VIACOM

Report:
Strategic issues facing Viacom in 1996
Proposed Solution: Eisenmann, T. R. and Bower, J. L. 1996. *Viacom Inc.: Carpe Diem.* Cambridge, MA: Harvard Business School Case #9-396-250.

Date:
Fall, 1996 - March, 2004

To:
Frank Biondi, CEO, Viacom

From:
ANDiDAS.COM Strategic Elephant Solutions, London

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EXCECUTIVE SUMMARY

Viacom is facing a range of management challenges in the mid 1990s. These include the expansion into overseas markets to finance huge debts, accumulated in previous acquisitions. In the turbulent and hyper competitive environment of the global media industry Viacom has struggled to capture any first mover advantages against a strong and fast moving competition. Viacom's decentralised bottom-up M-Form has proven too slow, ineffective at realising synergies and unable to obtain the best deal for the entire company overseas. Viacom's current situation is analysed extensively and evaluated.

To enter the European market it is recommended that Viacom should adopt a new organisational structure and strategy. An entrepreneurial M-Form with greater CEO involvement would lend Viacom more agility, and realize the synergies possible with Viacom's resources. Greater emphasis should be placed on strategic planning style than a pure financial control style. A new information knowledge system will facilitate the central decision making process.
Although a high-performance culture is beneficial for single divisions, a collaborative culture might be better for the whole company and at realising synergies.
To enter EU markets, it is recommended to negotiate with distributors in each European country individually because the establishment of new platforms could sharply increase the rents for content. Integrating forward is risky and more capital intensive, which might be exceed Viacom's financial resources.

INTRODUCTION

This report will analyse Viacom and its environment in order to arrive at a suitable strategy for the issues Viacom is facing in 1996.

1. ENVIRONMENT & INDUSTRY OVERVIEW

1.1 EXTERNAL ENVIRONMENT

Viacom is operating in the global entertainment and media industry. All factors, political, economic, socio cultural and technological can have direct effects on the industry. Legislation through the FCC[1] and governments in every country where a media company operates can have fundamental limitations to ownership of media or facilitate monopolistic structures.

The late 1980s and early 1990s saw a great amount of consolidation when several players attempted to gain scale and reduce operating costs. The economic climate and the populations' disposable income are the main determinants in money that can be spent on entertainment.

Technology is a major driving force of the media industry being a carrier for almost all entertainment. Change in this area is rapid and unpredictable. New technology is constantly opening new markets. The opportunities of the internet as a distribution medium are just about to be discovered. All these factors create an environment with a high level of turbulence[2] [Appendix D & E].

1.2 COMPETITION

American entertainment (especially movies) can be sold in almost every western country in the world without great need for localisation (except for vocal synchronisation). Therefore, this industry is of global nature [Appendix C]. Through consolidation there are now six major media conglomerates in the world market for entertainment that can be considered as rivals for Viacom. Most competitors show some degree of vertical or horizontal integration and have businesses in various entertainment forms [Appendix B]. Despite the low number of competitors the industry could be described as hyper competitive and very fierce due to the huge pool of capital available to major players.

However, there are certain situations when this does not apply. The creation of a gatekeeper occurs when a single party has full control over a content[3] distribution channel. This creates a monopsony where a single buyer has increased power and can negotiate lower prices payable for the distribution of content. On the other hand, when more than one party compete to establish a 'platform' in a market (such as BSkyB in the UK) then this will give immense power to the suppliers of high quality content, who can

[1] The United States regulatory body, Federal Communications Commission (FCC)
[2] also see Eisenmann, 2000 & Plunkett, 2003
[3] the term *content* generally refers to all forms of entertainment, *id est* movies, TV programmes, videos, etc.

initiate a bidding war and sell to the highest bid. This detail makes first mover advantage, either to create a gate or a new platform an essential competitive advantage if captured.

With Blockbuster, Viacom has acquired a tool to limit the threat of gatekeepers. By becoming the biggest customer of movie studios, owned by competing media companies, which might be a gatekeeper at the same time, Viacom can exercise some buyer power itself and press for the distribution of their TV networks. Hence Viacom has created a gate in the retail video rental business.

2. VIACOM – STRATEGIC POSITION

2.1 MARKET POSITION

Ownership of one of the six major Hollywood Studios[4] can be seen as a threshold resource in order to compete at the highest level in global entertainment. With the acquisition of Paramount and Blockbuster, Viacom has risen to become one of the largest media companies in the world, but now needs to grow further to pay off debt to fund those mergers.

Due to the saturation of the market, the established structure and lack of potential take-over targets in the USA, most conglomerates focus on expanding overseas and into emerging markets. After the successful formation of the UK pay service BSkyB through NewsCorp., Viacom is currently trying to collect the higher rents possible for content suppliers (Paramount) as more pay services are established in other European countries and new technology allows new distribution ways and entertainment content. At the same time expansion of MTV and Nickelodeon into mainland Europe is planned. Viacom is facing strong and quick moving competition from major players who are keen to gain first mover advantages.[5]

Considering the conflicting priorities of advert financed MTV and Paramount,[6] Viacom has to consider whether to continue their domestic practice of decentralisation and let each subdivision negotiate on their own, or to centralise operations more and act like an integrated company.

Further, Viacom is not sure whether to find individual partners in each country of the European market or to find a single partner for the entire EU distribution. Alternatively, Viacom could integrate forward and invest into EU platforms themselves to ensure distribution.

2.2 PORTFOLIO STRATEGY

Viacom is operating in a range of markets with a range of entertainment products and services [Appendix A] with projected revenues of $11.9 billion in 1995. It is important to notice that Viacom so far has mainly pursued a focused and related diversification strategy [Appendix H].

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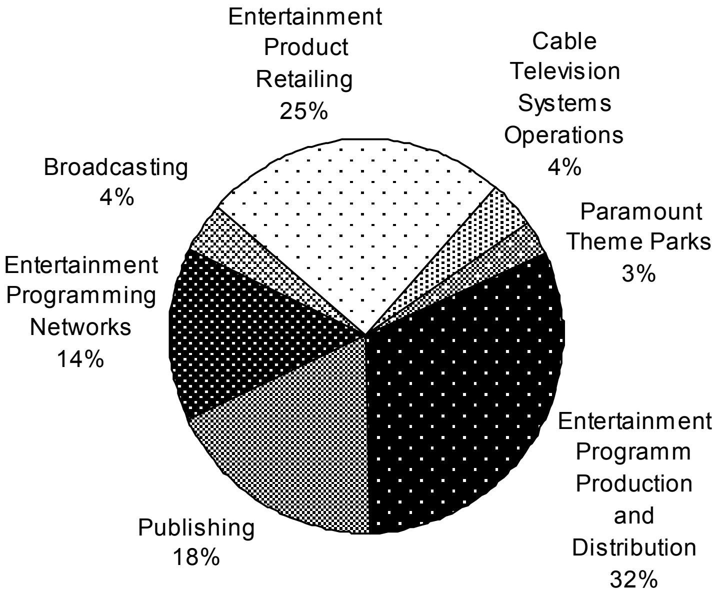
[4] Sony/Columbia, Disney, 20th Fox, Warner Bros, Universal, Paramount (Vogel, 1998)
[5] [Appendix B]
[6] see Case, p.20

Referring to the BCG matrix it is clear that Viacom has several cash cows, however technological change could quickly reduce the profitability of these businesses[7]. Hesitant decision-making has prevented Viacom from gaining first mover advantages and thus there are no stars, and only few question marks. Viacom does not seem to be able to generate new businesses by itself since all businesses are acquired at a high price. The specific strengths and weaknesses of how this portfolio is managed are discussed throughout the report and particularly in section 4.1.

Viacom's Business Lines by projected revenue as a share of total revenue, 1995



2.3 GOVERNANCE MODE & ORGANISATIONAL STRUCTURE

After the management buyout in 1987, Sumner Redstone alone controls Viacom and essentially owns Viacom by holding the majority of voting shares (61%). However, Viacom is currently led by an agent-CEO (Frank Biondi), exercising managerial capitalism.[8]

After working for the media division of Coca-Cola before, Frank Biondi has introduced the same decentralised ***M-Form*** at Viacom upon his arrival. While an M-Form increases returns in companies with unrelated diversification (e.g. Coca-Cola), in firms with vertical integration or focused/related diversification the M-Form reduces benefits when compared with a more centralised structure.[9]

Additionally, Viacom's rapid growth[10] seems to suggest that, as observed by Chandler (1962 & 1969[11]), the new administrative needs of Viacom are not served appropriately at the moment, because they simply couldn't be established quickly enough.

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[7] see music industry of 2004
[8] This implies a lower risk taking behaviour as opposed to an owner CEO exercising entrepreneurial capitalism (see Eisenmann, 1998)
[9] e.g. U-Form, CM-Form or Entrepreneurial M-Form; see Hoskisson, 1987; Eisenmann, 2000
[10] 'quadrupled in 1994' (Case, p. 1)
[11] quoted in Williamson et al, 2004, p.50

Corporate management is currently overseeing subdivisions mainly through a *financial control style*,[12] which holds the danger of short-term revenue maximisation, and missing out long term and more speculative investments, due to the desire to operate in financially predictable environments. The industry however is too volatile to offer this comfort and 'corporate strategies built on purely financial grounds provide an elusive justification for the diversified firm' (Porter, 1996, p.179).

2.4 ORGANISATIONAL CULTURE & STRATEGIC INTEND

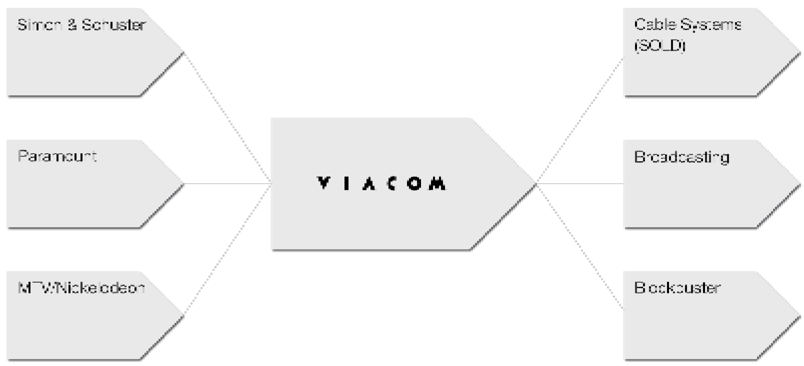
Viacom has a pronounced 'high-performance' culture fuelled by a complex scheme of performance related pay and a positive tensed/'electric'[13] organisational atmosphere, with informal communications and little bureaucracy. However, performance pay could foster individualism rather than supporting the collaboration across subdivisions. In fact, Viacom does not seem to have a singular focus or vision as decentralisation has left most subdivisions to strive for the best deal they can get in their own field. This may impair owner Redstone's top priorities; creating 'synergy' and 'beating the competition'.

2.5 RESOURCE ANALYSIS

2.5.1. VALUE CHAIN

One can distinguish between an aggregate view of the value created by the activities of the corporate headquarters alone, and a global, subsidiary wide view of the value chain taking all divisions into account.

Viacom itself acts like a holding company acquiring businesses with growth and synergies potential and divesting mature businesses.



At the division level, various subsidiaries generate income for Viacom through strong branding of their products, sale of advertising and licensing of content distributors. In this context Viacom is rather directing intellectual properties/content[14] into the most profitable channel. More horizontally than vertically integrated, there are opportunities for economies of scope and synergies. It must be pointed out that synergies are very hard to realize. Michael Porter (1996) recommends a '*horizontal*

[12] as defined by Campbell and Goold 1988, quoted in Williamson, 2004, p. 61
[13] case, p. 15
[14] entertainment products, movies, TV programmes are generally referred to as '*content*'

strategy, which cuts across divisional boundaries' (p. 179). Identifying tangible interrelationship & intangible relationships[15] the possible areas for synergies within Viacom have been identified in [Appendix J & K].

2.5.2. Finance

Viacom's acquisitions of Paramount and Blockbuster have severely strained the financial health of the company. Debts have grown much faster than debt. This limits Viacom spending opportunities in its future operations and it is recommended to divest assets not related to Viacom's core businesses (such as indoor playgrounds) [Appendix L].

2.5.3. Competitive Advantage and Sustainability

Viacom is a collection of businesses held by a parent company. Therefore sources of competitive advantage[16] (unique resources and core competences) of not only Viacom's headquarter, but also of subdivisions have been identified.[17] Prahalad and Hamel (1990, p.86) argue that SBUs[18] are a collection of core competences, and encourage a view of the company as a portfolio of core competences rather than subdivisions [Appendix i]. Synergies are more likely to be created this way.

	Better than competitors' and difficult to imitate	Sustainable?
Viacom	**Unique resources**	
	• Single Shareholder	• Yes, unless shares are sold
	• Experience since 1971	• Yes, but non-exclusive
	• Content Copyright	• Yes, unless sold
	• Intellectual Property (film libraries, brands)	• Yes, unless sold, and other studios have their own movies, too
	Core Competences	
	• finding an investing in or acquiring businesses that create synergies with Viacom's existing portfolio,	• yes, but American market does not seem to offer too many opportunities anymore.
	• financial monitoring,	• yes
	• high performance culture, performance pay	• yes, unless performance pay changed
	• informal communications,	• yes
	• economies of scope, synergies	• yes, but could be improved
	• finding creative people	• uncertain, needs good HR/ recruitment
	• large size	• yes, but competitors are large, too

Viacom as a holding company has developed several management practices that have created the Viacom of today, and are therefore assumed to be sustainable if the

[15] see Porter, 1996, p. 180
[16] as far as this is possible, notice the extreme difficulty of identifying these features
[17] adopting the view of the company as a portfolio of core competences, also see Prahalad & Hamel, 1990
[18] the terms SBU and Subdivision are used interchangeably throughout this report

same amount of capital is invested in maintenance and further development of these factors. The rights of extensive content are registered with Viacom, and will remain in their possession unless they sell it, and will only generate income for so long.

The major business is content creation, which is a hit-driven industry. This means that it is an everyday battle for sustainability. At most, subsidiaries can ensure the continued employment of creative personnel and have recruiting methods that ensure the future availability of such talent or an inflow of ideas. Although strong branding can also reduce the effects of a down-turn in quality or popularity of output, see Nickelodeon. Entertainment production has high fixed cost which need to be recovered by maximum exposure and distribution where possible and the linked advertising/licensing income from it.[19]

3. VIACOM – STRATEGIC CHOICES

From analysing Viacom, problems that need addressing have been identified:

- i.) Centralisation vs. Decentralisation
  - a) Decision-making process design
  - b) Should subdivisions be left to compete against each other or should the company act integrated, leveraging all its products?
- ii.) Entry mode into Europe:
  - a) A single European partner or a different partner in each country?
  - b) Or integrate forward into distribution?

The identification of opportunities and their evaluation has been set-up as a structured discussion, simply because the issues are interlinked and cannot be considered separately.

3.1 ORGANISATIONAL STRUCTURE

In its drive for international expansion Viacom has come to question the viability of transferring its decentralised, bottom-up decision making process to other markets.

Two main options have been indicated: 'To continue to allow the divisions to determine their strategies, consistent with the company's strong tradition of decentralized management, or whether to negotiate with prospective European partners as a single, integrated corporation.'[20] Therefore it is assumed that decentralisation/individual negotiations and centralisation/integrated negotiations are the options. Consequently both modes are evaluated.

Status Quo/ M-Form/ Decentralised/ No CEO involvement/ Bottom-Up

The obvious *benefits* of decentralised decision-making, are better information available at divisional level and therefore better decisions for the division. It also facilitates the establishment of localised services such as a localised TV programming (MTV Germany). This form of governance has proved to work well in Viacom's domestic US market.

[19] see Vogel, 1998
[20] Case, p. 12

Disadvantages include the experienced slow decision-making, due to the amount of lateral and vertical consultations necessary, in an attempt to seek solutions acceptable throughout the firm. Benefits of such talks are questionable in a turbulent environment. Where integration does not occur, divisional competition and the lack of lateral communication eliminate possible synergies because from the limited perspective of a divisional manager it is more difficult to identify remote markets for strategic integration opportunities (Eisenmann, 2000).

Competitors have shown great success with a decision to act quickly, often giving them a first mover advantage – a particular benefit in the media industry. Eisenmann (2000) argues that when expansion entails major capital commitments,[21] divisional managers may be reluctant to accept the career risks associated with sponsorship of "bet-the-company" projects. This is certainly the case for Viacom, currently being an agent-led organisation (reporting to majority shareholder Sumner Redstone), and where three years is the longest period related to managers' performance pay. Competitors such as News Corp have benefited from the fact that Mr Murdoch, as a majority shareholder, was able to realize his (gut-feeling) plans without being responsible to any shareholders who might have vetoed his plans (not having the long-term vision).

Entrepreneurial M-Form/ Centralised/ CEO involvement/ Top-down

This report assumes that a more centralised form of corporate governance will go hand in hand with greater top-down CEO/top management involvement in determining the aggregate corporate strategy. The literature refers to this kind of organisational structure as "*Entrepreneurial M-Form*."[22]

Benefits: Decision-making would become a much faster process, so that Viacom can act proactively rather than responding to News Corp's activities. Certain opportunities (and problems) require quick action, and decentralised governance has proved inefficient. A top-down, quick acting, Murdoch style (Owner CEO/ Entrepreneurial Capitalism) has been found more rewarding. Taking higher risks could be justified when operating in high-growth markets where FMA is essential and leaves a margin for error.[23]

Synergies can be increased by acting in an integrated way, leveraging the entire portfolio of company brands in negotiations to achieve agreements. It should be the best deal for the company, not any subdivision. Although this might be difficult, given MTV and Paramount's contradictory economic priorities, the Australian experience (Case, p.18) clearly demonstrates that leveraging the entire range of products is beneficial to Viacom's aggregate welfare.

However, on the ***negative side***, it is argued that formulating strategy centrally – possibly first diversifying into geographic regions outside the leader's personal knowledge, and then horizontally to new kinds of retailing, is beyond the

[21] e.g. platform establishment

[22] see Eisenmann, 1998, *Entrepreneurial M-Form*: an M-Form with greater CEO involvement in critical decisions, but decentralised operations, e.g. Mr Biondi would tell subdivisions which decision to make.

[23] Viacom would be able to take such risk. Management must negotiate with Mr Redstone (as the majority shareholder), where his priorities, interests for this company lie, but clearly he wants to stick up to News Corp's performance ('end up with the biggest pyramid…') and 'synergy [is] a high priority for Redstone' (Case, p.11).

comprehension of one man. (Mintzberg and Waters, 1982, quoted in Eisenmann, 2000) Added to this is the danger of high dependence on a single person, who, if 'catching the flu' puts the entire company at risk. In terms of organisation culture it can be expected that a top-down approach would reduce the positive "electricity" at the operational level, when less will depend on individual/divisional performance. This could be offset, in part, by placing a greater share of the division performance pay to cross-collaboration efforts of division, realizing synergies.[24]

Organisational Structure	Advantages	Disadvantages
	Status Quo	
M-Form	• best information available at division level • better for localised products/ services (eg. MTV Asia)	• slow decision making, too much consultation necessary • adverse risk taking behaviour, managers not willing "to-bet-the-company" • limited scope for synergies, no aggregate view of company"
	Option/ Recommendation	
Entrepreneurial M-Form	• quick decision making, through high CEO involvement • integrated action, leveraging whole company • takes account of decision best for company • higher chance to create synergies • FMA possible • higher risk taking behaviour possible, potential high returns	• information too complex for single person • decision making and company dependent on single person • reduction of motivation of division management, cross subsidisation

3.2 EXPANSION INTO EUROPE, ENTRY MODE

The second strategic problem exemplary for overseas expansion lies in choosing a distribution partner for the European Market. First, it should be noted that not much information is given, and therefore more primary research on behalf of Viacom into their target markets is recommended.

Given the probable high capital expenditure necessary[25] in establishing a platform, this option could quickly be rendered unfeasible since Viacom has exhausted its pool of capital in previous acquisitions, which prevents Viacom from access to further capital (credit rating). The risk of a potential merger further reduces the attractiveness of the option.

Furthermore it seems that no European distributor has the reach and diversity to fulfil both the different needs of MTV/Nickelodeon and Paramount in several countries

[24] *Exempli gratia:* sharing creative talent across Nickelodeon, MTV & Paramount [Appendix J & K].

[25] see UK's BSkyB creation

(Case, p. 18). Bearing in mind the high rents possible for content provider in the event of platform creations, Viacom should try to capture these opportunities in each market individually.

	EU Market Entry Options		
	Single EU Partner	Individual EU Partners	Integrate forward
Suitability	no partner could be identified that is strong in every EU country	better for environment local players and for establishment of localised services (MTV Germany)	suitable, but unlikely to cover each single EU country
Acceptability	acceptable	acceptable	very acceptable, esp. when FMA possible
Feasibility	feasible	feasible	unfeasible due to high capital investment necessary
Financial	feasible	feasible	very capital intensive, might exceed available capital
Risk	high risk through single partner; dependence	medium, less risk through several partners	high, danger of merger of platforms
Potential Return	medium/high	higher because of several opportunities to collect abnormal profits through platform creation in several markets	very high

4. CONCLUSION AND RECOMMENDATIONS

4.1 RECOMMENDATIONS ETC.

After reviewing the literature and empirical evidence and weighing off the arguments, this report concludes that in turbulent environments the use of slow bottom-up planning processes risks forfeiting first-mover advantages, and management is reluctant to accept the career risk of capital extensive expansion (also see Eisenmann, 2000).

Hence, more centralised top down management and decision-making processes – as identified with the entrepreneurial M-Form – are recommended in order to be competitive in a fast moving global industry.

For entering new markets Viacom should try to use the attractiveness of its entire product range in order to get the best deal for the company, not the subdivision. Linking this to the specific problem at hand – secure long-term deal for Paramount or uncertain deal for both Paramount and MTV/Nickelodeon – why couldn't Kirch buying content

from Paramount, not be able to provide distribution for MTV and Nickelodeon as a bonus?[26] Obviously, Viacom top management involvement could have easily made this suggestion.
It is also recommended to rely more on a strategic planning style[27] rather than a pure financial control style. New knowledge information systems/ procedures will have to be implemented to capture best information locally and facilitate central decision making.

4.2 IMPLICATIONS FOR ORGANISATIONAL STRUCTURE AND CULTURE

The recommendations afford little actual changes in the organisational structure of Viacom, but cultural changes are likely to be of greater magnitude. It is questionable if top management would be able to perform such a culture change or whether a new elephant hunter should be brought in.[28] Culture will also change at the divisional level. As indicated, the divisional, high-performance culture is unsuitable for synergies and will be incompatible with greater top-down management. However, sustaining culture as a core competence is possible through change and outlined in the next section.

4.3 LINKING RECOMMENDATIONS TO CORE COMPETENCES

First mover advantage is important in this industry. Viacom needs to become more agile, and must move more quickly and decidedly, occasionally relaying on gut-feeling and taking greater risk. Empirical evidence (Eisenmann, 1998, 2000 & 2002) and observation have shown the greater returns of this core competence.
The fact that a single shareholder allows Viacom this *modus operandi*, can translate into a competitive advantage against companies who are not granted riskier operations due to wide shareholder ownership and agent-led, managerial capitalism. This unique resource should be more exploited by Viacom.

Critical Success Factors	Key Performance Indicators
Good Programming Content/ Movie hits	Box office results, Advertising income from programmes
Program Reach, Distribution arrangements	Number of homes reached by programmes
Capital for investments	*Debt reduction/ strong cash flows*
Creativity for Movies and Programmes	Creative staff
Synergies	*Lateral communications, shared value chain, 'horizontal strategy' (Porter, 1996)*
Strong brand of programmes	Brand recognition & popularity
First mover advantage, greater risk-taking	Market share, Stars in BCG, top management involvement
Shaded indicates new core competences needed for, or existing ones need to be extended	

[26] Case, p.18; Kirch posses 'several broadcasting and cable channels in Germany'
[27] as defined by Goold & Campbell, 1988 quoted in Williamson, 2004
[28] refers to Case, p.23 last paragraph and [Appendix O]

Information knowledge management is another important competence in this industry; information must be collected locally and administrated centrally so that top management can see the whole elephant and make synergetic decisions [Appendix P]. Performance pay bonuses should be converted to cross operations oriented bonuses. The high-performance culture – a definite competitive advantage in a decentralised organisation – must be turned into one of collaboration. It already exists at Viacom, but must be strengthened.[29] Although this report suggests more centralisation, it does not encourage a matrix form of communication between SBUs, because it is vital to maintain core competencies in each SBU and avoid complacency. In line with these cultural and structural changes Viacom needs to maintain its top priorities which are shown in the table above:

4.4 IMPLEMENTATION PLAN

It is very difficult to set a timeframe for the recommendations. The European expansion obviously needs an immediate decision. Thus the implementation of an Entrepreneurial M-Form should follow immediately.

Recommendation	Implementation
Entrepreneurial M-Form	Short term, through either Biondi/ Redstone/ New CEO
Greater risk taking behaviour	Short term
Integrated Knowledge Information Systems	Start project now
Collaboration Pay Bonus	Start project now
Collaboration culture	Start project now

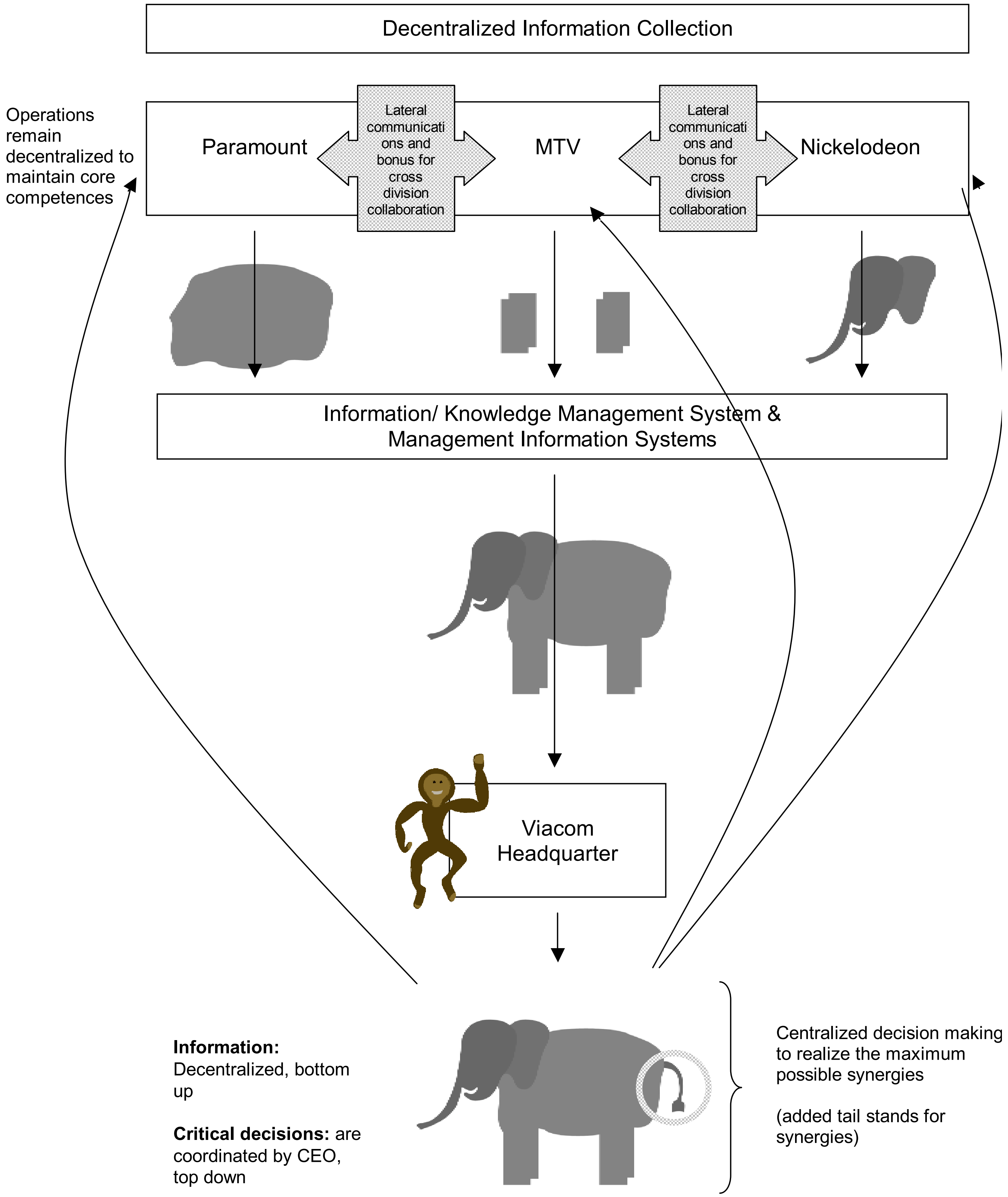
A guiding principle should be to implement change as quickly as possible and as slowly as necessary. The exact timing should be subject for further research. In view of an effective implementation of centralised decision-making cultural issues are likely to arise, therefore an Entrepreneurial M-Form also requires a strong leader with high interest and high power. Only Sumner Redstone currently fulfils this criterion.

4.5 CONCLUSION

The gorilla's[30] three blind men clearly are not able to see the full elephant (synergies). In these situations the gorilla should act quickly and guide the men how to see elephants. How to do this has been outlined overleaf.

[29] in a nutshell: organisational culture must become larger in power distance, more collectivistic, weaker in uncertainty avoidance and masculinity/femininity require no obvious change (using Hofstede's (1980) cultural dimensions)
[30] refers to Case p.22, middle

4.6 RECOMMENDATION INTO ACTION



APPENDIX

Appendix A Portfolio of Viacom’s businesses

(source: Viacom, 1996)

Viacom Inc. is a diversified entertainment and publishing company with operations in five segments:

(i) Networks and Broadcasting,
(ii) Entertainment,
(iii) Video and Music/Theme Parks,
(iv) Publishing, and
(v) Cable Television.

Broadcast and Cable Television
MTV Networks owns and operates many of the most popular basic cable television programming services. MTV: Music Television, the world's most widely distributed television network, reaches more than 380 million subscribers in 166 countries and territories. Nickelodeon serves more than 161 million subscribers worldwide via localized channels, branded blocks and individual programs. VH1 reaches more than 100 million subscribers around the world. Spike TV is the first network for men and has more than 90 million subscribers in North America. Other services include CMT, Nick at Nite, TV Land, MTV2 and The Digital Suite from MTV Networks. Viacom recently acquired the remaining shares of Comedy Central, the only all-comedy network, which joined MTV Networks' collection of basic cable channels. MTVN is also involved in a variety of entertainment businesses that extend its brands, including films, books, online and consumer products.

Showtime Networks Inc. (SNI) owns the premium television networks Showtime, The Movie Channel and FLIX. SNI operates and manages the premium television network Sundance Channel, which is owned by SNI, Robert Redford and Universal Studios. SNI also markets and distributes sports and entertainment events for exhibition to subscribers on a pay-per-view basis.

The United Paramount Network (UPN) reaches more than 96 percent of U.S. television homes through its affiliated stations and broadcasts 10 hours of original, primetime programming each week. Popular programs include America's Next Top Model, Enterprise, Girlfriends and Platinum.
The Viacom Television Stations Group consists of 39 television stations, reaching 15 of the top 20 television markets in the United States. The division includes 18 UPN-affiliated stations and one independent station.

Production and Syndication
Paramount Television is one of the largest producers and distributors of television programming for network and cable primetime, daytime, first-run syndication and international cable platforms. The division presents more than 55,000 hours of its programming library to over 125 countries, in more than 30 languages, through its six production units: Paramount Television Production, Paramount Worldwide Television Distribution, Paramount International Television, Big Ticket Television, Spelling Television and Viacom Productions. Some of Paramount's most notable series include Frasier, the Star Trek franchise, UPN's One On One, the Entertainment Tonight franchise, and television's No. 1-rated courtroom series Judge Judy.

Radio and Outdoor
Infinity Broadcasting which owns and operates 185 radio stations, is one of the largest operators of radio stations in the United States. Approximately 91 percent of its radio stations are located in the 50 largest U.S. radio markets. The geographically wide-ranging stations serve diverse target demographics through a broad range of programming formats, such as rock, oldies, news/talk, adult contemporary, sports/talk and country. Infinity also manages and holds an equity position in Westwood One, Inc.

Viacom Outdoor, Infinity's outdoor advertising division, has properties across Europe and is the largest outdoor entity in North America with operations in more than 90 markets, including all 50 of the largest metropolitan markets in the United States, 14 of the 15 largest markets in Canada and all of the 45 largest markets in Mexico.

Motion Pictures and Theatrical Exhibition
Paramount Pictures, one of the original major motion picture studios, has been a leading producer and distributor of feature films since 1912. Its more than 2,500-title library includes Oscar winners such as Braveheart, Forrest Gump, The Hours and Titanic (the highest-grossing motion picture of all time) as well as recent releases, including The Italian Job, How To Lose A Guy In 10 Days and The Hunted. Paramount

Pictures also co-produces niche films with MTV Films and Nickelodeon Movies, including such 2002 hits as Jackass: The Movie and The Wild Thornberrys Movie.

Paramount Home Entertainment, a global leader in the distribution of filmed entertainment on videocassette and DVD, distributes theatrical releases from Paramount Pictures, Paramount Classics, Nickelodeon Movies and MTV Films as well as non-theatrical releases both in the United States and abroad.

Famous Players, founded in 1920, is Canada's top-grossing, fastest-growing and longest-operating theatrical exhibitor. The Toronto-based company offers audiences the best possible theatrical film experience through its 87 locations with 822 screens throughout Canada, including theaters in its joint venture with IMAX and its partnership with Alliance Atlantis.

United International Pictures (UIP), in which Viacom has a 33 percent interest, handles general distribution of Paramount Pictures' films outside the United States and Canada.

United Cinemas International (UCI), a joint venture between Viacom and Universal, is one of the largest operators of multiplex theaters outside the United States and operates approximately 1,120 screens in 121 theaters in Argentina, Austria, Brazil, Germany, Ireland, Italy, Japan, Panama, Poland, Portugal, Spain, Taiwan and the United Kingdom.

Viacom Consumer Products is a leader in the entertainment licensing arena, merchandising properties on behalf of Paramount Pictures, Paramount Television, Spelling Television and Viacom Productions as well as third parties.

Famous Music Publishing is one of the top 10 U.S. music publishers and one of the world's major suppliers of music to all mediums. Its diversified catalog of more than 125,000 copyrights spans seven decades and includes music from Oscar-winning motion pictures such as The Godfather and Titanic as well as such classic shows as The Brady Bunch and Cheers.

Video
Blockbuster is one of the world's leading providers of videos, DVDs and video games with more than 8,500 company-operated and franchised stores throughout the United States, its territories and 28 other countries. In 2002, Blockbuster increased its focus on the sale of new movies and games as a complement to its rental offering. More than three million customers visit a Blockbuster store each day.

Publishing
Simon & Schuster publishes more than 2,100 titles annually under 38 well-known trade, mass market, children's and new media imprints. The division published 85 New York Times Best Sellers in 2002, including 18 at No. 1

Parks
Paramount Parks is one of the premier theme park companies in the world and entertains approximately 11 million visitors annually at its five North American theme parks and interactive attraction Star Trek: The Experience at the Las Vegas Hilton.

Cross-Platform Sales
Viacom Plus is the company's cross-platform sales and marketing arm. The group's mission is to create long-term marketing partnerships that build brands and drive revenue for both clients and the company

Appendix B Viacom's Competitors and their businesses

(adapted from Dalmas et al, 2001)

Time Warner
Even before the merger with AOL, the Time Warner group was already the largest media corporation in the world. It controls movies (Warner Bros. New Line Cinema), TV shows (Friends, ER), a broadcast TV network (WB), Cable TV networks (CNN, HBO, Cartoon Network), music (Elektra, Atlantic, Rhino) and publishing (Time, People, Sports Illustrated). Time Warner is a result of the mergers of the Time, Warner (1990) and Turner (1996) groups. Total revenues for 1999 were $27 billion.

Walt Disney/ABC
The Walt Disney Company is the second-largest media and entertainment conglomerate in the world, with 2000 sales of $25 billion. Their operations include movies (Touchstone, Hollywood Pictures, and Miramax movie producers), broadcasting (ABC broadcast network and cable channels like the Disney Channel and ESPN, 10 TV stations and 50 radio stations), magazines (50% participation in US Weekly LLC), Internet (Walt Disney Internet Group), and theme parks.

Viacom/CBS
Viacom has preeminent positions in broadcast and cable television, radio, outdoor advertising, and online. The company is a leader in the creation, promotion, and distribution of entertainment, news, sports, and music. Viacom's well-known brands include CBS, MTV, Nickelodeon, VH1, BET, Paramount Pictures, Infinity Broadcasting, UPN, TNN: The National Network, CMT: Country Music Television, Showtime, Blockbuster, and Simon & Schuster. Revenues for 1999 were $13 billion.

News Corp/Fox
Rupert Murdoch's News Corp has expanded from a small newspaper publisher in Australia into the fifthlargest media-and-entertainment conglomerate. It businesses range from film (Twentieth Century Fox) to television (Fox Television's 23 stations, the Fox broadcast and cable network, and the Fox television production company) to satellites (BskyB), to publishing (Harper Collins, The Times of London) to sports operations (UK soccer clubs and LA Dodgers). Its revenues were $13 Billion in 2000.

Bertelsmann
Bertelsmann has operations in printing and publishing, music distribution, and broadcasting. In publishing, it owns Random House (largest trade publisher in the world) and Gruner + Jahr; in music, BMG Entertainment; and in broadcasting, RTL Group, the largest European broadcaster. In Internet, the group has stakes in retailers such as barnesandnoble.com and CDNow.com, and the portal Lycos Europe (now part of the TerraLycos group). Sales for 2000 were $16 billion.

Vivendi Universal
Vivendi Universal evolved from a water utility to a media company, with particular focus in entertainment. In 2000 Vivendi bought Universal Music Group and Universal Studios through the acquisition of Seagram. Other properties of the company include the European pay-TV CANAL+ and Vivendi Universal Publishing (formerly Havas). Sales for 2000 were $39 billion, but this figure includes the revenues from the water utility business.

Appendix C Integration Responsiveness Matrix

Need for Local Responsiveness

Need for Global Integration	High	Low
High	**Transnational Environment** • *Automobiles*	**Global Environment** • Entertainment (Movies, etc.) • *Industrial chemicals*
Low	**Multinational Environment** • *Food* • *Household appliances*	**International Environment** • Local TV programmes, MTV Europe, MTV Asia, MTV Latin • *Machinery*

Appendix D Pest Analysis

Political
• FCC, Regulation/ Deregulation: Monopolies & Merger regulations, Antitrust lawsuits • Cable Act 1992, Telecommunications Act 1996 • Ownership of media limitations • Copyright/ Intellectual Property laws
Economic
• High merger activities, Hyper competition • Global Consolidation, Industry Concentration, Globalisation • Disposable income available: Average annual US citizen spend on entertainment: $814.11 (Plunkett, 2003) • Strong advertising growth
Socio Cultural
• Demographic changes • New Media, Internet as new source/ channel for entertainment· Worldwide demand for US/Hollywood content, entertainment • On average nine hours entertainment consumption each day (Radio, TV, Print, etc.)
Political
• Continuous, Rapid change, Uncertainty • DTH/ DBS Satellite • Increased online broadcasting, convergence of radio, television with Internet expected • Internet broadband, Video on demand (?) • P2P technology, Piracy • DVD & Digitalisation of entertainment content

Appendix E A Global Five Forces Analysis of the Media/Entertainment Industry

Competitive Rivalry

- very high, few big players of roughly equal size
- very capital intensive industry, high fixed cost of production
- Hit driven industry, great importance of differentiation
- slow growth, mature market in USA
- emerging markets in Europe, third world, Latin America
- low barriers to exit/ easy to divest

Threat of new Entrants

- very low due to high barriers to entry
- economies of scope and large size of existing players
- competitors are horizontally or vertically integrated
- new music channels planned in various markets by music companies
- new successful entries are likely to be acquired

Threat of Substitutes

- medium/variable
- new technology a constant threat
- new entertainment forms, e.g. Internet
- other free time activities (concerts, games, gambling, gardening, sporting activities, restaurants)

Bargaining Powers of Buyers

- depending on market situation

if Gatekeeper in place/ Monopsony

- very high
- a single buyer has control over distribution and

if Platform (eg. BSkyB) creation in progress with more than one player/ No Gatekeeper

- very low
- high demand for high quality content,

Bargaining Power of Suppliers

- depending on market situation

if Gatekeeper in place/ Monopsony

- very low
- single buyer, no competition, studio has high fixed cost, needs as much distribution sales as possible

if Platform (eg. BSkyB) creation in progress with more than one player/ No Gatekeeper

- very high
- few content owners can initiate a bidding war for their content and sell to highest bidder

A Five Forces Analysis of the Media/Entertainment Industry from Viacom's Perspective

Competitive Rivalry

- The direct competitors are Disney, Time Warner and News Corp. Due to and the reason for the Large Size of Viacom most other direct competitors are partly or fully owned by Viacom. MTV and Nickelodeon are owned to enforce the distribution channels towards resale. It seems that Blockbuster is generating vast amounts of cash that are critical for Viacom to sustain its strategy.
- The Six distinct Industry segments in which Viacom has entered have also specific competitors that have focused on owning more specific core competencies for their particular market.
- Blockbuster does not fit in the long-term future of Viacom. However, Because, Bioni claimed that other type of more modern Video distribution were not possible and because the focus seems to be on production rather then on resale to the consumer, blockbuster is a forward vertical integration to ensure its distribution channels for Paramount. This forward integration is a force that changes rivalry in the industry.

Threat of Substitutes

- Viacom's Top down non-bureaucratic management style and the size of Viacom suggest that potential competitors would be bought or destroyed even before gaining market share. Therefore, the prime competitors remain to be Disney, Time Warner and News Corp. These four major players are of such size that only few companies would have the funding to compete.
- It is likely that the newcomers are discovering niche markets to nudge the enormously diversified global market.

Bargaining Powers of Buyers

- Blockbuster and the subsidiary TV cables are all the reason why Viacom has a low bargaining power of buyers. In fact, it is nearly only the end consumer who has a certain degree of power.
- Yet, from the case study it is clear that Viacom's cable subsidiaries are slowly going to be externalised, as the focus seems to be on production rather than resale.

Bargaining Power of Suppliers

- Since Viacom has invested enormously into movie production by acquiring Paramount it seems that Blockbuster and TV cables do not have any bargaining issues with their supplier regarding the Paramount movies.
- The Music industry is providing a large amount of Music video and as a response, Viacom has created more MTV channels.

Appendix F Portfolio Analysis: The growth share matrix (BCG box)

Relative Market Share

Rate of Market Growth	High	Low
High	**2.) Stars**	**1.) Question Marks**
	none	• US Broadcasting: UPN • Overseas Market Operations o European Nickelodeon & MTV, MTV Asia, MTV Latin • Internet services
	3.) Cash Cows	**4.) Dogs**
Low	• US Publishing: Simon & Schuster • US MTV & Nickelodeon Networks • Entertainment Product Retailing: Blockbuster Video Rental • Entertainment program production & Distribution: Paramount Pictures • Paramount Parks	• Cable television systems (sold) • Theme Parks

Appendix G Ansoff Matrix

Markets		Products: Existing	Products: New
Existing		**Market Penetration** • Further horizontal integration • More entertainment content	**Product Development** • Distribute entertainment online • New forms of content/ entertainment o Travel, Entertainment Events, Sportevents, Sportteams, Music, Concerts, Movie theatres, Computer Games
New		**Market Development** • Horizontal integration • Geographical expansion o Europe, Third World, Latin America, Russia	**Diversification** • unrelated diversification • related diversification • (vertical integration)

Appendix H The relatedness matrix, support for synergy

Manageability		Degree of Relatedness of Business Units: Low	Degree of Relatedness of Business Units: High
High		**Distractions** • Theme Parks	**Heartland Business** • Content Distribution o Broadcasting o Publishing • Cable television system operations (sold)
Low		**Aliens**	**Value Traps** • Entertainment content production o TV programmes o Theatrical Movies • Publishing • Entertainment Programming Networks

Appendix I Sources of Competitive Advantage, Unique resources and Core Competences

	Better than competitors' and difficult to imitate	Sustainable?
Viacom	**Unique resources**	
	• Single Shareholder • Experience since 1971 • Content Copyright • Intellectual Property (film libraries, brands)	• Yes, unless shares are sold • Yes, but non-exclusive • Yes, unless sold • Yes, unless sold, and other studios have their own movies, too
	Core Competences	
	• finding an investing in or acquiring businesses that create synergies with Viacom's existing portfolio, • financial monitoring, • high performance culture, performance pay • informal communications, • economies of scope, synergies • finding creative people • large size	• yes, but American market does not seem to offer too many opportunities anymore. • yes • yes, unless performance pay changed • • yes • yes, but could be improved • uncertain, needs good HR/ recruitment • yes, but competitors are large, too

	"	"
MTV	**Unique resources**	
	• strong brand • creative staff	• yes, but needs advertising spend to be sustained • yes
	Core Competences	
	• creative talent/ creating popular programmes	• uncertain
Nickelodeon	**Unique resources**	
	• strong brand • creative staff	• yes, but needs advertising spend to be sustained • yes
	Core Competences	
	• creative talent/ creating popular programmes	• uncertain

Paramount	Unique resources	
	• existing film libraries • rights to scripts, books, etc	• yes, unless sold • yes
	Core Competences	
	• international distribution, marketing, • finding creative talent, • identifying potential story properties • making hit movies	• yes, other studios have, too • yes • uncertain • uncertain • uncertain

Blockbuster	Unique resources	
	• convenient store locations	• yes, difficult to imitate
	Core Competences	
	• largest rental chain, economies of scale, • faster, efficient computerised check-in/check-out procedures,	• yes, difficult for new entrants • yes, competitors could emulate

Simon & Schuster	Unique resources	
	• intellectual properties, licences for book titles	• yes, unless sold
	Core Competences	
	• identifying potential book scripts	• uncertain

Critical Success Factors	Key Performance Indicators
Good Programming Content/ Movie hits	Box office results, Advertising income from programmes
Program Reach, Distribution arrangements	Number of homes reached by programmes
Capital for investments	***Debt reduction/ strong cash flows***
Creativity for Movies and Programmes	Creative staff
Synergies	***Lateral communications, shared value chain, 'horizontal strategy' (Porter, 1996)***
Strong brand of programmes	Brand recognition & popularity
First mover advantage, Greater Risk-taking	Market share, Stars in BCG, top management involvement
Indicates new core competences needed for or existing ones to be extended	

Appendix J Value chain Analysis

Simon & Schuster

Firm Infrastructure				
Human resource management				
Technology development				
Procurement				
Inbound logistics	**Operations**	**Outbound logistics**	**Marketing & Sales**	**Service**
-book scripts from authors -creative talent, ideas	-Printing books - sighting new scripts	-books sold to book stores	-negotiation with retailers	

Paramount

Firm Infrastructure				
Human resource management				
Technology development				
Procurement				
Inbound logistics	**Operations**	**Outbound logistics**	**Marketing & Sales**	**Service**
- Studio/Film Material, Actors, directors, locations -Creative Talent -Movie ideas/ Scripts	-High fixed Production costs supported by Viacom. -Filming movies - Monitoring of future scripts.	- Fininished movies - Sale of Videos & DVD -Licensiong of viewing rights to TV, Cable, etc	-Movie Trailers in Cinemas & TV - Worldwide Marketing& Advertising for movie premiere	

MTV/ Nickelodeon

Firm Infrastructure				
Human resource management				
Technology development				
Procurement				
Inbound logistics	**Operations**	**Outbound logistics**	**Marketing & Sales**	**Service**
- Music Videos from record studios - commissioned Children's series - Artists, Creative talent, ideas	-Creating popular programmes -Scheduling programmes -Negotiation with advertisers	-TV broadcast of programes -Programmes licensed to other distributors	-strong brand of Networks -Advertising sales	

Viacom - HQ

Support Activities

Firm Infrastructure
decentralised M-Fom, mitigating Risk, Corporate centre used for support, wide array of management expertise available, pool of financial resources, strong world-wide network, fostering Innovation

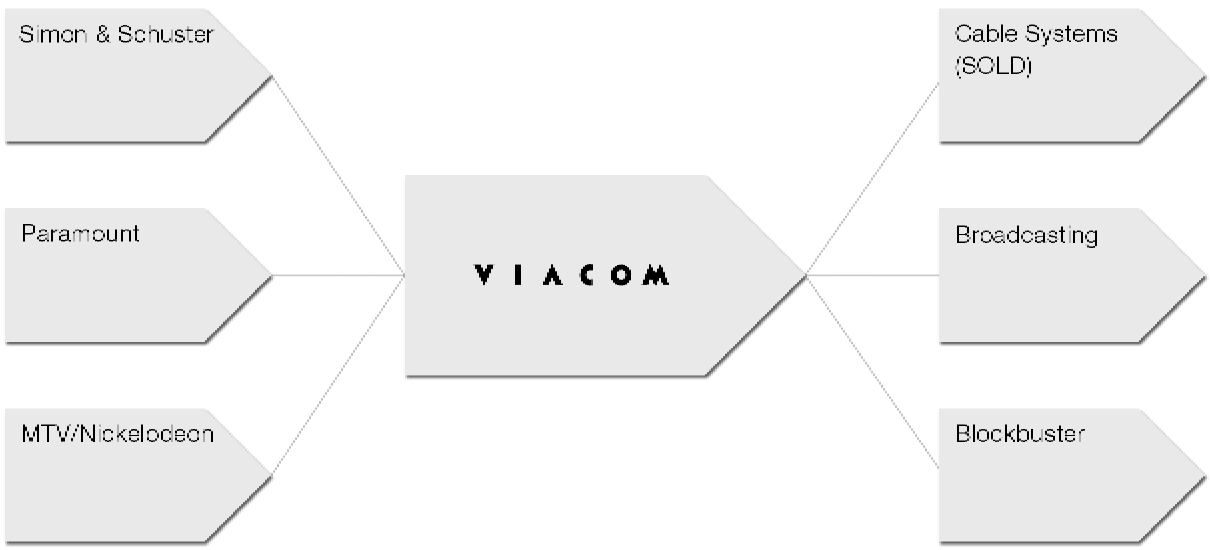
Human resource management
performance pay based on division performance, high performance culture, positive tension, electricity, informal, little beauracy, good atmosphere, 'Back Passage', vision and goals, loyal workforce

Technology development
identify markets for future technological development, monitoring current development, develop ahead of demand

Procurement
effective acquisitions of businesses, purchase strategy of related diversified organisations

Inbound logistics	Operations	Outbound logistics	Marketing & Sales	Service
Intellectual Properties (Paramount's and other companies' content) New businesses	Manage Portfolio Protect intellectual properties expertise since 1971 financial monitoring	-Divested businesses -Progammes passed on to distributors -Advised to subsidiaries	- strong brands of subsidiaries - Sales potential available world-wide -Strong Sales support	

Primary Activities



Cable Systems (SOLD)

Firm Infrastructure				
Human resource management				
Technology development				
Procurement				
Inbound logistics - Licensing arrangements, programmes	**Operations** - Scheduling programmes - Processing units (digital boxes) to deliver broadcast	**Outbound logistics** - broadcasting to endconsumer	**Marketing & Sales** - Advertising as key revenue earner -Opportunity to combine marketing - International expansion possible	**Service** - installation of receiption devices - Call-centre to provide adequate service - Extensive training required for technical engineers

Broadcasting (UPN)

Firm Infrastructure				
Human resource management				
Technology development				
Procurement				
Inbound logistics -Viacom' s broadcasting licenses and others -Slot selling of advertisement - production & producing content	**Operations** development and scheduling of entertaining programmes.	**Outbound logistics** - Programmes broadcast to endconsumer	**Marketing & Sales** - Powerful external image (ownership of well known brands) - International expansion	**Service** -Strong Support service - Highly skilled technical staff

Blockbuster

Firm Infrastructure				
Human resource management				
Technology development				
Procurement				
Inbound logistics -licensing arrangements, buying content from studios and Paramount -Expertise in Stock Control	**Operations** -Economies of Scale -Renting out content - monitoring of future products for release	**Outbound logistics** Content rented out to consumer	**Marketing & Sales** - strong brand name, attracts more than 3 million customers a day -Leader within movie and game rental market -Electronic Efficient consumer friendly checkout/in	**Service** - Personnel with interest in content - 'Rent now or free next time' - Replacement for damaged goods

Appendix K Value Chain Analysis & Synergies

Appendix L Financial Analysis

Year Ended 31st December 1994	
Return on Capital Employed	3%
Return on Shareholders Funds	5%
Current Ratio	1.27
Earnings per Share	$0.07
Debt/Equity Ratio	0.88
Year Ended 31st December 1993	
Return on Capital Employed	7%
Return on Shareholders Funds	14%
Current Ratio	3.29
Earnings per Share	$1.31
Debt/Equity Ratio	0.9
Year Ended 31st December 1992	
Return on Shareholders Funds	46%
Earnings per Share	$0.41
Debt/Equity Ratio	3.17

Performance Ratios
From the period of 1993 to 1994 Viacom's return on capital employed decreased by 7% to 3%. This indicates that in 1994, management where faced with a decline in the profitability of their net asset.
This is because of their recent acquisition of Paramount.
Due to this, the return on shareholder funds has declined from 14% to 5%. This is an effect of having more equity.
The Operating income between the 1993 and 1994 has increased less than 100% the total of revenue has more then tripled. This means that by establishing future synergies one may enable overheads and other expense to decline and thereby maximize profits.

Other Ratios
The current ratio in 1994 shows that Viacom has a much stronger buying power than in 1993 as they increased in debtor's payback period. Again, this is an effect of the acquisition of paramount as they are at the beginning of the supply chain.
Also, a current ratio closer to one indicates efficient usage of working capital.

Cash
Viacom has a large amount of debt it does not have strong cash positions that would support any new acquisitions in the short and medium term. Paramount is cost intensive, the more money they receive the more chances there are to produce hit movies.

Viacom's Financial Performance: Revenue and Operating Income
Viacom's revenue has increased steadily year on year until 1993. A sudden increase in revenue rising by over 250% indicates the impact of the two recent mergers. Viacom is no longer what it was.

Appendix M Advantages & Disadvantages of Centralisation vs. Decentralisation

Organisational Structure		Advantages	Disadvantages
		Status Quo	
	M-Form	• best information available at division level • better for localised products/ services (eg. MTV Asia)"	• slow decision making, too much consultation necessary • adverse risk taking behaviour, managers not willing ""to-bet-the-company"" • limited scope for synergies, no aggregate view of company"
		Option/ Recommendation	
	Entrepreneurial M-Form	• quick decision making, through high CEO involvement • integrated action, leveraging whole company • takes account of decision best for company • higher chance to create synergies • FMA possible • higher risk taking behaviour possible, potential high returns	• information too complex for single person, • decision making and company dependent on single person • reduction of motivation of division management, cross subsidisation"

Appendix N SWOT

Internal	
Strengths	**Weaknesses**
• Large size • Strong brands • Large content, wide portfolio • Vertical Integration • Informal communication, no bureaucracy, • Performance culture, “electricity”	• Slow decision making process, due to decentralised organisational structure • Agent-led, adverse risk taking behaviour compared to owner-led competitors, (“bet-the-company”)
External	
Opportunities	**Threats**
• Internet • DVD • overseas expansion o Europe, Third World, Latin America, Russia	• Music Companies launching own music television channels • Strong, Quick moving Competition • Monopsony, Gatekeeper

Appendix O The Parable of the Blind Men and the Elephant

It was six men of Indostan
To learning much inclined,
Who went to see the Elephant
Though all of them were blind,
That each by observation
Might satisfy his mind.

The First approached the Elephant
And, happening to fall
Against his broad and sturdy side,
At once began to bawl:
"God bless me, but the Elephant
Is very like a wall!"

The Second, feeling the tusk,
Cried, "Ho! what have we here
So very round and smooth and sharp?
To me 'tis very clear
This wonder of an Elephant
Is very like a spear!"

The Third approached the animal
And, happening to take
The squirming trunk within his hands,
Thus boldly up he spake:
"I see," quoth he, "The Elephant
Is very like a snake!"

The Fourth reached out an eager hand,
And felt about the knee:
"What most the wondrous beast is like
Is very plain," quoth he;
"Tis clear enough the Elephant
Is very like a tree!"

The Fifth, who chanced to touch the ear,
Said, "Even the blindest man
Can tell what this resembles most;
Deny the fact who can:
This marvel of an elephant
Is very like a fan!"

The Sixth no sooner had begun
About the beast to grope
Than, seizing on the swinging tail
That fell within his scope,
"I see," quoth he, "the Elephant
Is very like a rope!"

And so these men of Indostan
Disputed loud and long,
Each in his own opinion
Exceeding stiff and strong.
Though each was partly in the right,
They all were in the wrong!

-- John Godfrey Sax

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