters. The greatest beneficiary of this conglomeration of television companies is the satellite industry with a schedule of 24 new satellite launches over the Pacific Ocean Region in 1995 and 1996. A key component of this growth has been the close dependence of broadcasters for their news, sports and entertainment programs on satellites. The economics and politics of network distribution have been the focus of their collaboration. Many future events seem to enhance this cooperation such as the 1998 Nagano Winter Olympics, the 1998 Commonwealth Games, the 2000 Sydney Summer Olympics. These will target further competition among the media giants for cross ownership and control of the media.

Another collaboration from Down Under comes after a year long negotiation between Kerry Packer's Publishing and Broadcasting Limited and Murdoch's News Corporation. Contention over rights for broadcasting horse racing and dog racing in Australia was ended when in September 1995, News Corp

bought 50% of PBL's Sky Channel . Now they are negotiating as a team to extend their broadcasts to an interactive betting channel to other Asian countries to entice the gambling fanatics of other countries in the region. This is another example of how cross ownership extends its grasp over audiences. In Hong Kong alone bets on horse racing amounted to \$9 billion in 1995 upto June. In Australia in 1994 the turnover was Australian \$13 billion.

In Japan the mega ventures are also taking shape as Hughes Communications Inc along with three local companies are planning to start a 100 channel satellite TV service in Japan. The local partners are Culture Convenience Co., Dai Nippon Printing Co., and Space Communications Corporation, a Unit of Mitsubishi. They will set up a 200 million yen facility to study the kind of programming to offer, according to *Asahi Evening News*, September 15, 1995. The service will be a Japanese version of the DirecTV that Hughes introduced in 1994 in the U.S. Japan has 6 million households who subscribe to three satellite broadcasting systems as against 30 million households who subscribe to cable TV. Since Japan is lagging behind other Asian countries in satellite television, it has permitted Panamsat to broadcast directly to consumers without having to go through a Japanese broadcaster. This is the first of such permissions given to a foreign satellite company in Japan and indicates the changes that are taking

place in liberalizing policy.

Satellites and Pay-TV are dominated by one name in Thailand -Shinawatra. Starting out with a doctorate in law from the United States, Thaskin Shinawatra has accumulated assets for his firm of \$2.5 billion within a decade. The company owns several telephone related licenses from the Telephone Organization of Thailand(TOT),and an exclusive satellite operations monopoly for Thaicom which is a joint venture in global communications. It also owns a subsidiary for computer communications. However its Pay TV venture depends on how the market will bear the costs. Currently the region is obsessed with obtaining news from no less than six players contesting the market. CNBC Asia has launched competition with TVB of Hong Kong,and has been joined by CNN International, Asia Business News, and ABC's Australia Television making the information transmission much greater than can be absorbed. CNN has been competing with Reuters in the region and now fierce competition for viewers will be between Asia Business News and CNBC. As mergers change the landscape for broadcasters, viewers are subjected to changing patterns for payment and advertising campaigns.(see *Cable and Satellite Asia*,July/August,95,p24)

In Korea as the local channels try to compete, it appears as if competition is decreasing programming diversity(Lee and Youn,1995). It is apparent in the Korean case that the

structural changes in the television industry are inseparable from the changes in the political structure because they do not have the production capacities or the financial resources to compete with innovative programs. Consequently in Korea there is a general trend to duplicate or imitate a few popular formats in order to capture viewers. Mostly in developing countries governments try to control programming and infuse propaganda for political parties as was the case with Doordarshan in India a decade ago. This is also true of China, Malaysia and Singapore where governments try to censor TV programs and restrict the use of satellite receiving dishes. But the revolution in technology has rendered that policy almost impossible to enforce. Today the industry has advanced in so many forms that satellite beamed television programs have led to a whole new industry of VSATs (Very Small Aperture Terminals) which with declining prices have become popular in all Asian countries.

Malaysia's censors are gradually mellowing as economic growth and social stability have infused a new level of self confidence to the country's broadcasting authority. In the information age it is becoming more difficult to muzzle the airwaves. With DirecTV coming to Indonesia in the near future, and with the Satelindo satellite company leases transponders to American programmers, Southeast Asia will be able to access the same program content that global viewers are used to.

CONCLUSION

With converging technologies and changing regulatory policies, we find that the television industry is being transformed both in ownership and in content. These trends described above have overtaken as much of the viewing public in North America as it has in Asia. The audiences are none the worse for the mergers and acquisitions that are rampant. The demand for western programs has not abated despite the desire on the part of governments to protect and preserve national cultures. Political and social systems are moving more towards democratization even as economic adjustments are bringing in improved living standards in developing countries in Asia. The investment in telecommunications infrastructures is growing rapidly with the goal of making domestic economies viable to compete in global markets. Television provides the information and education needed to advance this process. It has however, its handicaps in the large measure of violence and sex it portrays thereby creating false generalizations regarding its impact on diverse cultures.

Television has a pervasive influence on society. In China there are more television sets than there are telephones. With ownership mergers, it promises more diversions and amusements perhaps creating an information glut. With interactive multitudes of channels there will be

fragmentation of users as there is now on Internet. Small groups of people with similar interests will discuss specialized information and divide society into small unconnected groups. This is not the vision of the future that the Global Information Infrastructure (GII) envisages. As viewers get fragmented by religion or ethnicity the global perspective will disappear. If the new conglomerates enhance the gap between the information rich and the information poor both nationally and internationally, then egalitarian access to information technology will be doomed. The concept of universal access has to be translated into reality for all new technologies specially those that affect television since it is such a pervasive medium.

The fact that the new interactive technology can be used for educational programs gives hope for the millions of illiterate and less educated masses in Asia. The benefits of distance education via satellite TV are being accepted and utilized by many developing countries as open universities take their place in educational systems. The British Open University, the Commonwealth of Learning, the University of the South Pacific will all be able to take advantage of new satellite technologies as ATM (Asynchronous Transfer Mode) switches get built into satellite transmissions. If the cross ownership of producers and distributors paid heed to this special social need for advancing education their mergers will add to benefits of the Information Society as we know it and

as we wish it to be.

As we have seen in the course of this paper, billions of dollars are being spent to create mergers in the television industry. Many technologies in the past have liberated consumers to manipulate information and to eliminate distance and to choose mass entertainment (Ithiel de Sola Pool, 1983). As *The Economist* (1994) rightly maintains "the essence of a technology of freedom is that it endows its users with the freedom to fail". The television revolution is not likely to fail but it will be upto the viewers to make it succeed and also upto the programmers to reach and benefit all classes of society. This will require a happy blend of entertainment and edutainment.