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Deconvergence and Deconsolidation in the Global Media Industries

The rise and fall of (some) media conglomerates

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Introduction

Over the past two decades, the promise of economies of scale, synergy, and the lure of potential benefits from the coordinated production and distribution of diverse cultural products led many communication and media corporations to embrace the strategy of media convergence. This became especially apparent in the late 1990s. From small software developers to global media giants, convergence became a core paradigm and was touted as the next big leap in the digital era (Ip 2008). “Big is beautiful” has indeed been the business motto, and through vertical and horizontal integration, communication companies expanded in a bid to become leaders in the digital communication era.

Since the early twenty-first century, however, a countertrend has emerged as several mega-media and telecommunications companies, including Disney, Time Warner, and Viacom have turned to deconvergence as a new business model. Many communication giants have adopted a strategy of focusing on a few core business areas and have split-off and/or spun-off other aspects of their operations. Thus, whereas mergers and acquisitions (M&As) among media and communication companies were the norm during the high tide of neoliberal reforms in the 1990s, during the past decade spin-offs, split-offs, and deconsolidation have become significant trends in the communication market. This change is occurring mainly because media convergence has met with several serious problems, including plummeting stock prices, feeble content, and the fact that new forms of mediation mean that synergies are not as easily achieved as the “visionaries of convergence” once thought. Such trends raise the question as to whether this process will fundamentally change the ownership structure of the media and communication industries and, in essence, supersede convergence as the governing paradigm for these industries.

The approach that I adopt in this chapter is mainly informed by the critical political economy of communication perspective. As Robert McChesney (2000) states, “the political economy of communication looks at how ownership, support mechanisms such as advertising, and government policies influence media behavior and content” (p. 110). The approach is also uniquely positioned to take an integrated approach to “traditional” and “new media,” and to relate these to society and larger processes of social change as a whole. Dan Schiller (1996) makes just such a point when he observes in his seminal book, *Theorizing Communication: A History*, that studying communication is concerned with more than just a restricted set of media. Crucially, as he states, “The potential of communication study, in short, has converged directly and at many points with analysis and critique of existing society across its span” (Schiller 1996: vii). Giving these starting points, this chapter starts with an overview of media convergence in the 1990s up until the turn of the millennium. It then investigates the countertrend of deconvergence that has increasingly taken hold since then, mapping out how and explaining why deconsolidation and spin-offs have become central strategies and key elements of new business models in the communication industries. It also asks whether these changes to the communication and media industries will enhance the goals of competition, diversity, and democratic discourse that are at the heart of antitrust laws and media regulation in many countries.

How to understand convergence and deconvergence

Media convergence is not a simple phenomenon and has multiple meanings.¹ According to Henry Jenkins (2006a: 2–3), media convergence can be conceptualized in three ways: first, as the flow of content across multiple media platforms; second, as the coming together of multiple media industries; and third, as a consequence of the migratory behavior of media audiences who will go almost anywhere in search of the kinds of entertainment experience they want. Other scholars (Baldwin, McVoy, and Steinfeld 1996; Wirtz 2001) view media convergence from three different perspectives: consolidation through industry alliances and mergers, the combination of technology and network platforms, and integration between services and markets. Regardless of their differences, these views share the idea that convergence brings about a closer relationship between media structure and content, a closer integration of production for old and new media forms, and the consolidation of firms across different sectors of the communication and media industries.

Communication corporations have pursued convergence due in large part to the belief that vertical and horizontal integration would create synergy effects and, thus, help to maximize profits (Chambers and Howard 2005;

Chan-Olmsted 1998). Many traditional media firms also saw convergence as a way to venture into the internet market and to take advantage of evermore pervasive digital technologies and neoliberal communication policies (Bar and Sandvig 2008; Huang and Heider 2008: 105). For traditional media industries, such as network broadcasters and newspaper companies, convergence is a great opportunity to integrate with the new media sector and to deploy multimedia and multifunctional networks that will allow (digital) hardware and software (content) to be integrated across the full span of their operations (Noll 2003; Schiller 2007). While some see convergence as primarily being about the technological integration of media technologies (Jenkins 2006a), large integrated companies actually play a fundamental role in shaping the dynamics of the convergence process (Mosco 2009a). Some corporations have horizontally integrated within similar media sectors, for example, between traditional network broadcasters and/or among internet companies, while others have vertically integrated, for example, between the broadcasting and film industries and/or between telecommunications and broadcasting industries.

The promotion and adoption of neoliberal communication policies since the 1980s have strongly encouraged vertical and horizontal integration (McChesney 2001). Since that time, most governments, not only in the United States but also in non-Western countries, have introduced economic liberalization measures, including the reduction of government intervention in communication markets, opening the domestic market to competition and foreign investment, and privatizing telecommunications and broadcasting providers. The aggressive promotion of neoliberal reform by the United States and the United Kingdom early on in this process led to telecommunications and broadcasting companies being privatized in many countries and changed the map of the media industry as a result (Murdock 2006).

Before the ascent of neoliberal globalization, most media companies focused on their core business areas, partially because government policies, including antitrust laws and cross-ownership restraints, sought to define them distinctly and to keep them separate (Baldwin *et al.* 1996). Indeed, the dangers of ownership concentration in the communication industry were addressed by a combination of antitrust and regulatory policies that attempted to attenuate the amalgamation of corporate power. In particular, corporate mergers and the consolidation of ownership have long been sources of concern because of their potential to limit the diversity of voices. US regulatory and antitrust policy traditionally attempted to address the potential negative implications of concentrated media power by adopting structural limits on media ownership consolidation (Horwitz 2005: 181–2). For example, prior to the 1990s, Time Inc. was known as a publication company, Viacom was famous for its TV syndication and cable businesses, whereas News Corporation was mostly a newspaper company based in Australia.

Pro-business neoliberal communication policies changed all that by lifting the barriers between media sectors. This has resulted in the consolidation of

media ownership into the hands of a few media giants (McChesney 2008). Vertical and horizontal integration work to help secure corporations' access to new markets and new sectors of the communication industries, although the consequence is the oligopolistic control of the world communication market by a few giant corporations (Jin 2007). The loosening of cross-ownership rules, in particular, has been one of the most significant factors that have allowed communication and media firms to expand beyond their traditional core business realms into additional sectors of the media (Thussu 2006). Thus, media corporations have become larger and presumably more powerful as ownership regulations have weakened over the past two decades (Horwitz 2005).

Nevertheless, despite the supportive role played by digital technologies, neoliberal regulatory reforms, and ownership consolidation, media convergence has often failed to achieve many of the promised benefits. As Albarran and Gormly (2004) argue, historically, fewer than half of all mergers survive. A few scholars also documented the process of disintegration in the communication industry in the mid-1990s (Gilder 1994; cited in Mueller 1999). These authors also point to the failures of AOL–Time Warner and Vivendi–Universal after the turn of the twenty-first century as further evidence that convergence has given way to divergence or demergers (Albarran and Gormly 2004: 43). Their discussion, however, has not been developed widely, most likely because the deconvergence process has only come fully into its own in just the past few years.

Given the recency of these trends, there is no clear definition of deconvergence. This chapter defines deconvergence as referring mainly to companies' strategic decision to decrease the scale and complexity of their operations in order to regain profits and restore their public image, while deploying new strategies to survive in the continuously changing communication and media industries. In other words, deconvergence occurs when media and communication corporations spin off or sell parts of the company to others.² Spin-offs and/or spilt-offs separate particular divisions from a parent corporation and allow them to act independently in the market, although the parent company may often still hold some of the shares in the new entity. This is most evident in the case of Viacom–CBS, where these entities were formally separated from one another at the end of 2005 but without actually diluting the fact that Sumner Redstone continues to be the dominant shareholder in both entities—a point I will examine further below.

Convergence: an old trend in the communication industries

The global communication industries have entered a period of unprecedented change on account of digital technologies that enable moving pictures, sound, and text to be transmitted over the same transmission media, the liberalization

of national communication markets as well as the integration of individual national markets into a vastly enlarged global communications market. M&As are another form of convergence and have been propelled by two major historical events: the 1996 Telecommunications Act in the United States that allowed cross-investment between the telecommunications and cable industries and the 1997 World Trade Organization (WTO) agreement that reinforced the trend toward market liberalization worldwide. With the momentum of these efforts behind them, telecommunications and broadcasting industries invested in one another on a large scale, and Western communication companies invested massively in developing countries, such as South Korea and China. The Telecommunications Act withdrew prohibitions on cross-media ownership and rendered antitrust criteria evermore fuzzy as to just what they covered and what rationales and values guided their use (Schiller 2007: 108–9). As the Federal Communications Commission (FCC) put it, by implementing “the 1996 Act, Congress sought to establish a precompetitive and de-regulatory national policy framework for the U.S. communications industry” (McFadden 1997).

Previously, multiple ownership rules limited the total number of television and radio stations an entity could own nationally, irrespective of location; however, those changed under the new act. As originally promulgated in the 1940s, the multiple ownership rules prohibited common ownership of more than three television stations, and then from the 1950s onward the number of television and AM and FM radio stations that a single entity could own was capped at seven in each of these media (Horwitz 2005: 188). However, in 1984 the FCC increased the ceiling to 12 AM radio, 12 FM radio, and 12 television stations, and these measures have been loosened even further over the past two decades. The Telecommunications Act of 1996 repealed all national ownership limits for radio; the Act also repealed the 12 stations per owner national cap for television, although a single company may not own stations that reach more than 35 percent of the nationwide television audience (Section 202 in the Act). In short, the Telecommunications Act played a significant role in the neoliberalization process.³

Against this backdrop, mega-media companies that control content and hardware together in order to maximize their value, image, and profit emerged. These mega-media giants can secure the outlets for their content, including television programs and films, through vertical and horizontal integration, and through international alliances (Jin 2008: 370). They understand that synergies accruing from common ownership, especially when they are internet-related outlets means that outlets under a single corporate umbrella function mostly to promote, not compete with, other outlets (Horwitz 2005: 186). Convergence also occurs within the same communications sectors, for instance, as broadcasting companies merge with one another and as telecommunications companies combine. Meanwhile, consolidation in the global broadcasting industry has also reflected neoliberal reforms and the growing importance of

broadcasting, cable television distribution networks, and specialty and pay television services in the digital era.

The global expansion of media convergence through M&As in the 1990s and the early twenty-first century occurred as Western-based transnational media corporations invested an enormous amount of money in the global communication industry. Indeed, this sector became one of the most profitable sectors of the world economy. For example, the United States exported US\$13,598 million worth of film and television programs to other countries, whereas imported only US\$1,878 million in 2008. The net profits for the United States were more than US\$11,720 (Department of Commerce 2009). The WTO agreement reduced barriers to trade and encouraged countries to adopt an export-driven, corporate-based economic system and targeted local media content rules for elimination. Unlike telecommunications, the WTO agreement did not explicitly include the broadcasting industry as its target area for free trade; however, it has certainly influenced the liberalization process of the media industry in many countries (Pauwels and Loisen 2003). WTO member states have continually pushed to expand the reach of the General Agreement of Trade in Services (GATS) in this respect (White 2008). Even where countries have not made specific commitments to the WTO, there has still been pressure to harmonize domestic laws and rules with the standards set by the WTO. Canada, for example, relaxed and harmonized its rules governing foreign ownership in the broadcasting sector with those of the telecommunications sector in 1997, that is, by limiting direct and indirect ownership of broadcasting and telecommunications firms to 46.7 percent (Transport Canada 2003). Given that the division between telecommunications and broadcasting is gradually dissolving due to the forces of convergence, many countries, including Canada, continue to consider additional steps that would relax foreign ownership restrictions in the telecommunications and broadcasting industries even further.

The continued steady growth of the internet and digital technology as well as the pursuit of neoliberal reform means that convergence continues to loom large even today. However, in the twenty-first century, that strategy has waned and the consolidation of global broadcasting has actually begun to diminish in recent years. The total number of deals fell from 858 in 2000, the highest in history, to just 444 cases in 2002 and 471 in 2003. M&As once again increased thereafter until 2007 but fell off in 2008 and 2009 (569 cases) as the global financial crisis kicked into high gear. This is a far cry from the 800 cases per year that was typical of the late 1990s.⁴ The fall of M&As also coincides with the emergence of deconvergence, as I will show below (Watkins 2008).

Several political-economic factors help to account for the decrease in national and global M&As in the communication industries: the terrorist attacks on the United States in 2001, the economic recession starting in the early twenty-first century as well as the market saturation right after

the Telecommunications Act of 1996 and the 1997 WTO agreements. The unparalleled global downturn in advertising in the wake of the dot-com crash and the events of September 11, 2001, have also been offered as explanations for why some media conglomerates have failed, including Time Warner (Murray 2005). The 2007–8 global financial crisis has also become one of the major factors behind recent turmoil in the media market. The collapse and/or rescue of major investment banks, the lack of interbank liquidity, and the resulting impact upon stock markets, production systems, national economies, and workforces reveal essential elements of market instability (Chakravartty and Schiller 2010; Hope 2010).

In sum, communication companies rapidly jumped into the deal market, tempted by the potential rewards of synergy and economies of scale held forth by the idea of media convergence; however, with only a few exceptions, this has not come to pass. Instead, major media giants that seemed to stand astride the world at the turn of the twenty-first century, such as Time Warner, Viacom–CBS, and Disney, have seen their convergence strategies flounder badly. Instead of being runaway successes, these entities have experienced plummeting stock price, falling revenues and profits, and deteriorating corporate images, leading them to reconsider, postpone, or even abandon convergence. It is in this context that deconvergence emerged as the media and communication industries' new “golden” strategy.

Deconvergence: the emergence of a new trend in the communication industries

Convergence has not achieved what it was meant to in many cases, and now mega-media giants appear to be turning to the pursuit of a deconvergence strategy. As Manuel Castells (2001) pointed out,⁵

[T]he business experiments on media convergence carried on since the early 1990s have ended in failure. Most of the forms of convergence did not make money. Indeed, traditional media companies are not generating any profits from their internet ventures. (Castells 2001: 188–90)

Deconvergence has appeared in several ways: the sale of profit-losing companies, spin-offs, and split-offs and massive layoffs, none of which are mutually exclusive. Deconvergence has expanded greatly, especially in the content and entertainment sectors more than new media areas. This is likely because traditional media corporations' hopes that merging with other entities in the new media industries would be hugely profitable have, for the most part, not come to pass.

In the twenty-first century, restructuring through deconvergence began with Viacom—formerly the second largest media company after Time Warner. As is

well chronicled, in September 1999, Viacom bought CBS, which was one of the largest network broadcasting companies, for \$40 billion. The merger brought together the extensive motion picture and television production, cable network, video retailing, television station, and publishing assets of Viacom, Inc. with the television network, radio stations, and cable programming holdings of CBS, Inc. (Waterman 2000). The merger of Viacom and CBS primarily reflected a strategy of vertical integration, in the hope that the combined entity would realize significant synergy effects.

However, just 5 years later, Viacom began to separate from CBS. Viacom–CBS was thus broken up into two independent media companies: Viacom would focus on new media, while CBS was to emphasize traditional media. In other words, Viacom would be the “engine” of growth, retaining mainly cable and film entities, including MTV, BET, and Paramount Pictures, while CBS would oversee the slower growth but cash-flow-rich television and radio broadcasting, publishing, and outdoor advertising divisions (Sherman 2006). Prior to this, the Paramount Pictures division of Viacom already spun off its video rental chain Blockbuster in 2004, leaving Viacom to mainly focus more on production rather than distribution and exhibition. Viacom, nonetheless, continues to be a formidable entity, owning the largest international music broadcast company MTV, Nickelodeon, Showtime and Comedy Central, Spike TV, and VH1. Viacom also controls more than 150 cable channels worldwide, reflecting the new company’s focus on new media, compared to traditional network broadcasting companies (Viacom 2008).

At a glance, the deconsolidation of Viacom–CBS changes the media environment by increasing diversity and lessening concentration of ownership. As in many large-scale mergers between media corporations, the merger between Viacom and CBS in 1999 raised several critical issues about the potential undesirable economic and social effects that it could have. Among the main issues raised were whether the merger would lead to excessive market power or to a reduction in the diversity of voices within particular media market segments, such as in broadcast networking or in local radio and television station markets. Another broader concern about the merger involved the growing size of media corporations in the United States because the Viacom–CBS merger would take a significant step toward the concentration of control of all the media into too few hands (Waterman 2000: 532).

The breakup of Viacom, however, has little to do with diversity and media democracy, or with addressing the concerns of consumer and public interest groups. The deconvergence process is a matter of pure economics for Viacom: Share prices were languishing and the media conglomerate seemed to be a concept that might have had its day. When the merger between Viacom–CBS occurred, Viacom shares were trading at \$46.3. They peaked 2 years later at almost \$75 but plummeted to \$38.8 in March 2005 (Teather 2005). Sumner Redstone, the CEO of Viacom, broke up the media conglomerate on the

grounds that two separate companies could be worth more than the combined entity (Sherman 2006). Redstone also told the cable news channel CNBC that “synergy,” if not dead as an idea, was certainly in its “death throes” (Teather 2005: 22). Moreover, as he stated at a dinner meeting for media industry VIPs in San Francisco, the move was really about introducing a new business model into the heart of the media industries:

[C]onvergence, the bigger-is-better concept that dominated the industry for most of the past 10 years, is falling apart. As some of you know, divorce [deconvergence] is sometimes better than marriage [convergence]. (Maich 2005: 33)

Although he did not explicitly say so, Redstone’s comments marked the rapid growth of the deconvergence age—a new direction that repudiates much of what his audience were already grudgingly accepting (Maich 2005).

Many observers, including government officials, media practitioners, business strategists, and even critical media scholars, believed that there would be no turning back from the heyday of convergence, but the breakup of Viacom–CBS confounded the common wisdom. Indeed, the whole concept of deconvergence was considered highly unlikely for at least two reasons. On the one hand, it would involve the restructuring of many billions of dollars in equity. On the other hand, it defies the logic of digital production. Media and telecommunications companies have merged for the expressed purpose of selling digital content and having control over both the network and content. Moreover, telephone, internet, radio, and television services are now carried on the same cable or telephone line and are functionally inseparable. Just from a technological viewpoint, therefore, divestiture seemed to be an unfathomable idea (White 2008: 43). Instead of accepting falling values of corporations as inevitable, however, media firms adopted deconvergence as a new business strategy and began turning back to their core businesses in the midst of the crisis of convergence. Others will surely follow.

Viacom is indeed only one of several media empires now being broken up into smaller media companies. The most notable such example in the United States is the giant media conglomerate, Time Warner. Time Warner became the largest media company when its takeover by AOL in 2001 created a massive media conglomerate that was expected to be worth \$350 billion—the largest corporate amalgamation in US history. Through the deal, AOL secured access to the premier content of Time Warner as well as a broadband distribution platform for its interactive services, while Time Warner would be able to accelerate the marketing of its products over the internet—an exemplary case of synergy effects, if there ever was one (Wirtz 2001). Time Warner’s stock more than doubled between 1998 and the announcement of the company’s merger with AOL in January 2000. Since AOL completed its \$165 billion takeover of Time Warner in 2001, however, the shares of the combined entity have plunged, and the company is now considered a textbook example of a

disastrous media merger. Time Warner's 22 percent drop in stock price in 2007 put it among the 10 biggest losers in the S&P 100 Index of large US companies for the year (Wee 2007a). Under pressure from investors to boost its stock price, Time Warner has had little choice but to separate itself into several small companies.⁶ The media giant has changed CEOs several times, and hoped-for synergy effects have fallen far short of expectations. Time Warner is now a leading example of the deconvergence strategy along the lines pursued by Viacom (Arango 2007). As David Henry (2002) suggests, there are common reasons why these mergers fail:

[C]ompanies sabotage their deals by making the same mistake again and again: [they] overpay by offering a sizable premium, which hands the bulk of future economic gains from the merger to shareholders in the target company, [they] overestimate the likely cost of savings and synergies. (Henry 2002: 64)

Current Time Warner chief executive Jeffrey Bewkes is clearly responding to pressure from investors in his efforts to emphasize the company's entertainment businesses and to turn around the flagging AOL internet unit (Klemming and Sondag 2008). Movement along this path was already evident when Time Warner removed AOL from its moniker in 2003 and sold off the Warner Bros. music division in 2004. In 2008, the Time Warner Cable unit was also spun-off, and it is now planning to separate AOL and Time (publication sector). Once completed, Time Warner will be a reborn company focusing on content-based media, including film and a few cable companies. As Jeffrey Bewkes stated when Time Warner Cable—the second largest cable operator in the United States—was being spun-off in May 2008, “we’ve decided that a complete structural separation of Time Warner Cable is in the best interests of both companies’ shareholders” (Time Warner 2008).⁷ In other words, Time Warner dismantled itself not because of pressure from civic groups or citizens who want media diversity and democracy but because of intense pressure from shareholders, in particular, large institutional shareholders. A recent statement by Time Warner makes the point:

[T]his is the right step for Time-Warner and Time Warner Cable stockholders. After the transaction, each company will have greater strategic, financial and operational flexibility and will be better positioned to compete. Separating the two companies also will help their management teams focus on realizing the full potential of the respective businesses and will provide investors with greater choice in how they own this portfolio of assets. (Time Warner 2008)

[O]nce the transaction is completed, Time Warner will have a streamlined portfolio of leading businesses focused on creating and distributing our branded content across traditional and digital platforms worldwide. (Time Warner 2008)

The fate of AOL within the Time Warner corporate-fold remains unsettled, but Bewkes has never been a fan of the original AOL's takeover of Time Warner.

Indeed, unlike his “media convergence visionary” predecessors, Stephen Chase and Gerald Levin, Bewkes has seen that venture as the ultimate failure in media convergence (Wee 2007b). The decision to drop AOL from the company name in 2003 was already a significant symbolic gesture that the mega-merger of the dot-com boom was en route to becoming one of history’s biggest corporate calamities (*The Times* 2003). Back then, Jonathan Miller, chairman of AOL, asked AOL–Time Warner chief executive Richard D. Parsons to propose a name change to the board of directors. Miller states,

[T]he AOL brand name has been hurt since the merger when it became shorthand for the media conglomerate, which has experienced a precipitous stock drop, the launching of two federal investigations into AOL’s accounting, the accrual of more than \$24 billion in debt, the departure of top executives, the selling of corporate assets and a nearly \$100 billion loss in 2002, the largest in U.S. corporate history. (Ahrens and Klein 2003)

Beyond Viacom and Time Warner, several other substantial media firms have pursued a similar course of deconvergence. For example, Liberty Media, separated from AT&T in 2001, spun off its international cable businesses into a separately traded company in 2003 and then spun off its ownership in the Ascent Media Group and Discovery Communications, Inc., in 2004 (Liberty Media 2008). Clear Channel, the country’s largest radio broadcaster with about 1,200 radio stations and several television stations until recently and the epitome of the mega-media company made possible by the 1996 Telecommunications Act, announced that it would spin off its live entertainment division and sell 10 percent of its outdoor advertising business in an initial public offering in May 2005 amidst a steep decline in revenues and profits (McClintock 2005). The takeover of the firm by the private equity group Thomas H. Lee and Bain Capital Partners in 2006 ultimately led to all of its television stations and 161 of its radio stations outside the top-100 US markets being sold to another private equity group, Providence Equity (“Clear Channel sells ... ” 2007).

According to a Lexis-Nexis search, the total number of deconvergence cases has substantially increased over the past several years. Using spin-offs and split-offs as the key terms in the search, there were only 218 deconvergence cases in the US media industry in 1995; by 2008, this number had jumped to 407 cases—and 87 percent increase (Table 7.1).⁸ The trend toward media deconsolidation is no longer just a passing fad; it is a full-fledged trend reshaping the US communication industries. Deconvergence has also been visible in the United Kingdom, France, and Canada during this time. Vivendi, one of the largest media conglomerates in France, for example, sold Universal Entertainment in 2005. In Canada, CanWest Global Communications contemplated packaging its newspaper assets into an income trust that would be sold in an initial public offering. Thus, even before being forced by bankruptcy to dismantle the company in 2009/10, CanWest had considered splitting off its newspapers

Table 7.1 Increase in deconvergence in the US media industry, 1995–2009

Year	Spin-off	Split-off	Total
1995	82	136	218
2001	181	192	373
2002	152	181	333
2003	151	176	327
2004	170	246	416
2005	193	249	442
2006	165	252	417
2007	162	218	380
2008	177	230	407
2009	102	179	281

Source: Lexis-Nexis.

from its core TV operations (before changes in tax law rendered that option undesirable). Although deconvergence in mid-sized economies such as South America and Canada, as Chapters 2 and 6 in this volume suggest, is not as strong as in the United States, it has nonetheless constituted a clear and significant business trend in recent years. Table 7.1 charts the de-convergence trend over the past decade and a half in the US market.

It is worth repeating that the deconvergence trend is a response to the limited success of the mega-mergers that characterized the late-1990s before these firms quickly became lumbering dinosaurs that could not survive as their economic models and stock market valuations crumbled. Forced by this turn of events, they have tried to morph into small or mid-sized companies. This rather abrupt change in course reflects the stern discipline of disgruntled investors and the drying up of capital markets. First and foremost, it is the logic and demand of capital, rather than *any* concern with restoring competition and a diversity of voices at the center of the public sphere.

Implications of deconvergence in the communication industries

Deconvergence has changed the structure and dynamics of the communication and media industries in several ways, most notably, perhaps, by changing the traditional business model. Viacom and Time Warner certainly believed that the merger would increase access to know-how and content, and even astute critical media political economists such as Robert McChesney (1999: 22) believed that this pursuit would be business success, albeit disastrous for the future of the media, good journalism, and democracy itself. However, with

recent experience in hand, and perhaps the exception of the takeover of *The Wall Street Journal* by News Corporation in 2007, the majority of M&As have been disastrous on any measure, business or otherwise.

Comcast's bids for Disney in 2004, for example, did not work out. While Comcast had a successful track record of acquisitions on the cable side, this has not been so on the content side. If the deal had succeeded, Comcast, the nation's biggest cable operator, would have owned the ABC broadcast network as well as the Disney film studio, ESPN, Pixar, and other Disney assets. However, already alert to other unsuccessful mergers, Disney rebuffed Comcast's (CNN/Money 2004).⁹ Instead, instances of media convergence that have taken place since have focused mostly on horizontal integration between production corporations, particularly new media corporations, as the cases of Google and YouTube (2006) and between Disney and Pixar Animation (2005) demonstrate. Comcast, however, has not put the convergence dream to rest, and in 2009 it made a move to acquire NBC-Universal from GE. While this complicates the general trend that I am identifying here, it is also one of those "exceptions that proves the rule" cases. Besides, it is also an example of a spin-off and de-diversification, given that the prototypical general conglomerate, GE, is selling off its controlling share in NBC-Universal.

Deconvergence has also led to a newfound emphasis among major media corporations on their core businesses, particularly content. It may be that "content is king" because media audiences care more about having convenient access to quality content regardless of medium (Jenkins 2006a). In this scenario, audiences' changing media behavior drives media convergence. With clear evidence that convergence often fails but also that audiences will switch allegiances at the drop of a hat, media corporations are now fixing their strategy on horizontal consolidation, where core competencies can be strengthened and, critically, the internet-related new media sector. Of course, this does not mean that media corporations that focus on content must hold all their interests under the same roof. Indeed, it is already clear that when a specific division fails to perform, they are cut loose, as Disney is currently doing with Miramax—the art-house studio—which it acquired in 1993. Miramax was valued at approximately \$2 billion in 2005, but even after its two Oscar-winning, box-office hits in 2007 (*No Country for Old Men* and *There Will Be Blood*), it has been difficult to find new buyers for the studio. As of April 2010, Bob and Harvey Weinstein, the brothers who founded Miramax in 1979, are reported to be the front-runners with their bid of about \$600 million to take the studio off Walt Disney's hands (Frean 2010). The point, in short, is that even mega-sized, content-rich Disney has realized that it must reduce corporate sprawl in order to achieve greater business success.

Finally, deconvergence is changing the lineup of major players in media markets. Over the past 15 years, the communication market has witnessed the rise of sprawling media giants of the likes of Time Warner, Disney,

Table 7.2 Top six US media and entertainment companies (2007)

Media companies	Revenues in 2004 (billions)	Revenues in 2007 (billions)
Time Warner	42.8	46.6
Walt Disney	30.7	35.9
News Corporation	20.8	28.7
NBC-Universal	NA	15.4
CBS	NA	14.1
Viacom	27.0	13.5

Sources: *Fortune* (2005, 2008). Data of NBC-Universal comes from GE 2008 Annual Report (2009).

News Corporation, NBC-Universal (independent of GE), CBS, and Viacom (the “Big Six”) that have dominated domestic and global media markets. Now, however, we must ask whether this will continue as deconvergence proceeds apace? According to *Fortune 500* (2008), Time Warner has been the largest media corporation in recent years; however, with the separation of Time Warner Cable and potentially part of AOL in the near future, Disney could become the largest media conglomerate within a few years. Viacom, the second largest media corporation until the early twenty-first century, already ranked sixth, while CBS became the fifth largest right after NBC-Universal, in 2007. However, whilst the rank ordering of the “big six” (Table 7.2) may change in the years ahead, there is scant evidence that major media giants will be giving up their dominance in the communication market any time soon as they move toward more diverse ownership structures. Instead, current trends suggest that these media empires are pursuing a strategy of deconvergence, not because of protests by civic groups, or on account of government regulations that place a premium on the maximum dispersal of “media power” as a key factor in creating a healthy democracy, but on account of economic imperatives and changing business fashions. Seen in this light, the basic philosophy of deconvergence differs little from that of convergence. Deconvergence changes the ownership and organizational structure of the media industry, from concentration to deconcentration, at least for a while, but fundamental changes to the media still remain far off in the distance.

Discussion and conclusions

Convergence fundamentally changed the structure of the communication and media industries in the 1990s, but deconvergence and deconsolidation have stepped into that role in the twenty-first century. It is too early to refer to this as the “Age of Deconvergence,” however, but not risky to say that deconvergence has become one of the major business paradigms in the communication

industry, largely in response to the failures of convergence. The 1990s saw the triumph of systemic belief in the virtues of synergy and economies of scale and scope without end, and regulators and politicians fanned the flames with weak regulations and neoliberal policies. In the twenty-first century, however, the media market has witnessed buyout teams busy unwinding those very deals. The pieces are worth more than the whole (Jubak 2002). The draconian media paradigm driven by both neoliberal communication policies and digital technologies, thus, has substantially lost its power, or at least its hegemonic allure, and the communication sector has witnessed the birth of a new business model as a result. The deconvergence strategy now being pursued by Viacom and Time Warner, most notably, but many others as well, has become the new standard *d'jour*, perhaps because these media behemoths still set the pace and determine the rules and models that prevail in the business at any given point in time. Furthermore, convergence will not disappear altogether because demands for information and entertainment as well as the internet remain high (Dennis 2003). The fall of convergence does not mean that the dominant paradigm is dead or that it will be entirely without signs of life. Media companies will still seek consolidation if for no other reason than to dampen the risk and uncertainties endemic to the media business. This was true of the industrial media in the twentieth century, and it is likely to be true of the emerging digitally networked media of the twenty-first century.

Deconvergence will change the communication market and the ownership structure of these industries. According to traditional antitrust measures, deconvergence has been welcomed and desirable because corporate media ownership concentrated among a handful of media giants means treating media as economic properties, pure and simple, without the traditional tension between profit and public service (Horwitz 2005). However, it must be restated in no uncertain terms that deconvergence has nothing to do with the concerns of society, the diversity of voices, democracy, competitive markets, and so forth. It is, through and through, a new business model with little other than the thoroughgoing commodification of content and culture in mind. Seen in this light, it is "old wine" in a "new bottle." The current wave of deconvergence is real, but we still face a lack of diversity of voices from visible minorities, mainly because new shareholders of deconsolidated media firms are mostly other large agglomerations of capital, that is, institutional investors, corporations, private equity groups, and so forth. As long as the current trend of deconvergence is driven by economic imperatives and these actors, the goal of improving the public sphere and revitalizing democracy will prove elusive. Split-offs and spin-offs, and other markers of deconvergence, will be further expanded in the midst of the global financial downturn that presently defines much of the world economy, to be sure, but we should not pin our hopes on the idea that economic calamities will somehow create the kind of media that democracies need and people want.

Notes

- 1 Although the term “convergence” has become popular in recent years, it has a long history. For example, Winseck and Pike (2007) demonstrate that convergence is as old as the telegraph and that the promises and challenges we associate with the internet were anticipated by that mid-nineteenth-century technology.
- 2 Spin-off is a type of divestiture where an independent company is created through the sale or distribution of new shares of an existing business of a parent company. Meanwhile, split-off is a type of corporate reorganization whereby the stock of a subsidiary is exchanged for shares in a parent company.
- 3 One of the major legal forces to control the concentration of media ownership has been the limitation of the cross-ownership between newspaper and broadcasting firms. However, in December 2007, the FCC voted to eliminate the cross-ownership rules despite severe public opposition. In response to the FCC’s efforts to dismantle ownership limits, the Senate introduced a resolution disapproving of the FCC rule changes and seeking to nullify them. The resolution is under consideration in the 3rd US Circuit Court of Appeals in Philadelphia as of May 2010 (Blethen 2010).
- 4 This chapter used the Securities Data Company (SDC) Platinum Database for basic data on M&As in the communication and media sectors, which includes all corporate transactions, private as well as public, involving at least 5 percent of ownership of a company between 1990 and 2009.
- 5 Detailed reasons for the failure of convergence in terms of technological convergence between television and the internet are discussed in Castells (2000: 189–90).
- 6 Several factors have been offered to explain why consolidation between AOL and Time Warner failed, including the conflict of corporate cultures between the two media companies, the economic recession in the early part of the twenty-first century, and the decline in the number of AOL service subscribers (Albarran and Gormly 2004).
- 7 Time Warner obtained a \$9.25 billion, one-time cash dividend from its Time Warner Cable, Inc. unit before spinning off the business to shareholders (Klemming & Sondag 2008).
- 8 This part of the chapter employs Lexis-Nexis power search to examine the overall trend of deconvergence between 1995 and 2008. Two search terms were used: One is spin-off in US media companies and the other is split-off in US media companies. Sources were restricted to *The New York Times* in order to avoid double counts.
- 9 The board of Walt Disney rejected the \$54 billion unsolicited stock offer from Comcast because they believed it was too low. However, they also acknowledged the poor track record of other big media deals such as Vivendi-Universal and AOL–Time Warner. They knew that “on paper, marrying content with distribution makes a lot of sense but in reality it’s been a tough nut to crack” (Holson and Sorkin 2004).