



# Strategy Planning in Media and Information Firms

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## 14.1 Introduction

In previous chapters, we dealt with the optimization of sub-functions of media organizations, such as production, marketing, and distribution. This chapter shows how an information sector firm sets strategy, taking account of all these elements. Strategy, of course, has been a popular topic. But what exactly is it? Strategy is an organization's plan or decision pattern to achieve desirable goals with available means. It is intended to have long-term consequences, in contrast to tactics, which generally have short-term consequences and outcomes that are more limited.

At the end of this chapter, you will have learned about:

- The process of strategy setting;
- Theories and tools of strategy;
- The basic strategy options for information and media sector firms.

### 14.1.1 What Is Different About Strategy Setting in Information Sector Industries?

Media and information businesses are faced with particular issues. These include, as previously noted:

- Especially high uncertainty;
- Price deflation;
- High economies of scale;
- Network effects;
- Extensive intangible assets;
- Convergence of industries and technologies;
- Fickle consumer demand and a short shelf life of products and processes;
- High failure rate of products;
- Hit dependency/winner-takes-all markets;
- A strong role of government.

Perhaps the main factor for strategy is rapid technological change in this sector. The media and information sector is subject to radical disruption. Joseph Schumpeter, the Austrian economist of the early twentieth century, spoke of “creative destruction”—with innovation bringing about the demise of established companies.<sup>1</sup> The information sector is especially “Schumpeterian” since it is at the leading edge of rapid technological change and its absorption into products, applications, business models, and industries.

In 1965, Gordon Moore, the legendary chairman and chief executive officer (CEO) of Intel, observed that the number of components the semiconductor industry was able to place on a computer chip doubled every one to two years,

and would continue to do so into the then foreseeable future.<sup>2</sup> This widely known prediction, known as Moore's Law, affects all electronic technology, including media technology at the user end and the production segment. The capability of electronics and other products is increasing while the cost to produce them is decreasing. As a result of rapid change and high uncertainty, the media and information sector has been full of blunders. Tactical misjudgments abound, with 60–80% of books, music, or films ending up as financial failures, and only 10% being even modestly successful. But more significant are the strategic misjudgments, many of which have been fatal.

When Western Union, then the world's largest private corporation and the dominant telegraph company, was offered in 1876 the patents to the telephone by Alexander Graham Bell for a mere \$700,000, it turned down the deal as too expensive. It never recovered from its short-sightedness.

When television broadcasting emerged, Darryl Zanuck, the famed studio chief of the Hollywood studio Twentieth Century Fox, opined: “[Television] won't be able to hold on to any market it captures after the first six months. People will soon get tired of staring at a plywood box every night.”<sup>3</sup> It was Zanuck's own media industry, however, that people were getting tired of. Hollywood went into a tailspin. Fox's revenues declined by 80% within a few short years.

When pay-TV emerged, it was widely argued throughout the TV industry that it would never be a profitable business, given all the free television already being offered to the public.<sup>4</sup>

When computers started to become smaller than room-sized mainframes, Ken Olsen, President of Digital Equipment Corporation (DEC), at the time the world's second largest computer maker and the leader in mini-computers, declared that “There is no reason anyone would want a computer in their home.” But of course the use of personal computers rose enormously a few years later while mini-computers faded. Olsen's company, near bankruptcy, was acquired by a rival.

Just as business leaders were mistaken even about their own industry, distinguished academics were far off the mark. We observed earlier how one eminent physicist (Sir Ernest Rutherford) spoke of those scientists expecting a splitting of the atom as “talking moonshine” while another (John von Neumann) went in the opposite direction, predicting a future where nuclear-generated electric power was “too cheap to meter.” More recently (2007), Clayton Christensen, the academic business guru and author of the bestselling book *The*

1 Schumpeter, Joseph A. *Capitalism, Socialism, and Democracy*. Philadelphia: Taylor & Francis, 2003. (Original edition, 1942).

2 Intel. “50 Years of Moore's Law.” Last accessed July 11, 2017. ► <http://www.intel.com/content/www/us/en/silicon-innovations/moores-law-technology.html>.

3 Pogue, David. “Use it Better: The Worst Tech Predictions of All Time.” *Scientific American*. January 18, 2012. Last accessed July 13, 2017. ► <https://www.scientificamerican.com/article/pogue-all-time-worst-tech-predictions/>.

4 Sánchez-Taberner, Alfonso. “The Future of Media Companies: Strategies for an Unpredictable World.” In *Strategic Responses to Media Market Changes. Media Management and Transformation*. Ed. Robert G. Picard. Jönköping, Sweden: Jönköping International Business School LTD., 2004.

*Innovator's Dilemma*, commented on Apple's soon-to-launch iPhone: "But the prediction ... would be that Apple won't succeed with the iPhone. History speaks pretty loudly on that, that the probability of success is going to be limited."<sup>5</sup>

Yet in 2011 the iPhone had a market share of 15% in the world-wide smartphone market, with a compound annual growth rate of 18.8% in the subsequent four years. Apple brought in over 50% of all global profits in the handset market.<sup>6</sup>

## 14.2 Case Discussion

### Comcast-Overview

Comcast is the world's largest cable company. In 2017 revenues were \$84.5 billion and its net profits were \$22.7 billion. It has approximately 29.3 million cable as well as broadband internet subscribers. The company's headquarters are in Philadelphia, and it is controlled by the Roberts family. In 2003, when Comcast was still medium sized and regional, it acquired the much larger AT&T Broadband. Comcast's largest division is its cable division, which offers video, internet, and phone services. Comcast provides services for about 26% of the US cable television market. US government regulations cap the permissible market share at 30% of cable services. Comcast is the third largest telecommunications provider in America, using its cable TV distribution network to provide phone services too. In 2011, it bought NBC Universal with its TV and cable networks and Hollywood movie studio. In contrast, the second largest cable multiple system operator (MSO) around that time, Time Warner, had a strong content role, which included the well-established cable TV channels CNN, TNT, TBS, HBO, Cinemax, Cartoon, and others. But in 2009, Time Warner spun off its cable distribution arm into an independent company, Time Warner Cable. It also split off its magazine, music, and telecom operations, and became essentially a pure content company in films and

TV. Similarly, Viacom, which had formerly been a major cable TV distribution firm, had sold off its cable platform assets for a largely content-based role.

Comcast, however, went the opposite way, and aimed to become a major vertically integrated platform and content company. In 2004, it made a bid for Disney, but this attempt failed. In 2009, Comcast bought NBC Universal, which owned the "big four" TV network NBC. The merger was approved in 2011 after considerable regulatory controversy.

Thus, Comcast became in the USA the number one cable MSO (market share 26%), the number one broadband ISP (over 25%), as well as a top broadcast TV company (12.8%), and the number three provider of cable TV channels (11.4%), of telecom voice service (5.6%), and of theme parks (operating in eight countries). It ranks third as TV program and film producer and distributor (9.8% and 10.4% respectively).

Comcast was not done, however. In 2014, it announced the acquisition of Time Warner Cable, the second largest cable firm in the USA. The deal was opposed by a number of activist groups as anti-competitive, and eventually Comcast gave up in 2015. But it had signaled its ambitions for expansion.

In 2018, it made an unsuccessful bid for much of Rupert Murdoch's media empire,

21st Century Fox, topping Disney's initial rival offer. It would have acquired and shared Fox's film studio, TV network, global satellite broadcasting operations, and share in the online platform Hulu. It would have become the world's largest media content company, with \$112 billion in annual revenues. As the next move, Comcast tried to buy control of Sky, Murdoch's UK-based satellite broadcaster. Europe's largest pay-TV provider.

What then should Comcast's strategy be for the next decade? How should it identify opportunities in content, platforms, technology, globalization, diversification, and marketing? How should it deal with threats such as satellite TV, cord-cutting, online video, and mobile video?

According to the *Wall Street Journal*, Comcast has been "torn between two groups of shareholders – those who like management's ambitious plans to conquer new markets, and those who want the company to return more cash to investors through dividends and stock repurchases."<sup>7</sup>

These, therefore, are the questions for discussion. How does a company such as Comcast structure its decision process to define and refine its strategy? What are Comcast's main generic strategy options? What is the thinking process that must go into identifying its options and selecting the best?

## 14.3 Theories and Tools of Business Strategy

Business strategy has become a trendy yet vague topic. It is important yet difficult to analyze a company's optimal path in a "hard" or quantitative way. Because there are few analytic models and fewer testable hypotheses, this field has been full of contending schools of thought, some of them conceptual, others numbers-driven, and still others simply spouting the latest buzzwords.

Management is caught in the middle. How does one determine the best strategy for an organization? The basic problem for strategy theory and application is that there are so many variables in the real world. Managers, however, want

simple rules of thumb for decisions. This has led to a plethora of single-factor strategic rules, which emphasize, respectively, one of the following:

- Cost reduction;
- Innovation;
- Quality;
- Export orientation;
- Core strengths;
- Barriers to entry;
- Avoidance of commodification;
- Scale;
- Ability to learn and adapt;
- Investing in people;
- Integration across the value chain.

5 McGregor, Jena. "Clayton Christensen's Innovative Brain." *Business Week*. June 15, 2007. Last accessed July 11, 2017. ► <https://www.bloomberg.com/news/articles/2007-06-15/clayton-christensens-innovation-brainbusinessweek-business-news-stock-market-and-financial-advice>.

6 The Economist. "Blazing platforms." February 10, 2011. Last accessed July 11, 2017. ► <http://www.economist.com/node/18114689>.

7 Anders, George. "Comcast Wins Skirmish, Girds for War." *The Wall Street Journal*. February 20, 2008. Last accessed July 11, 2017. ► <https://www.wsj.com/articles/SB120346320004678295>.

■ Fig. 14.1 SWOT analysis

		<b>Helpful</b> To achieving the objective	<b>Harmful</b> To achieving the objective
<b>Internal Origin</b> (attributes of the organization)	<b>Strengths</b>	<b>Weaknesses</b>	
<b>External Origin</b> (attributes of the environment)	<b>Opportunities</b>	<b>Threats</b>	

All these factors are correct under the right circumstances, and some may be achieved jointly. But there is no easy way to test the consistent importance of one factor or cluster over another.

### 14.3.1 Basic Strategy Perspectives

A number of theories and approaches have therefore arisen to help managers make strategic choices. There have been several stages of business strategic thought.

#### 14.3.1.1 The Business Policy Approach to Strategy (1950s–1960s)

The business policy approach to strategic thinking originated at Harvard Business School in the late 1950s.<sup>8</sup> It combines strategy and corporate responsibility, from the perspective of the general manager as the leader. The main thought leader was Kenneth Andrews, supported by a mandatory MBA Business Policy course, a capstone course rather than a foundation class, which then spread to many business schools. The fundamental questions of the business policy approach were:

- How do firms behave?
- Why are firms different?
- What is the value added of the headquarters unit?
- What determines success in international competition?

The approach has no theoretical analysis but includes several descriptive tools, in particular the SWOT

analysis (strengths, weaknesses, opportunities, and threats).<sup>9</sup> There is nothing particularly revelatory in this matrix (■ Fig. 14.1) or in many other similar tools, but it provides a way to systematize the choices that a management team faces.

A SWOT analysis identifies in a simple way strengths and problems. Factors are ordered in two dimensions. The vertical distinguishes external and internal factors. These can be either helpful or harmful, as categorized by the horizontal axis. Where an internal factor is helpful it identifies an organizational strength. Where it is harmful it describes a weakness. External factors are those that are less under the firm's control, such as the market, government, and technology trends. They are either opportunities or threats (■ Fig. 14.2).

#### 14.3.1.2 Case Discussion

##### What Are Comcast's Strengths? Weaknesses? Opportunities? Threats?

The matrix does not identify a particular strategy for Comcast but it organizes its opportunities—which are enormous and whose magnitude could be estimated—as well as the strengths it has at its disposal to seek out at least several of them. It also identifies threats and weaknesses, both of which might also identify a strategic priority that must be taken to alleviate them or to turn them around into an opportunity and strength. The limitation of the SWOT analysis is that it is basically a list, not a methodology. But it functions as an external scan and internal self-analysis, and it helps to identify priorities and barriers.

8 Evans, Philip. "Strategy: The end of the endgame." *The Journal of Business Strategy* 22, no. 6 (November/December 2000): 12–16.

9 Stewart, Matthew. *The Management Myth*. New York: W.W. Norton & Company, 2009. This thoughtful and informative book has been an important source for this chapter.

**Fig. 14.2** Comcast SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Strong balance sheet</li> <li>• Diversified revenue streams</li> <li>• Strong management</li> <li>• Cable services/operations</li> <li>• Low churn</li> <li>• Success in broadband</li> <li>• Vertical integration with content</li> </ul>	<ul style="list-style-type: none"> <li>• CAPEX requirements</li> <li>• No mobile presence</li> <li>• Limited international presence</li> <li>• Not a tech company</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Online migration of media and commerce</li> <li>• Demand for faster connectivities</li> <li>• National and rural programs for network upgrade</li> <li>• Internet of things</li> <li>• Data mining applications</li> <li>• Tele-commuting, tele-medicine, e-education, and other applications</li> </ul>	<ul style="list-style-type: none"> <li>• Market saturation</li> <li>• Competition from other platforms and content providers</li> <li>• New product innovation</li> <li>• Consumer migration to online cloud services</li> <li>• Merger opposition</li> <li>• Cord-cutters and cord-nevers</li> <li>• Net neutrality regulations</li> <li>• Privacy regulations</li> <li>• Set-top connectivity regulations</li> </ul>

## 14

### 14.3.1.3 Game Theory (1960s)

Also during the 1960s, analysts developed a very different style of strategic analysis: game theory. Originally this approach was adopted by military strategists, in particular for conceiving Cold War nuclear responses. Soon it was also being used for corporate strategy, to analyze the behavior of rival firms in an oligopolistic market as a set of moves and counter-moves. Among the tools of this approach are the Zero-Sum Game, where one party's gain is another party's loss; the Prisoner's Dilemma, which describes a situation where in the absence of collaboration everyone loses; and the Battle of the Sexes, in which co-ordination is sought in the absence of communication. This is further discussed below, as well as in ► Chap. 11 Pricing of Media and Information.

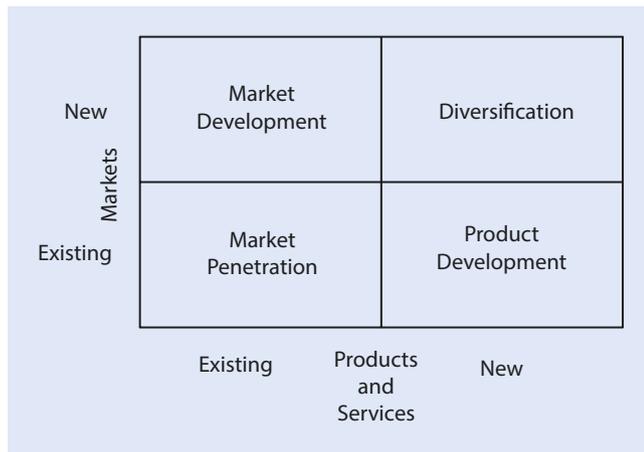
### 14.3.1.4 Competitive Analysis (1970s)

The competitive analysis approach is associated with Igor Ansoff, Bruce Henderson, and Michael Porter. It focuses on a company's competitive position versus its peers along various metrics, and helps management to determine its competitive edge. Igor Ansoff, an American-born mathematician and business analyst, grew up in Russia, and once back in the USA ended up working for the defense contractor Lockheed.

In 1965, he published the book *Corporate Strategy*, which quickly became a classic. To assist planners in selecting the appropriate mix of products and markets, Ansoff supplied a set of strategic planning tools. These tools included graphic "eye candy": matrices, charts, pie charts, radar charts,  $x$ - $y$  or  $z$  charts, Venn diagrams, time lines, boxes, and organizational charts.<sup>10</sup>

One tool analyze a firm's strategy is the Ansoff Matrix, which classifies a company's strategic approach according to whether it faces new markets and new products. In Fig. 14.3 the southwest quadrant is one in which the firm finds itself with existing (old) products in an existing (old) market. Its growth strategy is therefore one of gaining sales in a saturated market through "market penetration," in which it increases its marketing efforts, lowers its price, and so on. In contrast, a firm in the northwest quadrant targets an existing product in a new market. This requires a "market development," which would work if the firm's strength is based on the product rather than on geography. The riskiest strategy is the northeast corner, where the firm must develop both a new product and a new market. Here, it needs to reduce

<sup>10</sup> Stewart, Matthew. *The Management Myth*. New York: W.W. Norton & Company, 2009.



■ Fig. 14.3 Ansoff Matrix

risk by a diversification with more predictable markets and products.

Following Ansoff's exhortations, hundreds of firms formed strategic planning departments. Consultancies sprang up, exemplified by the Boston Consulting Group (BCG). The tiny firm's partners met to discuss their future, and brainstormed for a way to differentiate themselves from large established consultancies. As Matthew Stewart relays the story, at a certain point in the discussion, Bruce Henderson, the founder, suggested a focus on "business strategy." When others objected that this was too vague, Henderson replied. "That's the beauty of it, we'll define it."<sup>11</sup> BCG grew from 12 consultants in 1965 to 6200 in 2017. BCG became known for its 2x2 matrix that categorizes operations into "stars," "dogs," "cash cows," and "question marks." (This will be discussed further below.)<sup>12</sup> To meet BCG's competition, the established consulting firm McKinsey reinvented itself as a "strategy consultancy" firm.

Intellectual leadership in strategic management analysis was next provided by Michael Porter. As a cross-departmental doctoral student, Porter noticed that his Harvard Business School professors had no formal approach to strategy but relied on a case-study approach without useful generalizations. On the other hand, his professors in the economics department used generalizations and theoretical models, but in the wrong direction, as Porter concluded. They aimed to help make markets more efficient, which meant that there would be no profits above a "normal" (i.e. low) rate. Porter's sub-discipline of economics was industrial organization (IO), which deals

with the behavior of firms in imperfect markets. A prominent figure in IO research in the 1950s was the economist Joe S. Bain. Bain explained excess profits by the existence of market imperfections, such as barriers to entry and scale economics. Bain's main conclusion was for government to reduce these barriers.<sup>13</sup>

Porter now upended economics and called it "strategy." Instead of seeking public policies to reduce market imperfections that caused excess profits, he advocated that firms precisely create and defend such market imperfections in order to generate excess profits. This provided an analytical approach to strategy. In his 1980 book *Competitive Strategy*, Porter laid out a framework of five forces that determined the competitiveness of an industry sector. They are the classic economic dimensions of rivalry among existing firms, threat of new entrants, threat of substitute products, bargaining power of buyers, and the bargaining power of suppliers.<sup>14</sup> To a great extent, the first four are synonyms for competition. The stronger these forces, the more competitive the industry. Firms need to counter these forces. A company with protection by market imperfections has a sustainable advantage. Porter identified four generic strategies, essentially following Joe Bain in reverse. They boil down to two basic strategies:

- Trying to prevent the entry of competitors;
  - Differentiating the product and the market.
- There are general steps a company can take to pursue these strategies, create a competitive advantage, and establish and defend market power:
- Invest in research and development to create patents and other proprietary know-how.
  - Engage in marketing activities, to generate a "lock-in" that makes it difficult for its customers to seek alternatives.
  - Create economies of scale that enable low cost production.
  - Focus on differentiating brand reputation, visibility, and often quality.
  - Develop strong government relations with the aim of making competitors entry harder.
  - Stand ready to cut prices to deter rival entrants.

### 14.3.1.5 The Core Competencies Approach (1980s)

The competitive analysis approach of Porter and his followers was challenged in the early 1980s as not being sufficiently explanatory. Japan's competitive success, for example, could not be explained with that perspective, which advised

<sup>11</sup> Stewart, Matthew. *The Management Myth*. New York: W.W. Norton & Company, 2009.

<sup>12</sup> While the "BCG Box" is popular with managers, academic studies are skeptical as to its advantages. One study of 129 firms that used the model found they had below average shareholder returns. Slater, Stanley F. and Thomas J. Zirlein. "Shareholder Value and Investment Strategy Using the General Portfolio Model." *Journal of Management*. December 1, 1992. Last accessed July 11, 2017. ▶ <http://journals.sagepub.com/doi/abs/10.1177/014920639201800407>.

<sup>13</sup> Stewart, Matthew. *The Management Myth*. New York: W.W. Norton & Company, 2009.

<sup>14</sup> Rodriguez, Walter. "IS Theory & Practice: Effects of IT on Competition." *Florida Gulf Coast University*. Last accessed July 11, 2017. ▶ <http://itech.fgcu.edu/cis/frames/apchapter03/sld001.htm>.

a firm to seek market advantages either by low price or by high quality, but not by both. Yet Japanese car manufacturers created a production system that reduced waste and inventory, resulting in high quality and low-cost cars. A main critic of the Porter analysis was Henry Mintzberg of McGill University.<sup>15</sup> Mintzberg, by background a mechanical engineer, looked at firms as they concretely operated, not as an economist's abstract black box. What are their strengths and weaknesses? His core competencies approach advocated the development of skills, knowledge, assets, and technologies, and then to combine these elements in seeking opportunities. This approach suggested a transition away from Porter's market structure orientation in favor of developing internal strengths. MIT professor Birger Wernerfelt introduced a related approach called resource-based view (RBV) in 1984. Resources are the assets of a firm, which are valuable, rare, and hard for competitors to match.<sup>16,17</sup> A core competency can then be bundled with other elements where the firm has no particular competitive advantage.

In media industries, core competencies may lie in a number of areas: the creation of content; the distribution platforms; the access to financing; the mastery of advanced technology; superior design; effective marketing; or the proximity to government. For many years, a core competency that gave Sony sustainable competitive advantage in consumer media devices was its strength in miniaturization. Since the 1950s, Sony built whole categories of products based on miniaturization skills: pocket-sized portable AM radios, Walkmans, and Discmans.<sup>18</sup>

For another large company, Disney, core competency is to create unique and likable cartoon characters and to market them in multiple ways. *The Lion King* is an example of how Disney managed to extract value from the character in film theaters, home video, music soundtrack, musical, product merchandising, and theme parks. For Disney, revenues from toy sales for *The Lion King* were two to three times larger than film revenue.

A company can develop core competencies by<sup>19</sup>:

- Identifying its key abilities and leveraging them;
- Benchmarking itself with other companies;
- Understanding what its customers truly value;
- Encouraging core capability development throughout the company;
- Protecting core strengths, especially as the company expands;
- Outsourcing or divesting non-core capabilities, and focusing on activities that deepen core capabilities.

The problem with the core competencies approach is that in the dynamic environment of media and technology it is difficult to sustain a non-imitable and unusual capability in any resource. Moreover, such an analysis is less applicable to start-ups without a track record and without rivals for comparison. The approach is also criticized as tautological—the firm is valuable because its resources are valuable. Yet the resources rarely have inherent value. They derive their value from their application by the firm. A media firm's creative teamwork is not like that of an energy company that has found a major oil field.

### 14.3.1.6 Case Discussion

#### Comcast Core Competencies and the Resource-Based View, What Are Comcast's Core Competencies?

Comcast's competitive advantages and disadvantages can be ranked by the relative importance of the attribute and by the relative strength or weakness of the firm in that attribute. This can then be graphed (■ Fig. 14.4). The analysis is hypothetical. The X-axis identifies the strategic importance (1 = no relevance; 5 = fairly relevant; 10 = crucial importance.) The Y-axis shows the company's relative strength compared with competitors (1 = competitive disadvantage, 5 = parity, 10 = competitive

advantage). The company's key strengths and weaknesses can then be identified (■ Table 14.1).

The analysis shows Comcast having key strengths in content acquisition (C2) (importance 10; strength 10). This is based on Comcast having acquired NBC Universal. Also strong are diversified revenue streams (C11), and the domestic cable distribution network (R3). Key weaknesses are TV content production (C4) (importance 6, strength 4). This is based on Nielsen ratings

where among the four major networks NBC came in third. Another weakness is spectrum (R5) where Comcast is stretched with no ability to readily expand, and in foreign cable platforms (R6). However, these are held to be irrelevant in the short term. A superfluous strength (strong but less important) is R&D (importance 2, strength 6), because technology, while important, can be acquired from vendors. With its acquisition of NBC Universal, Comcast's brand ownership expanded significantly.

15 Evans, Philip. "Strategy: The end of the endgame." *The Journal of Business Strategy* 22, no. 6 (November/December 2000): 12–16; Mintzberg, Henry. The rise and fall of strategic planning. New York: Free Press, 2004; Mintzberg, Henry. *Managers, not MBAs. A hard look at the soft practice of managing and management on development*. San Francisco: Berrett-Koehler, 2005.

16 Gary Hamel and C.K. Prahalad extended RBV in their 1990 article "The Core Competence of the Corporation." A good core competence should be difficult for competitors to duplicate. Ideally, it would be complex, hard to identify from the outside, durable, and non-substitutable. Hamel, Gary and C.K. Prahalad. "The Core Competence of the Corporation." *Harvard Business Review*. May–June 1990. Last accessed July 11, 2017. ► <https://hbr.org/1990/05/the-core-competence-of-the-corporation>.

17 Petts, Nigel. "Building Growth on Core Competences – a Practical Approach." *Long Range Planning* 30, no. 4 (1997): 551–561.

18 Boyd, Charles. "Assessing Strengths and Weaknesses: Doing an Internal Analysis." *Columbia Institute for Tele-Information*. Last accessed July 11, 2017. ► <http://www.citi.columbia.edu/B8210/read29/Boyd.pdf>.

19 Rigby, Darrell K. and Barbara Bilodeau. "Management Tools and Trends 2013." *Bain & Company*. May 8, 2013. Last accessed July 11, 2017. ► <http://www.bain.com/publications/articles/management-tools-and-trends-2013.aspx>.

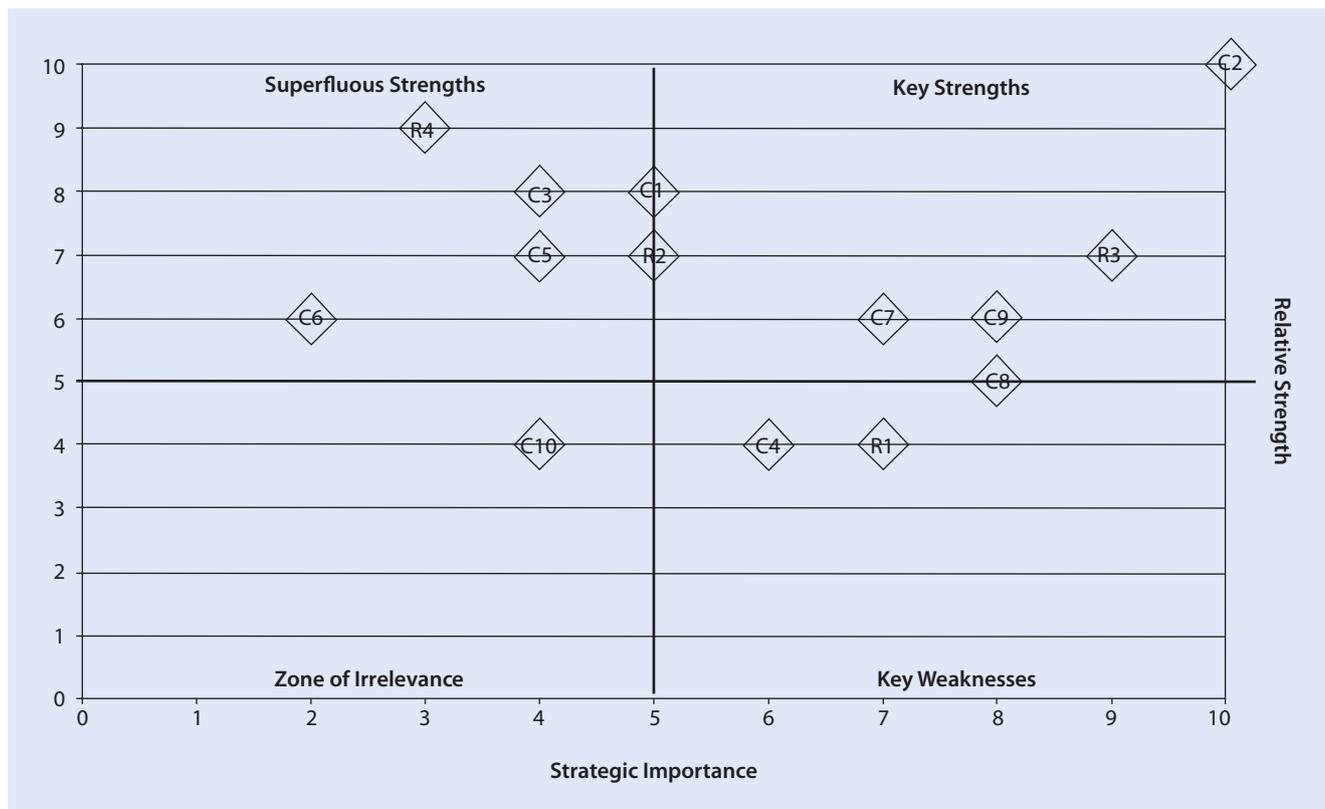


Fig. 14.4 Appraising Comcast's resources and capabilities (schematic)

Michael Porter contributed to the analysis of internal effectiveness by an approach that enables identification of core competencies through the concept of the value chain, which breaks down a firm into its major activities and seeks the elements that contribute most to value creation. A value chain analysis can help identify where the firm is strong and where it is weak. Where it falls short, it might then partner with another firm or outsource. Elements of a value chain may include, for example, a sequence of product design, inbound supply management, production, marketing, distribution, and customer service. Each of these elements in turn has sub-elements. In parallel, they are also secondary value-added activities of internal process, such as R&D and human resource management.

A value chain analysis works better in concept than in actual operations based on numbers.<sup>20</sup> To identify value chain performance, the firm must conduct an internal analysis of the cost of each activity. These costs are then compared with those of competitors. The firm must then determine what makes its product different from those of competitors in the eyes of consumers, and what value each step generates. Practically speaking, value chains are rarely as neat in reality as they are in theory or on a graph. The stages are not clear and separable but interactive and overlapping. Furthermore, one cannot easily come up with hard numbers. How much value is created by the design? The

marketing pitch? The distribution? One way to seek quantification is by a conjoint analysis, which decomposes some of the product elements in terms of value. (See ► Chaps. 9 Demand and Market Research for Media and Information Products and 12 Distribution of Media and Information.)

### 14.3.1.7 Adaptability Approaches

Many strategy theories do not reflect dynamic change sweeping an industry. Where change is rapid, the traditional priorities of control and planning become less important than adaptability. Good management, as Clayton Christensen observed, is no guard against “disruptive technologies” that are introduced by new entrants. This realization has led to strategy theories that emphasize adaptability. Instead of seeking a controllable environment, risk has to be embraced, speed matters more than accuracy, and innovation is more important than control. To do so, a successful organization is an adaptive organization.<sup>21</sup> Peter Senge of MIT popularized the idea of the “learning organization.” Jack Welch, the celebrated former ex-CEO of General Electric who was picked by *Fortune Magazine* as the “Manager of the Century,” proclaimed that General Electric’s sole competitive advantage was its ability to learn. The approach of adaptive adjustment, called by some “strategic morphing,” is the organizational equivalent of biological evolution.

20 Fleisher, Craig S. *Strategic and Competitive Analysis: Methods and Techniques for Analyzing Business Competition*. Upper Saddle River, NJ: Prentice Hall, 2003.

21 Evans, Philip. “Strategy: The end of the endgame.” *The Journal of Business Strategy* 22, no. 6 (November/December 2000): 12–16.

■ **Table 14.1** Appraising Comcast's resources and capabilities

Appraising Comcast's resources and capabilities	Analysts' judgment of importance	Analysts' judgment of Comcast's relative strength
<i>Resources</i>		
R1. Financial resources and access	7	4
R2. Network quality	5	7
R3. US cable distribution network	9	7
R4. Brands	3	9
R5. Spectrum	7	1
R6. Foreign cable distribution network	3	1
<i>Capabilities</i>		
C1. Content licensing	5	8
C2. Content acquisition	10	10
C3. In-house engineering	4	8
C4. TV content production	6	4
C5. Financial management	4	7
C6. research and development (R&D)	2	6
C7. Marketing and sales	7	6
C8. Government relations	8	5
C9. Strategic management	8	6
C10. Cost performance	4	4
C11. Diversified revenue streams	7	7
C12. Experience in interpreting acquisitions	4	8
C13. Vertical integration platform/content	5	7
C14. Customer lock-in	6	8

### 14.3.2 The Emergence of the Guru Industry

The celebration of the creators or popularizers of ideas for business strategy goes back to the early twentieth century, to the prominent figures of Frederick Taylor and Elton Mayo. Taylor's principles of "scientific management" were influential not only in the USA but also in the Soviet Union. Mayo was celebrated for exploring organizational behavior. Both Taylor and Mayo were later revealed to have been scientific charlatans when it came to the data they generated and interpreted. But their theories were eagerly accepted at the time by business leaders (and Soviet industrial commissars) because of management's desire to act "scientifically" and to deal with potential worker unrest.

In the early 1980s, Tom Peters, an associate at the consulting firm McKinsey, was tasked to find the best management styles. He visited business schools, corporations, and factories. In 1982, in collaboration with Robert Waterman, he used his observations for the bestseller *In Search of*

*Excellence*.<sup>22</sup> Peters and Waterman identified eight fundamental attributes of successful companies:

- A bias for action;
- Staying close to the customer;
- Autonomy and entrepreneurship;
- Productivity through people;
- Hands on, value driven;
- Stick to the knitting;
- Simple form, lean staff;
- Simultaneous loose–tight properties.

These eight attributes of excellence could be subsumed under a single insight: "treating people—not money, machines, or minds ... as natural resources may be the key to it all."<sup>23</sup> This is a sensible observation, but does not

<sup>22</sup> Peters, Thomas J. and Robert H. Waterman Jr. *In Search of Excellence*. New York: Harper & Row, 1982.

<sup>23</sup> Stewart, Matthew. *The Management Myth*. New York: W.W. Norton & Company, 2009.

explain the book's success. But perhaps the most significant aspect of the Peters/Waterman book was not its content but its reception. Previous books on management strategy sold a few thousand volumes. This book, however, sold 6 million.<sup>24</sup> It benefited from being issued in the midst of a US recession as Japanese firms were riding high. Peters became a celebrity and a sought-out speaker to millions of people around the world. In time, his management strategy talks took on a quasi-religious style. His speeches and those of some other business gurus became motivational sermons of self-realization and empowerment.

This propelled business strategy thinking to move beyond being a field of inquiry and research to one full of admired persons with great authority. A “guru industry” emerged, based on business school academics and consultants.<sup>25</sup> They capitalized on the great interest in the USA and Europe in recapturing competitiveness, and in Asia in gaining advantage. The management strategy consulting industry became a multibillion dollar business. Its books and ideas became global, connecting the world's managers by the same concepts, insights, buzzwords, and fads.

An example is Michael Hammer, a computer science professor at MIT, who, with business consultant James Champy, introduced “Business Process Reengineering” (BPR) in the 1990s.<sup>26</sup> Their book quickly became a bestseller and sparked a trend of corporate reengineering and reorganizations.<sup>27</sup> Companies were advised to take a “blank sheet” and unsentimentally approach all of their existing processes. They would identify unproductive layers and activities and could design cross-functional organizations. Information technology (IT) such as enterprise resource planning (ERP), enable a firm's different operations to interact electronically and made reengineering possible.<sup>28</sup> In total, 2.5 million copies of the book were sold, and it remained on the *New York Times* bestseller list for more than a year. *Time* magazine named Hammer as one of America's 25 most influential individuals in its first such list. *Reengineering the Corporation* was ranked among the “three most important business books of the past 20 years” by *Forbes* magazine. Business process reengineering

turned from zero use by companies in 1993 to 65% in 2000, but then back down to 35% in 2003 and 30% by 2013. As one of its creators wrote in 1995, “reengineering's enduring lesson is that the bigger the hype the greater the chances of failure...” BPR took the classic route for popular management ideas: from academic research, via a management consultancy's marketing, into the business press, a bestselling book, a brief shining moment as the solution for companies' problems, before giving way to the next Great Idea.

One well-known strategy consultancy, Bain and Co., periodically publishes surveys of companies' use of various management tools, ideas, and techniques. It gives them weights according to popularity of adoption and of effectiveness, as rated by the satisfaction of the surveyed managers. It also measures the rate at which these concepts get dropped (“defections”) (■ Fig. 14.5).<sup>29</sup>

It seems that ideas on management strategy and techniques are as subject to fashion as music styles or popular culture, going through a life cycle of creation, popularization, and disenchantment. Their cycles have been pronounced enough to make the study of management fashion itself to be fashionable.<sup>30</sup> Such research has shown that the lifespan of a strategy concept has decreased over the years.<sup>31</sup> The average lifespan of these management techniques has dropped enormously. From the 1950s to the 1970s, the timespan between the initial idea and the peak of its popularity was 14.8 years. It fell to 7.5 years in the 1980s and to 2.6 years in the 1990s.<sup>32</sup> There are several causes for these swings. They include the larger number of would-be gurus who want to achieve attention and opportunities. There is also an acceleration in dissemination. Business magazine editors, too, operate in a competitive environment and seek to position their publication at the cutting edge of management innovation by an early identification of a “new” idea or technique.<sup>33</sup> There is also a greater rapidity in adoption as businesses try to gain advantage. But this is equally followed by a frequently rapid disenchantment when the new approach fails to deliver. This creates a high and often invisible cost in confidence and morale.

Which of the numerous theories and approaches to business strategy is then best suited for adoption? This cannot be readily answered. In a scientific inquiry, the validity of a theory is measured by its predictive power. For example, one could test Porter's generic success strategies by measuring, predicting, and then checking the performance of companies that use these strategies with companies that do not. Most

24 Stewart, Matthew. *The Management Myth*. New York: W.W. Norton & Company, 2009.

25 Crainer, Stuart and Des Dearlove. “The Short History of Great Business Ideas.” *Business Strategy Review*. 2006. Last accessed July 11, 2017. ► <http://www.citi.columbia.edu/B8210/read29/Crainer.pdf>.

For discussions of this sector, see:

- Hoopes, James. *False Prophets: the gurus who created modern management and why their ideas are bad for business today*. New York: Basic Books, 2003.
  - Khurana, Rakesh. *From higher aims to hired hands: the social transformation of American business schools and the unfulfilled promise of management as a profession*. Princeton, NJ: Princeton University Press, 2007.
  - McKenna, Christopher D. *The World's Newest Profession: Management Consulting in the Twentieth Century*. New York: Cambridge University Press, 2006.
  - Pfeiffer, Jeffrey, and Christina T. Fong. “The End of Business Schools? Less Success Than Meets the Eye.” *Academy of Management Learning & Education* 1, no. 1 (September 2002): 78–95.
  - Warren, Daniel A. *The History of Management Thought*, 5th ed. New York: Wiley, 2004.
- 26 Stewart, Matthew. *The Management Myth*. New York: W.W. Norton & Company, 2009.
- 27 Crainer, Stuart and Des Dearlove. “The Short History of Great Business Ideas.” *Business Strategy Review*. 2006. Last accessed July 11, 2017. ► <http://www.citi.columbia.edu/B8210/read29/Crainer.pdf>.
- 28 Rigby, Darrell K. and Barbara Bilodeau. “Management Tools and Trends 2013.” *Bain & Company*. May 8, 2013. Last accessed July 11, 2017. ► <http://www.bain.com/publications/articles/management-tools-and-trends-2013.aspx>.

29 Source: Bain & Company's management Tools & Trends survey, 2013. Used with permission from Bain & Company. <http://www.bain.com/publications/articles/management-tools-and-trends-2013.aspx>.

30 Clark, Timothy. “The Fashion of Management Fashion: A Surge Too Far?” *Organization* 11, no. 2 (2004): 297–306.

31 Carson, Kerry David et al. “Management Fad Adoption: An Exploration of Three Psychogenic Influences.” *The Journal of Behavioral and Applied Management* 3, no. 2 (Winter 2002): 174–189.

32 Crainer, Stuart and Des Dearlove. “The Short History of Great Business Ideas.” *Business Strategy Review*. 2006. Last accessed July 11, 2017. ► <http://www.citi.columbia.edu/B8210/read29/Crainer.pdf>.

33 Clark, Timothy. “The Fashion of Management Fashion: A Surge Too Far?” *Organization* 11, no. 2 (2004): 297–306.

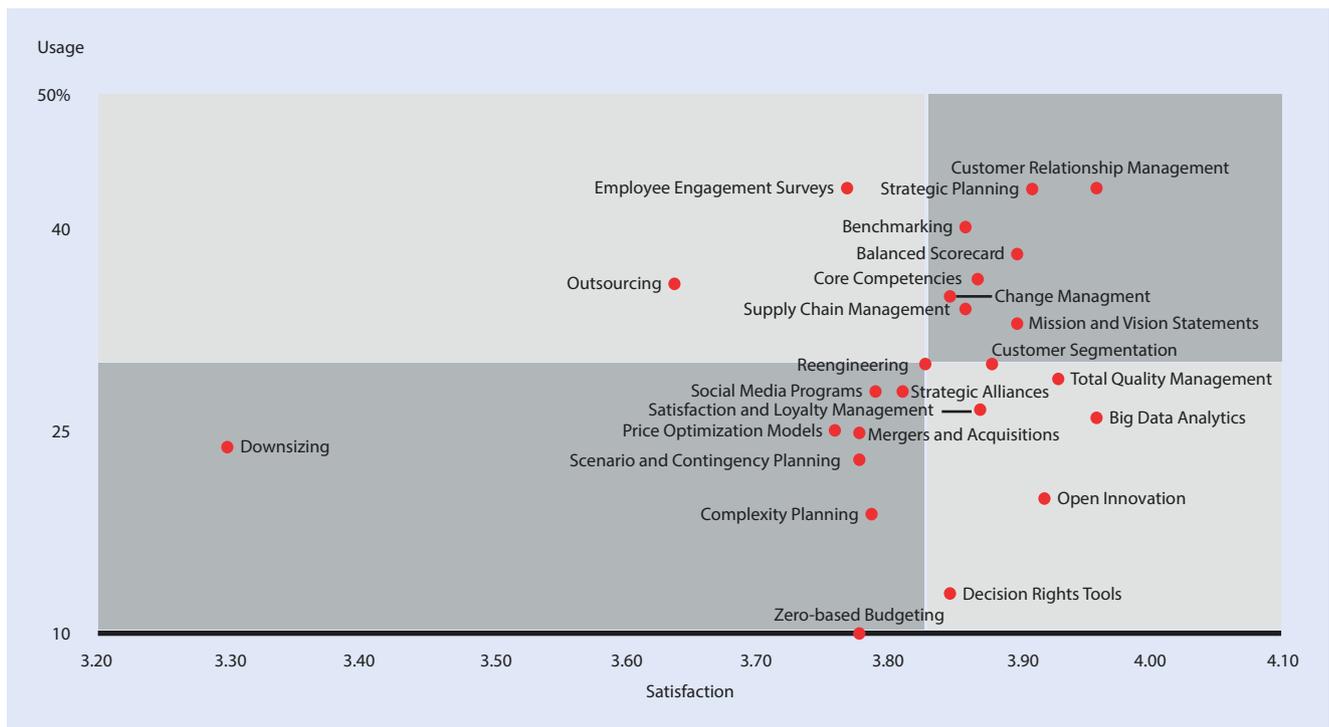


Fig. 14.5 Management strategic tools—usage and satisfaction (2013)

strategy gurus, however, do not use analytical and statistical methods. They are based on anecdotes and case studies; they are based on explaining the past and have a low predictive value. Mintzberg, in his 1990s article on the resource-based view, presented the Japanese electronics manufacturer NEC as a model; yet NEC soon stagnated in innovation and financial performance. Hamel and Prahalad, in their 1994 book, celebrated General Magic, but that company soon failed. Hamel also presented Enron as America's most innovative company.<sup>34</sup> Shortly afterwards, Enron cratered in one of the greatest bankruptcies in American business history. According to Bill Gates, "The authors are two smart guys. They're probably as good as there is in the field ... Every example they gave, with the exception of Hewlett-Packard, was a total joke."<sup>35</sup>

Of Tom Peters' "42 highly successful companies," most declined soon after being extolled as exemplars.<sup>36</sup> Wang Laboratories went bankrupt. Eastman Kodak lost out against Japanese competitors, missed out on digital technology, and went under. Boeing lost much of its dominance to Airbus. Amdahl lost out in innovation to IBM and was acquired by Fujitsu. RayChem was acquired by the conglomerate Tyco, which broke up in a criminal corporate scandal. Data General collapsed. National Semiconductor faltered and was acquired in 2011 by Texas Instruments. Delta Airlines went through a Chapter 11 bankruptcy reorganization in 2005 before it recovered.

While there is an undeniable element of faddism in the strategic theories, many if not most also hold major grains of truth. Therefore, once one abandons the notion of a single-factor, silver bullet theory, one can blend them into an effective combination. The most persuasive perspective is that of a "portfolio of adaptable competencies": a firm creates a set of competencies across its various functions, with the flexibility to adjust to changing circumstances. Together these several competencies make the firm a strong performer. This is the "build the best ship" approach. It does not have a preconceived rigid strategy, but it will sail to wherever the future mission will require, with a decent chance of success.

## 14.4 The Strategy Process

Perhaps more important than picking the "best" theory or the tool for strategy is the process of strategy analysis and planning itself. Such an activity forces the firm to take a long-term view with respect to its market, its competitors, its technology, and so on. The review and planning process is just as important as the plan itself.

To engage in strategic planning has several components:

- Organize the strategic process;
- Examine the external environment;
- Review the internal capabilities;
- Identify, analyze, and select the best options;
- Develop a plan;
- Implement the plan;
- Review the performance.

These elements will now be reviewed.

34 Stewart, Matthew. *The Management Myth*. New York: W. W. Norton & Co., 2009.

35 A few years later, HP, too, was on the ropes.

36 Stewart, Matthew. *The Management Myth*. New York: W.W. Norton & Co., 2009.

### 14.4.1 Organization of the Strategy Process

In many cases a firm's strategy is simply to do what it already does but better. In other cases, a firm will seize upon new opportunities without much of a plan. However, many companies will try to do better than that and formulate some plan for the near or medium future.<sup>37</sup> This could be triggered by new leadership, or an emergency, or an important disruption by new technology or by a new and effective competitor. Though one would expect such planning to be an obvious thing to do, there are often constraints. Start-ups may get going with an idea that is pursued with energy but on an entirely uncharted course. For them, careful planning would often be futile. In more established organizations, strategy setting is often a sensitive process. A strategic review of a company's direction, strengths, and weaknesses can elicit defensive responses and the protection of home turf. The outcome of strategic plans can have significant impact budgets and affect careers. Partly for that reason, strategic plans are often drafted by outside strategy consultants.

### 14.4.2 Who Engages in Strategic Planning?

Strategic planning can be undertaken by an organization's board of directors, the CEO, specialized strategy staff, corporate sub-divisions, outside experts, and others. This will now be discussed.

#### 14.4.2.1 Stockholders' Role in Strategy

In general, shareholders do not manage the corporation. What shareholders do is to elect directors who will then represent their interests. They also approve fundamental transactions such as the dissolution of the company resulting from a merger. But there are instances in which shareholders exert their voice for strategic change. For example, in 2005, an influential Time Warner shareholder, the financier Carl Icahn, organized shareholder pressure on management to divest assets and to split the company into four parts. The shareholder resolution was defeated, but Time Warner management soon embarked on just such a course of action. It spun off its cable TV, ISP, telecom, and magazine operations.<sup>38</sup> (Once it had shrunk in such a fashion, however, it itself became a target for acquisition, first by Comcast and then by AT&T.) Similarly, there has been an emergence of "activist funds," which differentiate themselves from other funds by taking the initiative in pushing management to take actions the funds deem necessary. They exert pressure through proxy battles, shareholder relations, publicity, and litigation.<sup>39</sup>

#### 14.4.2.2 Directors' Role in Strategy

Ultimately, the board of directors is responsible for strategy. Directors review and approve corporate strategy and policy based on recommendations, typically provided by senior management. The board can also initiate a strategic review, even independently of the CEO and management. With greater emphasis put on the independence of directors, we are likely to see more of this.

An example for a board-controlled strategic process was the online company Yahoo. The board, dissatisfied with the direction of the firm, created its own committee to plan company goals and strategy. That committee worked with top management to develop and implement these plans and oversaw the CEO's own strategic process.

#### 14.4.2.3 The CEO as Strategy Setter

In small or young organizations, the CEO is generally the owner and/or founder of the company. Their vision shapes the firm's strategy. In large and established firms, CEOs can be more in the nature of a chief administrator, or a charismatic leader and agent of change. One of the early strategy gurus, George Steiner, postulated that CEOs should expend no more than 18% of their time on items that come due in the next six months, and 67% on the things that take at least two years to happen. In contrast, low-level group supervisors should devote 98% of their time to plan tasks that take place within six months or less, and no time at all to anything one year or more in the future. Yet in responding to a McKinsey survey, only 8% of managers said that the CEO of their organization was primarily engaged in long term strategy.<sup>40</sup> They get bogged down in the daily grind.

#### 14.4.2.4 Strategy Setting by Top Management

In most large firms, then, strategy setting is a collaborative effort of the top level of management, each member contributing their experience and perspective.<sup>41</sup> But top officers are also often protective of their area of responsibility. They are also mindful of implications for their careers.

#### 14.4.2.5 Middle Management as Strategy Setters

Another alternative to a top-down strategic approach is to rely on continuous improvement run by middle management. That approach is strong on operations but often without a conceptual strategy, whereas the top-down approach is strong on strategy but often vague in its implementation.<sup>42</sup> Some companies have tried to combine the two. The diversified manufacturing company

37 Strategy is either prescriptive or emergent. Prescriptive strategy is a roadmap which is defined in advance. In contrast, emergent strategy is developed along the way.

38 Farrell, Maureen. "Icahn was right about Time Warner...7 years later." *CNN Money*. March 8, 2013. Last accessed July 14, 2017. ▶ <http://buzz.money.cnn.com/2013/03/08/icahn-time-warner/>.

39 Examples for such funds are those managed by Daniel Loeb (Third Point Management); the California and Florida State Employee Retirement funds; and William Ackman (Pershing Square Capital).

40 Stewart, Matthew. *The Management Myth*. New York: W. W. Norton & Co., 2009.

41 Pauker, Benjamin and Joel Whitaker. *Strategic Intelligence: Providing Critical Information for Strategic Decisions*. Washington, DC: Corporate Strategy Board, 2000.

42 Irvin, Jill, Laura Pedro, and Paul Gennaro. "Strategy From the Inside Out: Lessons in Creating Organic Growth." *Journal of Business Strategy* 24, no. 5 (2003): 10–14.

Ingersoll-Rand is an example. Periodically it assembles a core team of several dozen mid-level managers who have been pegged as future leaders. That group then identifies business opportunities and designs a strategy. As the next step, the team members must also help implement it, by returning to their business units with a strong commitment to the plan and to the other team members across the company. This raises the likelihood that the strategy will take hold.

#### 14.4.2.6 Strategic Planning by Outside Experts

Well-known consultancies focus on strategic planning. Examples are Bain & Company, BCG, Booz and Co., and McKinsey. In Europe, they include Roland Berger, CapGemini, Bearing Point, LEK, and Qvartz, and in Japan examples are Abeam and JMAC. Such consultancies have experience and talented individuals. On the other hand, they often have no intimate knowledge of the firm or the industry and they are expensive. At times their function is to legitimize the direction already chosen by the CEO, and to take the blame if things go wrong.

#### 14.4.2.7 Dedicated Strategy Staff Group

Companies often create a specialized strategy group. Such a unit typically reports directly to the CEO. The downside of this approach is the distance from the actual experiences of divisions and functional areas. A related approach is a multifunctional task force, where experts are pulled in from the functional areas (finance, marketing, R&D, etc.) and the major operating divisions of a company. The downside is that these experts, too, may be motivated to protect their groups instead of taking a company-wide perspective. One way for a staff group to proceed is to create “war game exercises” that play through various scenarios of market developments, new entrants, different governmental environments,<sup>43</sup> and disruptions, and how to deal with them.

A corporate strategy unit typically has several components. The corporate development department identifies opportunities and assesses potential M&A. A strategic planning group co-ordinates and integrates plans and initiatives by business units. It also prepares and updates multiyear plans. A management issues group focuses on societal, business, and other trends for the form. An economic analysis group deals with the macro-economy and with investment analysts. A budgeting and planning group deals with implementation of strategy. It monitors business units’ compliance and performance, drafts the annual budget, prepares for the annual shareholder meeting, and works with or within other functional areas, such as human resources (HR).

The opposite of such a top-down system is a decentralized bottom-up approach, where each division does its own planning. In such a system, “every tub is on its own bottom” with clear responsibilities to take care of itself. At General Electric, this was the main approach to strategy under its legendary CEO, Jack Welch.

Strategy setting by divisions does not place centralized decision-making at corporate headquarters. In the pure case, each division creates an autonomous strategy. The advantage is that the decision-makers are closer to the market they are trying to reach. On the other hand, this framework may create conflicting plans. In consequence, companies often use a mixed approach. Strategy that is long term and fundamental in nature is handled at the corporate level, while medium-term strategy is run on the divisional level, and short-term and narrowly targeted planning is done by the product groups.

For example, at the Spanish telecom company Telefonica, the top corporate level defines a fairly general multiyear strategy, such as dominating the cloud marketplace. Then regional managers work with their own strategy department to develop a more detailed strategy for their main geographic regions. Even within this regional strategy there is a good deal of room for lower-level divisions, such as wireless and wireline, to set more detailed plans for how to accomplish the higher-level goals.

At Microsoft, there are three parallel planning processes (■ Table 14.2).

An example for the pitfalls of the corporate strategy process is Disney, a company we have encountered repeatedly in this book. In 1985, the Disney Strategic Planning Group had five employees. The group was responsible for evaluating external risks and competitive threats. It was instructed to “try to put numbers against subjective decisions.” Soon, however, there were more than 100 employees in Strategic Planning. Roy Disney, a dissident director, charged that the Strategic Planning Group had grown, “octopus-like, into every corner of the company.” But “strategic planning is NOT strategic thinking,”<sup>44</sup> and it was hindering creativity and innovation. According to Roy Disney, the Strategic Planning Group staff did not share in Disney’s corporate culture. He viewed the strategic planners as mostly young, inexperienced, brash outsiders. After the forced retirement of Michael Eisner, under shareholder pressure, strategic planning was radically decentralized, with Disney’s four business segments taking over responsibility. The remaining Corporate Planning Group focused only on the development of the five-year plan, acquisition opportunities, and emerging businesses.<sup>45</sup>

43 Pauker, Benjamin and Joel Whitaker. *Strategic Intelligence: Providing Critical Information for Strategic Decisions*. Washington, DC: Corporate Strategy Board, 2000.

44 Disney, Roy E. “Just What IS Strategic Planning, Anyway?” *SaveDisney*. June 3, 2004. Last accessed July 14, 2017. ► <http://web.archive.org/web/20040603123356/www.savedisney.com/news/essays/rd052704.1.asp>.

45 The Walt Disney Company. “The Walt Disney Company To Reorganize Strategic Planning Division.” March 25, 2005. Last accessed July 11, 2017. ► <https://thewaltdisneycompany.com/the-walt-disney-company-to-reorganize-strategic-planning-division/>.

**Table 14.2** Microsoft parallel planning processes

Planning process	Responsibility	Deliverables	Characteristics
Long term (beyond 10 years)	Chief technology officer	Long term “hard” problems. What will the technology environment of the future be like?	Supported by CEO and board. Unencumbered by business units.
Medium term (two components: 3–5 years and 5–10 years)	Product groups	Product and services strategy.	Funded by CEO and R&D planning.
Short term (1–3 years)	Product groups	Revenue plan.	Highly formalized process domestically. International units appear to have some latitude.

### 14.4.2.8 Case Discussion

#### Organizational Structure of Comcast’s Strategy Setting

At the corporate level, Comcast has three top executives engaged in strategy as their titles recognize: a senior vice-president for external strategy and new business opportunities, a senior vice-president for corporate strategy, and a vice-president for intellectual property strategy. The Strategic and Financial Planning Group, reporting to the chief financial officer (CFO), is responsible for forecasting business trends and developing long-range plans. It also identifies new growth opportunities.

On top of this, many of the company’s divisions also have their own strategic

groups. NBC Universal had a special group mainly occupied with its the post-merger integration. It was responsible for identifying synergistic opportunities between Comcast, NBC, Universal Studios and Parks, and the cable channels. Beyond transition issues, NBC Universal also has an executive vice-president for strategy and operations, entertainment, digital network, and integrated media, who leads the strategic development and operational initiatives across the division’s assets.<sup>46</sup> A division’s sub-divisions, in turn, often have strategists. Thus, NBC Universal’s sub-group, the Entertainment

Division, has an executive vice-president, brand planning and strategic insights. Similarly, the Ad Sales Division has a strategy vice-president.

These executives and their staffs play significant roles in Comcast’s strategy. And yet there is no doubt that the major strategic decisions have been made by the major owners whose control was cemented by a system of super-voting Class B shares. They were, for a long time, the co-founders Ralph Roberts, Julian Brodsky, and Dan Aaron, and then CEO and heir Brian Roberts.

### 14.4.3 The Strategic Plan

Strategic plans vary greatly. Their main components are

- A vision and mission statement that defines the aims and objectives of the organization.
- An external analysis of market technology, competitors, and government trends.
- An internal analysis of resource and capabilities.
- An analysis of strategic opportunities and threats.
- The identification of strategic choices.
- A decision process that sets directions and priorities.
- An outline for implementation, with roadmaps, budgets, and an investment plan.
- A plan for subsequent evaluation and feedback.

#### 14.4.3.1 The Vision and Mission Statement

A mission statement defines the company’s business and its objectives. A vision statement spells out the desired future position of the company. The two are overlapping and are

typically combined in a statement about the company’s purposes, goals, and values.<sup>47</sup>

#### 14.4.3.2 The External Assessment

The role of an external assessment for strategy is influenced by Michael Porter’s focus on a firm’s competitive position in a market, as discussed above. External assessment includes a review of market structure, demand, competitors, technology trends, and the environment in which the company is operating, both government and societal.

#### Assessing the Market

To assess the market, it is necessary to define it, assess its size, growth, direction, the technology trends that affect it, the major players within the market, as well as entry barriers. For an analytical look at market growth and the position of the firm in it, a growth-share matrix is useful (■ Fig. 14.6). It was popularized by Boston Consulting Group.

<sup>46</sup> These assets include Telemundo, Bravo Media, Oxygen Media, Style, DailyCandy and Swirl, Fandango, iVillage, Television Without Pity, as well as the partially owned networks ExerciseTV, Sprout, and TV One.

<sup>47</sup> Rigby, Darrell K. and Barbara Bilodeau. “Management Tools and Trends 2013.” *Bain & Company*. May 8, 2013. Last accessed July 11, 2017. ► <http://www.bain.com/publications/articles/management-tools-and-trends-2013.aspx>.

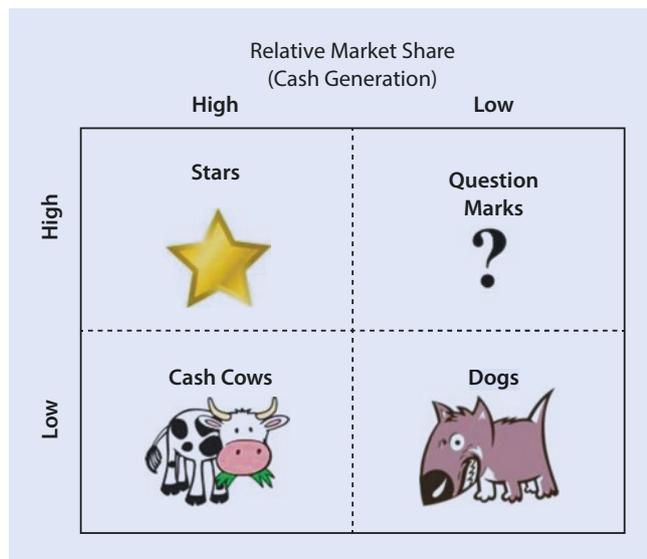


Fig. 14.6 The growth share matrix

A company or its activity that is being analyzed will fall into one of four quadrants based on market growth rate (vertical axis) and market share (horizontal axis). There are four basic scenarios.

1. *Star*: the company's activity has a high market share in a high-growth market. An example is Google's

YouTube. For a *Star* operation, the strategic decisions typically support investments to hold (or gain) market share.

2. *Dogs*: a small market share in a low-growth industry. In most cases the company would exit this activity or try to gain leadership, for example by combining with other firms. An example of a *Dog* is Castle Rock, a small independent film studio which was eventually acquired by Turner and Time Warner.<sup>48</sup>
3. *Cash Cows*: the company has a high market share in a low-growth industry. An example is Sony's consumer electronics division after 2000. Such a company's strategy is typically to harvest returns on past investments. Strategic decisions should be focused on maintaining innovation within the company to reverse that gradual decline.
4. *Question Mark*: the company has a small share in a high-growth industry. The proper strategic response is not clear: it can be to exit by selling out, to invest and expand in order to become a *Star*, find a market niche where its share is high, or create an alliance with the market leader. Even staying in place will require investments. An example of a *Question Mark* is the online music streaming service Rhapsody. Rhapsody bought the original music file-sharing company Napster and rebranded itself under that name. It claimed 4.5 million users in 2017.<sup>49</sup>

## Case Discussion

### What Scenario (Stars to Dog) Fits Comcast?

In assessing its potential for growth, Comcast would first survey its core products.

*Stars*: Xfinity high-speed internet service. It has a high subscriber count in a high growth market, that of the broadband ISP industry. While subscribership has become saturated, usage and speed have been rising. Competition is moderate (Comcast has about a 64% share<sup>50</sup> in its service territory, against the regional telecom incumbents and satellite TV providers).

*Cash Cows*: of these, Comcast has a good number: cable TV platforms, local TV stations and TV networks, several cable channels, theme parks, voice telephony wireline service, film production.

*Question Marks*: the video cloud industry's growth rate is very high. However, Comcast's presence in that segment is,

in particular, through the TV industry's consortium Hulu, which does not have a large market share. Another *Question Mark* is Telemundo, a Hispanic video channel with a market share of about 28% of Spanish-language TV, compared with rival Univision's 78%. But the growth rate of the market segments as a whole is high.

*Dogs*: Focus Features (the artsy film production subsidiary of Universal) generates about \$25 million annually in profit, but with a declining tendency. Despite the prestige of its films such as *Brokeback Mountain*, it is a low-return business. In contrast, Universal Pictures is focused on producing mass-appeal movies. While the downsides are small, the market is limited, as is the growth potential and the profit potential. Another *Dog* used to be NBC's small and declining

radio broadcasting business, where many years ago it was the undisputed market leader. Those radio stations and networks were sold off.

Another *Dog* is Universal Networks International (UNI). Specialty channels are not a growth business, and UNI's market share is small relative to rivals Viacom, Time Warner, Disney, and Discovery. With its specialty cable TV channels Syfy, Diva, Studio, Universal Channel, 13th Street Universal, Movies 24, Hallmark, and KidsCo, UNI has not produced much by way of compelling content, and is known for showing reruns of once-popular shows. This collection of channels does not demonstrate a growth potential.

Comcast's overall deepening strategy should focus on the *Stars* and *Cash Cows* while divesting the *Dogs* and being selective about the *Question Marks*.

48 If the market were redefined as "small artsy films," Miramax's market share would be larger, but it is still a slow-growth market. At best, it would be a *Cash Cow*.

49 Ingham, Tim. "Over 100 million people now pay for music streaming, beating the number of Netflix subscribers for the first time." *Business Insider*. January 17, 2017. Last accessed July 11, 2017. ► <http://www.businessinsider.com/midia-report-music-streaming-subscribers-overtook-netflix-subscribers-the-first-time-2017-1?r=UK&IR=T>.

50 Assuming Comcast's share in its franchise areas is the same as the national average of the cable industry.

## Assessing Users and Customers

Demand analysis requires the evaluation of several parameters:

- Identifying potential buyers;
- Determining their willingness to pay;
- Determining their price sensitivity;
- Assessing what product features are valued;
- Weighing the demand for competitive products.

There are several steps to determine consumer demand. First, there is data gathering through interviews, surveys, focus groups, expert surveys, controlled and uncontrolled experiments, electronic sampling, online cookies, point-of-sale data collection, traffic measurement, self-reporting, and so on.

Second, the data is then analyzed in a variety of ways often referred to as market analytics or data mining. This includes regressions, correlations, statistical hypotheses testing, clustering and associations, conjoint analysis, and other techniques. A more detailed discussion about these factors is provided in ► Chap. 9 Demand and Market Research for Media and Information Products.

## Analysis of Competitors

Competitor analysis requires the estimation of several factors. First is to determine who the competitors are and who they might be in the future. This, in turn, requires the definition of the market. Defining the market is easier said than done. For example, who are the automaker Porsche's main rivals? Lamborghini? BMW? Yes, to some extent, but according to the Porsche's CEO, a major rival is the watchmaker Rolex. Both companies compete in the market for the disposable income of high-income, prestige-seeking, middle-aged males, and for those who wish to give them expensive gifts.

Determine what information is required about these rivals, and build a competitor analysis capability to obtain such information.

### 14.4.3.3 Identifying Competitor Strengths

There are various steps to gathering information about competitors. With online data in plentiful supply it has become easier to collect what companies say about themselves and what others report. Companies discuss their plans, successes, and products through advertising, press releases, conference presentations, and analyst calls. Company representatives are quoted or write in trade and in professional magazines. They publish technical papers, apply for licenses and patents, and are subject to litigation that generates court records. Companies issue annual reports and prospectuses. They are covered in articles and interviews, consultant reports, court documents, and press releases.

The information collected will tend to be extensive. It needs to be presented to managers in an accessible format

such as comparison grids and radar charts.<sup>51</sup> One example is a radar chart (also known as a web or spider chart), which allows the presentation of several quantitative variables on several axes.

On this radar chart, ■ Fig. 14.7, we observe that the established firm has strength in sales, marketing, and dividend payouts (and thus investor satisfaction and presumably access to low-cost capital). In contrast, the start-up firm has strength in product development but weakness in dividends, sales, and marketing.

Competitor strength grids allow a qualitative assessment of various capabilities by company in one chart. Such a grid for music company marketing, ■ Fig. 14.8, shows that the Warner Music Group is strongest in artists and sales force. It is well behind Sony in online videos and music tools as well as tools for exposure, sales, and promotion. None of the three firms are particularly strong in social media presence, but Warner is doing more than its rivals.

### 14.4.3.4 Competitive Advantages

A typical media operation has several major stages in its value chain. They are:

- Development and creation;
- Wholesale distribution, marketing, and packaging;
- Retail distribution.

The strategic imperatives for success are different according to the stage. For development and creation, and for packaging and wholesale, they are efficiency. For retail distribution, they are regional dominance. They are also different for different categories of media. For discrete, or non-continuous, media products such as films, books, or consumer electronics devices, the factors are somewhat different from those for continuous media products.<sup>52</sup> Examples of continuous media products are newspapers and magazines, TV channels, telecom services, and cable subscriptions. They tend to have higher economies of scale. The strategic imperatives are specialization or localization in content, and the protection of local distribution power.

In practice, the distinction between continuous and discrete is fluid. Media firms often bundle discrete content products into continuous packages, such as TV series, channels, or web portals. Indeed, a primary function of major media companies is to transform discrete products

<sup>51</sup> Fleischer, Craig S. *Strategic and Competitive Analysis: Methods and Techniques for Analyzing Business Competition*. Upper Saddle River, NJ: Prentice Hall, 2003.

<sup>52</sup> Greenwald, Bruce. "Economics of Strategic Behavior." *Columbia Business School*. Spring 2013. Last accessed July 11, 2017. ► <https://www8.gsb.columbia.edu/courses/emba/2013/spring/b7203-001>.

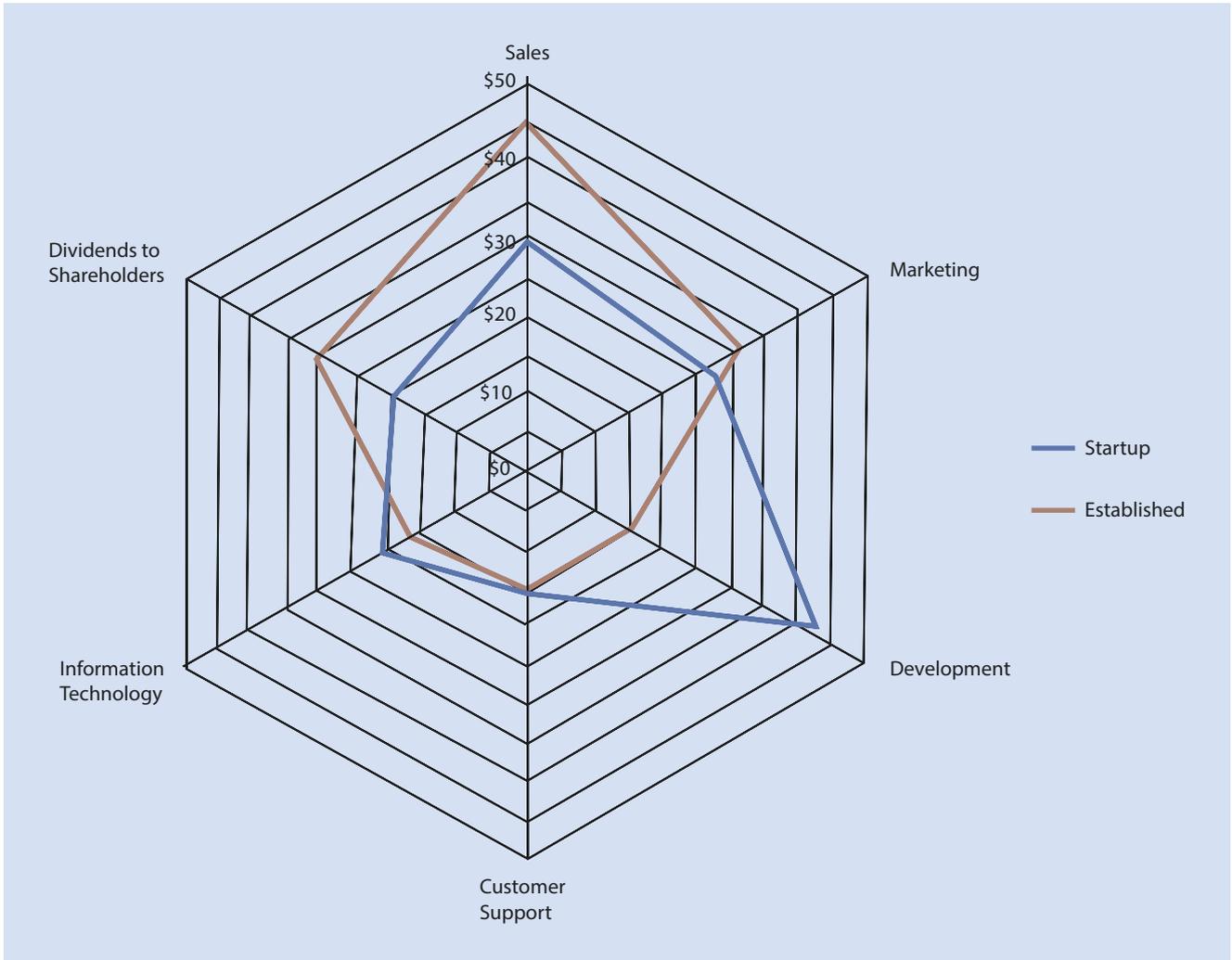
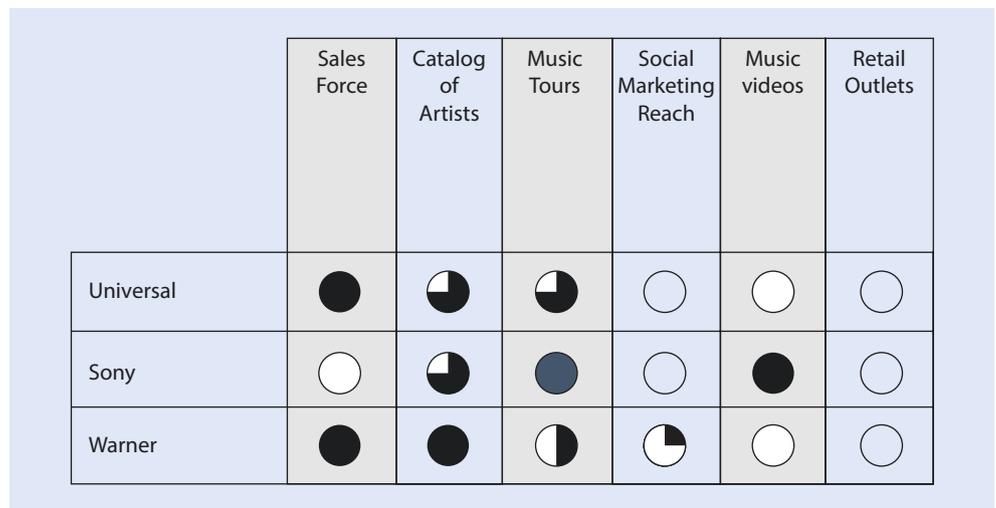


Fig. 14.7 Radar chart

Fig. 14.8 Competitor marketing strength grid for music groups (schematic)



into continuous streams—that is, to take on an integrator function. Whereas barriers to competitors, such as customer captivity, proprietary technology, capital requirements, and economies of scale, are typically low for discrete products, they tend to be higher for continuous products. Shifting a product from discrete to continuous mode therefore raises entry barriers and the competitive advantage of incumbents.

### 14.4.3.5 Analyzing Competitive Dynamics—Oligopoly Analysis

When it comes to market concentration, perfectly competitive markets are relatively easy to analyze, as are pure monopolies at the other extreme of market concentration. But much of business is really somewhere in-between, with markets dominated by a handful of competitors partly competing and partly co-operating. Such oligopolies have different dynamics; a move made by one player brings about a direct response by the others. Augustin Cournot, a French economist, philosopher, and mathematician, was an early contributor to oligopoly theory. Cournot believed that oligopoly firms collaborate to charge one price and jointly get monopoly profits, with the firms then splitting the monopoly profit. This type of oligopoly analysis was continued by the developers of game theory (also mentioned in ► Chap. 11 Pricing of Media and Information), which analyzes behavior within an oligopoly as a series of strategic moves and counter-moves.

Game theory requires management to understand other players' motivations, look for opportunities to co-operate, retaliate against firms that do not co-operate or deviate from an agreed strategy, and provide for a resumption of co-operative behavior. In 1994, three game theorists won the Nobel Prize for Economics.<sup>53</sup>

The problem with game theory is that most real circumstances deal with multiple players, which call for a more complicated analysis of potential outcomes that is thus often impractical. The analysis works best for two- or three-player scenarios. This has hampered the development of game theory as a management technique for strategy,<sup>54</sup> but it can sharpen management thinking. Game theory forces a firm to give systematic consideration to its own strategic alternatives. A firm needs to assess how each competitor perceives its own self-interest.

The classic example of game theory is the Prisoner's Dilemma, mentioned before. This demonstrates how two people co-operate or do not co-operate when their interests are at stake. Two suspects are put in the position where they must choose either to betray the other or remain silent. Both prisoners depend on each other's decision and needs to consider what the other might do. One of the problems with the game is that even a "win-win scenario" among competitors does not include the consumer. A collusion among competitors is not what a government would generally consider a social optimum. Governments generally oppose the co-operation of companies that should be competing.

## Case Discussion

### Comcast and Game Theory

In some areas of the country, Comcast's main video competitor is the satellite TV platform DirecTV network, owned by AT&T. The two companies can both choose to charge subscribers a high or a low price. If both companies choose high prices for video service, they will both earn \$10 billion in revenue. (All of these numbers are hypothetical). If both companies choose low prices, they will both earn only \$5 billion in revenue. If one company chooses a high price and the other chooses to under-price it, the company with high prices

will lose business and earn \$1 billion in revenue, and the company with low prices will get most of the business and earn \$15 million in revenue.

Therefore, the company with the initially higher price would quickly lower it, and both firms would end up at \$5 billion. This would be the competitive (i.e. non-co-operative) equilibrium price.

The optimal strategy would be for both companies to set the high price, maximizing their revenues. But how to keep the other firm from undercutting the

high price in order to gain market share, thus requiring a counter-move?

Knowing this and knowing that its rival knows it leads both firms to engage in a tacit agreement in which both firms set prices high and avoid price competition. This is the essence of game theory: when deciding on a strategy, a company must take into account the effects of its own behavior on the behavior of other companies. The situation becomes more complicated when multiple rounds and companies are considered.

53 One of the winners was John Nash. Nash defined an equilibrium point at which "no player can improve their position by changing strategy."

54 Crainer, Stuart. "Not Just a Game." *Management Today* 66, no. 28 (July 1996): 66.

### 14.4.4 Assessing Society and Government

To design a strategy, a company must examine the broader societal environment. Factors include demographic and economic trends, political tendencies, and generational shifts in taste and style. Otherwise the firm might miss its market or face a competitor better at reading the signs.

Beyond the broad trends is also the concrete presence of government. Given the public importance of media, almost any strategic move by a major media company leads to some interaction with government. A company therefore needs to understand government priorities and shifts that could affect the industry. This needs to go beyond political news and incorporate an understanding of forces, drivers, and players. Global companies have to understand this outside their home country too. Policy changes are not started by faceless bureaucrats but normally require a certain socio-cultural intellectual environment, as well as a stakeholder constellation, from which they then spread.<sup>55</sup> A good example is the emerging “information activism” movement, discussed in ► Chap. 7 Intellectual Asset Management. That movement includes groups that advocate open source, net neutrality, privacy protection, unlicensed spectrum, municipal free wi-fi connectivity, and much more.

Beyond the strategic importance of such big picture understanding, it also helps a company compete with a rival by navigating the political, regulatory, and legal environment more effectively. It also helps in identifying tactical allies. Some advocacy groups might become allies on certain issues. When Comcast sought to acquire NBC Universal, it brought several citizen activist groups onto its side by promising to offer a low-cost broadband internet service to poor households with children for less than \$10 per month, at an 80% discount.

#### 14.4.4.1 Case Discussion

##### Comcast: Threats from Legislation and Regulation

The list of regulatory issues facing Comcast and its subsidiaries, beyond those faced by every business company, is long.

- Net neutrality regulation of ISPs;
- À-la-carte pricing for cable channels;
- Anti-trust restrictions on mergers, ownership ceilings, and cross-media ownership rules;
- Franchise license requirements by local and state government;
- Interconnection and unbundling rules on telecom network providers;
- Trade restrictions on films and TV imports by many countries;
- Interoperability requirements for set-top boxes;
- Requirements to provide cable channels to rival providers;
- Privacy rules;
- Taxes and contributions to affordable universal service.

55 Sigma. “SIGMA Global Sensor.” March 31, 2005. Last accessed July 11, 2017. ► [http://www.sigma-online.com/en/SIGMA\\_GlobalSensor/](http://www.sigma-online.com/en/SIGMA_GlobalSensor/).

### 14.5 Internal Assessment

#### 14.5.1 Core Competency and Competitive Advantage

Complementing the external approach of competitive advantage with its market structure orientation is the approach of an internal assessment—the core competency-/resource-based view discussed earlier.

There are several ways to assess core competencies.

1. Look at a firm’s successful core product, and work backwards to identify the factors underlying the success.
2. Benchmark the best practices by competitors and best-in-class companies and compare them to the company’s own operations and activities. The superior performance by others can be analyzed for its causes and therefore for how to match that performance.<sup>56</sup>

#### 14.5.2 Internal Assessment: Leadership Resources

A key resource for a successful organization is leadership at the top. Any strategic plan must center on the ability of the leadership team to deliver it. A company’s strategy has to be congruent with the strengths of its leaders. Effective leaders must possess many essential attributes: experience, judgment, integrity, determination, ability to learn, ability to inspire and influence others, to gain trust, to trust others, and to set an example,<sup>57</sup> to take calculated risks, to assume responsibility, and to grow in the job.

Leaders in the media and information industries need to have experience in the several fields and locations in which they operate: content production centers, such as Hollywood or Broadway; financial markets, such as London and New York; technology clusters, such as Silicon Valley; marketing centers, such as Madison Avenue; and political and bureaucratic capitals, such as Washington and Brussels. They must have an artistic appreciation of content, a visionary perspective on technology and familiarity with it, be good with numbers, efficient in operations, and sensitive to their numerous sub-audiences.<sup>58</sup>

56 Rigby, Darrell K. and Barbara Bilodeau. “Management Tools and Trends 2013.” *Bain & Company*. May 8, 2013. Last accessed July 11, 2017. ► <http://www.bain.com/publications/articles/management-tools-and-trends-2013.aspx>; Deephouse, David L. “Media Reputation as a Strategic Resource: An Integration of Mass Communication and Resource-Based.” *Journal of Management* 26, no. 6 (2000): 1091–1113; Chan-Olmsted, Sylvie M. and Jaemin Jung. “Strategizing the net business: How the U.S. television networks diversify, brand, and compete in the age of the internet.” *International Journal on Media Management* 3, no. 4 (2001): 213–225.

57 Lynch, Richard. *Corporate Strategy*. (Upper Saddle River, NJ: Prentice Hall, 2003), 371.

58 Sánchez-Taberner, Alfonso. “The Future of Media Companies: Strategies for an Unpredictable World.” In *Strategic Responses to Media Market Changes. Media Management and Transformation*. Ed. Robert G. Picard. Jönköping, Sweden: Jönköping International Business School LTD., 2004.

There are no individuals alive who possess all of these qualities. In that sense, all leaders are imperfect. What they can provide, in particular, is a vision of a future. Media and media tech business visionaries—the people who created organizations—have included, over the years:

- David Sarnoff, architect of RCA and of the model of private broadcasting;
- John Reith, guiding spirit of the BBC and of public service broadcasting more generally;
- Theodore Vail, creator of AT&T's Bell System;
- Ted Turner, pioneer of satellite-delivered cable channels;
- Gordon Moore and Andrew Grove, pioneers of microelectronics production;
- Irwin Jacobs, creator of packet-based mobile communication;
- Steve Jobs, pioneer of microcomputers and of mobile media devices;
- Bill Gates, creator of operating system software for microcomputers;
- Rupert Murdoch, who established the world's first global satellite TV presence;
- Jeff Bezos, originator of wide-scale e-commerce.

### 14.5.2.1 Case Discussion

#### Comcast: Leadership

Brian Roberts, son of the company's cofounder, became president of Comcast in 1990, CEO in 2002, and chairman in 2004. Roberts maintains a low national profile. In terms of performance, since 1990 Comcast revenues grew from less than \$1 billion to \$69 billion. Roberts has been an aggressive dealmaker. In 2001, he helped Comcast acquire AT&T broadband for \$72 billion. In 2013, Comcast bought NBC Universal for \$46.7 billion. Failed merger efforts include Disney (2005), Time Warner Cable (2014), and 21st Century Fox (2018). Roberts has been at the forefront in his field, foreseeing changes in technology and positioning the company accordingly.<sup>59</sup>

### 14.5.3 Internal Assessment: Human Resources

HR is discussed in ► Chap. 5 Human Resource Management for Media and Information Firms. Issues to consider are leadership resources, professional development, compensation and advancement, creative resources, relations with unions and constraints, and culture. The future of media and tech companies is dependent on hiring creative and productive people and training and encouraging them. Such people are the primary asset. They are connected to each other and to the organization through a specific culture. A strategy that clashes with its culture will be ineffective.

#### 14.5.3.1 Case Discussion

##### Comcast: Human Resources

Does Comcast possess the internal HR to deal with a strategic decision that would, for example, move it into areas in which it has not been active before, in particular mobile communication, and international cable and video distribution?

Comcast is an entertainment/TV distribution firm, not a tech company. However, its network operations and requirements increasingly require tech-savvy people. This skill set would be needed much more if the company chose to enter mobile communications and integrate it with its cable/ISP functionalities.

In the past, Comcast has not had much international involvement. This changed with the acquisition of NBC Universal, which had marketing involvements and partnerships around the world. Approximately 12% of Comcast's workforce is Hispanic,<sup>60</sup> partly because of its ownership of the Telemundo video channel. Thus, Comcast is likely to have the foundation in HR to expand into international video distribution, in particular in the Spanish language markets.

Comcast also has a union issue to deal with. In 2002, only 2% of Comcast's workers were unionized. At the acquired

division NBCUniversal on the other hand, there were many crafts unions for actors, directors, stagehands, and so on. The largest unions involved with Comcast are the Communications Workers of America and the International Brotherhood of Electrical Workers. In its network platform operations, Comcast moved to treating its cable installers as independent contractors rather than as full-time employees.<sup>61</sup> This suggests that cost-savings measures through staffing reductions might be harder to implement in content-production segments of the company.

### 14.5.4 Internal Assessment: Financial Resources

A strategy is likely to require investments, whether to fund, for example, an acquisition, an expansion, new products, or marketing. An exception might be strategies to outsource

activities, but even here a process needs to be created for which resources must be allocated. A strategy needs to be budgeted over a period of several years, and the net cost must be within the financial resources available to the organization. Such resources may come from retained earnings, additional investments from the outside, bank loans, and the sale of assets. This

59 Lee, Edmund and Alex Sherman. "Comcast CEO Roberts Emerges from Malone Shadow as King of Cable." *Bloomberg News*. February 15, 2014. Last accessed July 11, 2017. ► <https://www.bostonglobe.com/business/other/2014/02/15/comcast-ceo-roberts-emerges-from-malone-shadow-king-cable/9BvpCcYbf93ZFJBiLjxTP/story.html>.

60 Comcast NBC Universal. Comcast Diversity & Inclusion Report 2014. 2014. Last accessed July 11, 2017. ► [http://corporate.comcast.com/images/Comcast\\_Diversity\\_Report\\_060214.pdf](http://corporate.comcast.com/images/Comcast_Diversity_Report_060214.pdf).

61 Sole-Smith, Virginia. "Consider the Cable Guy." *Slate*. April 15, 2016. Last accessed July 11, 2017. ► [http://www.slate.com/articles/business/the\\_grind/2016/04/more\\_cable\\_and\\_internet\\_installers\\_are\\_independent\\_contractors\\_and\\_the\\_hours.html](http://www.slate.com/articles/business/the_grind/2016/04/more_cable_and_internet_installers_are_independent_contractors_and_the_hours.html).

is discussed in ► Chaps. 6 Financing Media, Information, and Communications and 13 Accounting in Media and Information Firms. Factors to consider are debt and debt ratios; the cost of capital; the capital structure; access to funders such as banks,

venture capital firms, angels, private investors, and public equity; and access to governmental financial support. Also to consider are risk profile and the portfolio of projects, and the impact on the market valuation of the company.

#### 14.5.4.1 Case Discussion

##### Comcast: Financial Resources

Comcast was \$40 billion in debt after the acquisition of NBCUniversal in 2012. It also had a major need for increased capital expenditure upgrade its cable infrastructure.

Comcast's debt to enterprise value ratio (a measure of the company's debt over a theoretical value of what it would cost to acquire the company) was 25.9%.<sup>62</sup> In comparison, these ratios for Comcast's peer companies were AT&T 34.8%, Charter 50%, Verizon 37.3%, Time Warner Cable 53.5%, and Liberty Media 23.4%. For the cable and satellite industry as a whole, the average is around 37.5%. Comcast is thus well below the industry average, which would indicate an ability to take on additional debt. Com-

cast, given its enterprise value, could afford to borrow an additional \$22 billion and still remain at the industry average. If it were to go up to the debt level of its rival Charter, this number would be doubled.

A second major avenue would be to finance through equity. Comcast could issue more stock, but its shareholding structure has already been quite complex: control has been held by the Roberts family with a small minority of the shares issued, through super-voting Class B shares. In terms of share offerings to the public, Comcast has actually gone in the opposite direction, by using its corporate cash to launch in 2014 and an \$11.5 billion share repurchase program. It

could reverse course and issue that stock to the market. This treasury stock accounts for approximately 15% of the entire shares outstanding. A rapid selling would therefore yield probably \$21.5 billion. But it would depress the share price and affect shareholders including top management and the Roberts family, as well as diluting their control.

In conclusion, it may be noted that Comcast has the ability to raise significant money for strategic initiatives through debt. Added debt would still leave Comcast below the industry average. Financing through equity is also possible but would lower share price and reverse its policy of the repurchase of shares.

#### 14.5.5 Internal Assessment: Technology Resources

A business strategy needs to consider the technology requirements and resources. This is discussed in ► Chap. 3 Production Management in Media and Information. Strategists can do an internal assessment of company technology by reviewing:

- The patent portfolio of the company and of its rivals;
- The trends of technology;
- Management's strategy for protecting its technologies;
- The company's competitive technological advantage;
- Financial requirements for further R&D.

#### 14.5.5.1 Case Discussion

##### Comcast: Technology Innovation Resources

Comcast's public statement is that "Technology and innovation are at the core of everything Comcast does." But is Comcast a tech company? Can it be a leader in technology? Actually, Comcast's potential weakness is that it is not a tech company, and that it has no strong tech presence in a business that is technology driven.

In response, Comcast created the Comcast Labs where, it reports thousands of engineers work on future technologies. This is intended to create a start-up-like climate to foster innovation, especially in the field of end user devices. But a headcount of

Comcast Labs staffing does not indicate a major in-house resource commitment. The labs have 40 PhDs and ten Distinguished Fellows out of about 135,000 Comcast employees in total. Compared with its competitors, this figure is low. For example, there were about 700 researchers at Bell labs, and there once had been 25,000 employees during AT&T's heyday.

Yet this does not mean a lack of innovation. Comcast was the first of the large US ISPs to introduce the new-generation internet protocol IPv6 to end users. But IPv6 was not developed by Comcast and

was not an exclusive technology but wide open. Products developed by Comcast Labs are the X1 Platform for interactive TV experience. It enables the delivery of video on demand, together with digital video recorder (DVR) service and live viewing. Viewers can use a smartphone as a remote control via voice, motion, and touch commands. The system integrates social media websites, weather, and texts on the same television screen.

Comcast was also leading in the development of PowerBoost technology. PowerBoost, officially, makes excess network

<sup>62</sup> Data on debt from company annual reports; and Debt of \$49 billion, on Enterprise Value from YCharts. "Comcast Enterprise Value." Last accessed July 11, 2017. ► [https://ycharts.com/companies/CMCSA/enterprise\\_value](https://ycharts.com/companies/CMCSA/enterprise_value).

capacity available to customers to raise their connection speed above the speed they are paying for. But it also enables the company to throttle down speed available to heavy users or certain types of content providers (this created major controversies). Flux Scout is a tool that helps to improve video and audio quality. Its introduction put Comcast into third place on the list of the most innovative telecommunication companies, according to an *InformationWeek* ranking.

Comcast's NBC subsidiary was historically a technology leader in broadcasting, typically through its then parent company, the technology firm RCA, though not so much in recent years after RCA's absorption into General Electric. Comcast's film studio, Universal, has significant content creation capability for computer-generated graphics for films. Universal's special effect films include *Jurassic Park*, *King Kong*, *Jaws*, and *The Mummy*.

Comcast increasingly put resources into R&D. Its new headquarters building, Comcast Tower 2, includes an Innovation and Technology Center. That said, internal technology resources are likely to remain a constraint, and the company will often have to go outside to solutions by vendors or commission proprietary developments. The question then is whether Comcast should devote more resources to technology R&D, and if so for what kind of products.

## 14.5.6 Internal Assessment: Intellectual Assets

Intellectual assets are key for the media and IT sectors. Strategies to create and monetize them are discussed in ► Chap. 3 Production Management in Media and Information. Issues are patent and copyright portfolio,

license requirements and dependencies, and strength of protection. To conduct an internal assessment analysis of its intellectual assets, a company must first identify these assets, find any gaps, and dispose of any unneeded assets. A patent audit map and other tools are discussed in ► Chap. 7 Intellectual Asset Management.<sup>63</sup>

### 14.5.6.1 Case Discussion

#### Comcast: Intellectual Assets

Comcast received 350 US patents over 20 years, that is, about 17 US patents per year. Comcast's patents are mostly in the fields of electric digital data processing (140 patents). For example, Comcast owns patent no. 7,012,916 for the method and apparatus for accessing communication data to a target identified by a number string. Comcast also owns patent no. 8,204,046 for the method to map telephone numbers to identifiers needed for call routing. Both patents are relevant for call-routing over phone lines and the internet. In 2014, Comcast sued Sprint for infringing on the patent and won \$7.5 million in damages.

In contrast to its limited patent portfolio, Comcast holds a vast number of copyrights for its films and TV shows. NBC grants licenses for use of its content (outbound licensing), and acquires licenses to content by others (inbound licensing). In an example of outbound licensing, NBC Universal licensed BSkyB with NBC's TV rights in the UK and Ireland.<sup>64</sup> The contract also allows

BSkyB to air Universal films after they end their UK theatrical runs, for an exclusive window of about a year until they also become available on other subscription services, such as Netflix.

Through 2010, Universal received about \$22 million per year from Netflix through its licensing contract. That figure grew to \$275 million per year in 2011. Also in 2011 Universal entered into a movie-licensing contract with Amazon.com. Amazon paid NBC Universal \$50 million for the license to 2000 movies and 7000 TV episodes to be made available to Amazon Prime subscribers over the course of the agreement.<sup>65</sup>

Inbound licensing is costly but important to the TV network and its stations. The NBC networks must often obtain license shows produced by others. Also significant are licenses for sports events. This was reported in detail in ► Chap. 7 Intellectual Asset Management.

*Football:* for 2006–2013, NBC paid an annual fee of \$603 million for its NFL pack-

age. NBC's contract was renewed for the seasons 2013–2022 for an annual fee of \$1.05 billion.

*Soccer:* in 2012, NBC acquired the rights to broadcast English Premier League Soccer in the USA for 2013–2014 for \$250 million. With this deal, NBC became exclusive English- and Spanish-language media rights holder for all 380 Premier League matches across all platforms and devices in the USA. Its aim was, in particular, to reach the Latino audience there.

*Olympic Games:* this has long been NBC's signature programming event and part of its brand. NBC bought the rights to carry in the USA the six Olympic Games from 2022 to 2032 on all current and future distribution platforms. It paid \$7.75 billion, that is \$1.12 billion per event (summer as well as winter games, with the latter less valuable). This was vastly higher than in earlier years. Its payment accounts for 62% of the overall broadcasting revenues received by the International Olympic Committee.

63 Kline, David and Kevin G. Rivette. *Rembrandts in the Attic*. (Cambridge, MA: Harvard Business Review, 1999), 68.

64 Szalai, Georg. "U.K.'s BSkyB Extends NBCUniversal Movie Deal with Exclusive Window." *The Hollywood Reporter*. November 6, 2012. Last accessed July 11, 2017. ► <http://www.hollywoodreporter.com/news/uk-bskyb-nbcuniversal-movie-tv-deals-exclusive-netflix-lovefilm-386837>.

65 Letzing, John and Nathalie Tadana. "Amazon, NBCUniversal Reach Licensing Agreement." *Wall Street Journal*. July 28, 2011. Last accessed July 11, 2017. ► <http://online.wsj.com/article/SB10001424053111904800304576474363664306294.html>.

## 14.6 Strategy Options

### 14.6.1 Generic Options

In principle, there are innumerable strategic options, far too many to be discussed individually. Most can be categorized within three fundamental strategy types and about two dozen basic sub-options or mixed options. The three basic types of media and tech strategies are:

- Product strategies;
- Marketing and distribution strategies;
- Scope strategies.

#### 14.6.1.1 Product Strategies

Product strategies focus on the design, quality, and production process:

- Product creation and innovation;
- Production cost leadership;
- Content and quality;
- Product differentiation.

#### 14.6.1.2 Marketing and Distribution Strategies

Marketing and distribution strategies focus on reaching buyers and placing the product. They include:

- Branding;
- Advertising and promotion

- Pricing;
- Customer relations;
- Distribution platforms.

#### 14.6.1.3 Scope Strategies

Scope strategies deal with the scope of the firm's products. They are separated into two dimensions, widening and deepening.

##### Widening Strategies

Widening strategies focus on:

- Economies of scale;
- Product line expansion;
- Globalization;
- Mergers & acquisitions;
- Diversification;
- Vertical integration;
- Alliances and collaboration.

##### Deepening Strategies

Deepening strategies, on the other hand, focus on:

- Specialization;
- Differentiation;
- Customization.

## Case Discussion

### Comcast: Scope Strategies

Comcast, with its extensive resources, has many avenues open for its future. At the same time, it is being closely watched and constrained by government regulators. Among the most likely strategy for Comcast is to expand its product offerings to include mobile communications. This would be part of adding the element of mobility to its existing "triple play" of video, voice telecom, and internet. Providing quadruple-play helps recruit and keep customers. It raises the cost of exit by customers and hence reduces churn. It can use Comcast's existing infrastructure. However, this means to move outside Comcast's existing geographic cable footprint. It would be entering entirely new territories if it wanted to be a national rather than a regional mobile service provider, or it would have to enter into alliances with other cable and mobile companies. It would also require the acquisition of spectrum licenses from the government. This raises regulatory problems and is costly. How would Comcast go about entering mobile service? What are its options?

*Acquisition of an existing mobile carrier.* Comcast could buy out one of the two smaller mobile companies such as Sprint or T-Mobile, who themselves seek to merge.

AT&T offered \$39 billion to buy T-Mobile in 2011. In 2013 Softbank paid \$20 billion to buy Sprint. (Dish Network offered \$25.5 billion.) In addition, Comcast would have to make major further investments for spectrum and infrastructure. Thus, this is a very expensive option.

*Partnerships.* A cheaper option would be to partner with one of the two smaller mobile companies to compete with AT&T and Verizon in the wireless telecom market. It would have to make concessions to its partners. There is some mutual advantage in that the partnered mobile operator would zoom ahead and become a solid #3 market participant. However, Comcast would not have full control over the operations of the new company.

*Create a new wireless company and enter the market.* Comcast could start its own mobile network. But that would require major investments and might not be successful. It is a risky undertaking. While Comcast could support it with its own infrastructure sales organization in its service territory, it would have to create a presence in the rest of the country.

*Joint venture with other cable industry partners.* Alternatively, Comcast could partner with other cable providers such as

Charter to create a new national wireless company. However, to be the fifth and newest wireless provider is difficult.

*"Mobile-light" strategy.* Comcast could provide wi-fi based wireless service. It launched an app called "Voice2Go" which uses any cell phone carrier's 3G/4G network or available wi-fi connections to make free calls and to send free messages. However, this is only possible for Comcast voice customers in its own franchise areas. This would reduce the potential market.

*MVNO (resale).* Comcast could start its own mobile virtual network operator (MVNO), reselling other mobile operators' service under its own name, by buying out minutes and data from well established companies such as Verizon. It would have to make major marketing investments to create a brand recognition, especially outside its cable footprint. Alternatively, Comcast could buy out an existing MVNO such as H2O or Cricket.

*Strategic Alliance.* This would go beyond a co-operation in mobile communications and mesh Comcast's wider activities with those of another company. For example, it could join with Verizon in a way that makes it an MVNO using Verizon's wireless network, while contributing its

NBC Universal and Hulu content channels to Verizon's own multichannel provider FiOS, and collaborating with Verizon's telecom and ISP operations to form a national wireline footprint. A logical conclusion might then be for the firms to take the next step and seek a megamerger.

#### Conclusions on Comcast's Diversification into Mobile Service

The market for wireless services is already competitive and it would be difficult to successfully compete with the more established companies, especially Verizon and AT&T. But Comcast, without mobile, is at a competitive

disadvantage to rivals Verizon and AT&T. The most promising route for Comcast is to offer MVNO services under its own brand name, in a partnership with Sprint or T-Mobile. Meanwhile, it should be watching for buying, merging, or joint venture opportunities with T-Mobile or Sprint.

## 14.6.2 How to Select among Strategies

Given the proliferation of strategic options, the question now is how to select among strategies. The selection of strategies can be undertaken in several ways: based on intuitive judgments grounded in experience or alternatively based on a rigorous analysis of the costs and benefits of each alternative.<sup>66</sup> Tests for good strategy require at least two rounds: first, to make sure of their general fit, and second, to apply a more rigorous selection. The initial tests for fit include:<sup>67</sup>

1. *Constraints tests*: do the firm's financial, human, technology, and leadership resources permit the strategy? Are there governmental constraints?
2. *Originality test*: does the strategy differentiate the product from rivals or is it a "me-too"?
3. *Purpose test*: does the strategy address the vision of its leader?
4. *Consistency test*: is the strategy consistent with the organization's other activities, its brand image, and culture?
5. *Risk test*: are the risks within the tolerance of the company?
6. *Flexibility test*: does the strategy lock the firm into a fixed direction or does it permit flexibility if the environment changes?

This first-stage selection will probably still leave several options to choose from. Therefore, in a second stage of analysis, a deeper examination must be undertaken.

## 14.6.3 Methodologies to Select Among Strategy Options

### 14.6.3.1 Non-analytic Methodologies

Non-analytic selection methods are based on good judgment and experience. Selection can be based on preformulated rules-of-thumb, known as "heuristics," such as "content is king."<sup>68</sup>

### 14.6.3.2 Soft Analytic Tools

The soft analytic approach uses fairly basic analytical tools, less oriented toward quantification, data, and equations, and more toward a structuring of options to create a disciplined process of evaluation. A classic example is the SWOT analysis described earlier in the chapter.

### 14.6.3.3 Hard Analytic

The hard-analytic method is based on statistics, finance, operations research, economics, electrical engineering, or computer science models. The quantitative approaches can be superior, in theory, in that they allow for objective comparisons. They are systematic and data based. But there are severe limits to quantitative approaches, given that many success factors are not quantifiable or they require data that is just not available.<sup>69</sup> The quantitative approaches thus may provide a fictitious exactitude. Yet they also provide a disciplined way to organize the analysis; and like the practice of medicine, they combine hard science with good judgment and experience. There are several quantitative methods for comparing strategies, including the financial metrics, return on investment, net present value (NPV), and cost-benefit.<sup>70</sup>

A structured approach to selecting strategies would incorporate several steps. Often a quantification will be difficult; in that case one must make reasonable assumptions. The steps are:

- Define options;
- Screen out options unlikely to meet objectives;
- For the remaining options, estimate the costs of each;
- Estimate the revenues of each option;
- Estimate the investment requirements for each option;
- Calculate the return on investment for each option (it should be about a "hurdle rate"—the minimum rate needed to be earned).<sup>71</sup>

66 Beach, Lee Roy and Terrence R. Mitchell. "A Contingency Model for the Selection of Decision Strategies." *The Academy of Management Review* 3, no. 3 (July 1978): 439.

67 Lynch, Richard. *Corporate Strategy*. (Upper Saddle River, NJ: Prentice Hall, 2003), 24.

68 Beach, Lee Roy and Terrence R. Mitchell. "A Contingency Model for the Selection of Decision Strategies." *The Academy of Management Review* 3, no. 3 (July 1978): 439–449.

69 Liberatore, Matthew J., Thomas F. Monohan, and David E. Stout. "A Framework for Integrating Capital Budgeting Analysis With Strategy." *Engineering Economist* 38, no. 1 (September 1992): 31–43.

70 Thamhain, Hans J. *Management of Technology: Managing Effectively in Technology-Intensive Organizations*. Hoboken, NJ: Wiley, 2005.

71 Phillips, Jack, Wayne Brantley and Patricia P. Phillips. *Project Management ROI: A Step by Step Guide for Measuring the Impact and ROI for Projects*. (Hoboken, NJ: Wiley, 2011), 352; Schoeffler, Sidney, Robert D. Buzzell and Donald F. Heany. "Impact of Strategic Planning on Profit Performance." *Harvard Business Review*. March 1974. Last accessed July 11, 2017. [▶ https://hbr.org/1974/03/impact-of-strategic-planning-on-profit-performance](https://hbr.org/1974/03/impact-of-strategic-planning-on-profit-performance).

There are multiple ways to compare projects in order to select the optimal one. One survey of chief financial officers showed their use of these techniques for making capital budgeting decisions: 75% reported that they use always or mostly NPV or the related internal rate of return (IRR); 55% use the hurdle rate or payback period, in which the time needed to cover the investment is calculated and compared with that of other projects; 50% use sensitivity analysis, in which the various variables that affect profitability are changed to identify best-case and worst-case outcomes and their probabilities; and 25% real options, in which the investment is disaggregated into several stages.<sup>72</sup>

Different types of projects require a different analysis. Generally, tactical investment means reinvesting in familiar activities with minor variations.<sup>73</sup> For example, if the Disney studio buys new film cameras every year, the purchase of new models would not be a departure from the past. In contrast, a strategic investment has major impacts on the company's future. It is harder to quantify. Thus, if Disney considered establishing a branded cellphone service (as it did), such a decision would be considered a strategic investment.

Strategic planning enables the company to narrow down its search for investment opportunities. With its strategy determined, a company will use project analysis to select specific investment opportunities within the categories specified by the strategic plan. Such a project analysis also serves to verify the conclusions of a strategic plan.

### Net Present Value Analysis

As mentioned, NPV is the most common methodology. Its problems are to find the correct discount factor and how to estimate future revenue streams. Companies' risk tolerance varies. For example, a highly liquid firm such as Microsoft may be willing to take a bigger risk than a company that has reached its debt limit. Similarly, the incentive to diversify in order to lower risk is greater for a highly specialized company than for a conglomerate that already has been diversified.<sup>74</sup>

If a company concludes that the riskiness of a new project is equal to that of its current combination of projects, it can use its current cost of capital to determine the discount rate for the new project. On the other hand, if the company determines that the new risk is different, it can use the Capital Asset Pricing Model (CAPM) to calculate the expected returns, based on the risk rating of the project.<sup>75</sup>

To calculate the expected rate of return through the CAPM, companies follow a formula of required return = risk free rate + (beta coefficient × equity risk premium).

$$E(R)_i = r_f + \beta_i (E(R)_M - r_f)$$

where  $E(R)_i$  is the expected return on an (arbitrary) project,  $r_f$  the risk free rate,  $\beta_i$  is the industry's beta, and  $E(R)_M$  is the expected return of investments in general (the market rate of return). The beta coefficient is a statistic which measures the risk of a particular investment compared to the market. A beta coefficient of 1 puts the companies investment risk equal to the market, a smaller beta number is less risky. The equity risk premium is calculated by taking the rate of return for the market, typically the S&P 500, minus the risk-free rate (typically the yield of a 10-year government bond). For example, assume that Comcast has a beta coefficient of 0.82, a risk-free rate of 3%, and the market's equity risk premium is 9%.

$$\text{Cost of Equity} = 3\% + (0.82 * (9\% - 3\%)) = 0.0792 = 7.92\%$$

See the discussion in ► Chap. 6 Financing Media, Information, and Communication.

The NPV technique is the most common method of comparing projects, and can be equally applied to broader strategies. It involves discounting the net cash flows for a project or strategy minus the net investment. The discount rate used most frequently is the company's cost of capital.<sup>76</sup>

$$NPV = \left( \sum_{t=1}^N \frac{R_t}{(1+r)^t} \right) - I$$

Where

- $R_t$  = net revenue in period  $t$
- $r$  = discount factor
- $N$  = time period
- $I$  = investment

One problem is that it is difficult to forecast profit streams for a strategy. A second problem is picking the risk factor for the discounts. One way to deal with these uncertainties is a sensitivity analysis that explores each option, making different assumptions for projected income streams and discount factors, and observing how much they change the results.

Strategic planning enables the company to narrow down its search for investment opportunities. With its strategy determined, a company will use project analysis to select specific investment opportunities within the broader category.

72 Graham, John and Campbell Harvey. "How Do CFOs Make Capital Budgeting and Capital Structure Decisions?" *Journal of Applied Corporate Finance* 15, no.1 (Spring 2002): 8–23.

73 Bierman, Harold and Seymour Smidt. *The Capital Budgeting Decision*, 8th ed. (New York: Macmillan Publishing, 1993), 3–13.

74 Hyland, David C. and David J. Diltz. "Why Firms Diversify: An Empirical Examination." *Financial Management* 31, no. 1 (Spring 2002): 51–81.

75 Brealey, Richard A. and Stewart C. Meyers. *Capital Investments and Valuation*. (New York: McGraw Hill, 2003), 185–219.

76 Thamhain, Hans J. *Management of Technology: Managing Effectively in Technology-Intensive Organizations*. Hoboken, NJ: Wiley, 2005.

ries of the strategic plan. In that process NPV is the most common methodology. If a company concludes that the riskiness of a new asset is equal to that of its current assets, it can use its current cost of capital to determine the discount rate

for the new asset. On the other hand, if the company determines that the new risk is different, it can use the CAPM to calculate the expected returns, based on the risk rating of the project.<sup>77</sup>

## Case Discussion

### Comcast: Net Present Value and Return on Investment of Strategy Options

Suppose that CEO Brian Roberts offers his board of directors three strategic options for growth. The examples are hypothetical.<sup>78</sup>

- Option 1: horizontal expansion—acquisition of the large regional telecom company CenturyLink, in order to establish a presence in the central part of the USA.
- Option 2: vertical expansion into content—acquisition of the cable channel company Discovery Communications Co. in order to strengthen Comcast's presence in content production and distribution.
- Option 3: product upgrade—strengthen Comcast's in-house creation of content by expanding production facilities and projects.

Comcast's assessment criterion is to choose the strategy that is estimated to show the highest measures of NPV and return on investment (ROI) over six years.

#### Option 1: Acquisition of the Large Regional Telecom Firm CenturyLink

The goal would be to establish a presence in the central part of the USA. Synergies and economies of scale make this venture a low-risk strategy, with a discount rate of 4%. The initial investment is—hypothetically—\$2000 million. Cash flows in the subsequent years are estimated as \$550 million, \$750 million, \$900 million, and \$1100 million.

$$NPV = -\$2000 + (\$550)/1.04 + (\$750)/(1.04)^2 + (\$900)/(1.04)^3 + (\$1100)/(1.04)^4$$

$$NPV = 962.4$$

$$ROI = (962.4 / 2000) \times 100 = 48.1\%$$

#### Option 2: Vertical Integration: Acquisition of Discovery Communications

Vertically integrating Discovery Communications (owners of the Discovery Channel and 28 other content brands) would allow the company to secure ownership of content production and cable

channels and enable it to deny them to competitors. Ownership of these companies could also lower its content acquisition costs.

Resource synergies between a distributor of content and producer of content make this strategy a low-risk moderate-returns investment. The annual cash flow has a discount rate of 4% and an initial investment of \$175 million. Net cash flows are \$50 million, \$80 million, \$85 million, and \$90 million.

$$NPV = -\$175 + (\$50)/1.04 + (\$80)/(1.04)^2 + (\$85)/(1.04)^3 + (\$90)/(1.04)^4$$

$$NPV = \$108.18 \text{ million}$$

$$ROI = (108.18 / 175) \times 100 = 61.82\%$$

#### Option 3: Product Upgrade

A third alternative strategy is to increase Comcast's internal ability to increase content production. But content production is a high-risk, high-returns strategy. The risk-appropriate discount rate is 40%, with an initial investment of \$200 million. Net cash flows in subsequent years are \$100 million, \$135 million, \$175 million, and \$200 million.

The NPV is then:

$$NPV = -\$200 + (\$100)/(1.4) + (\$135)/(1.4)^2 + (\$175)/(1.4)^3 + (\$200)/(1.4)^4$$

$$NPV = \$56.14 \text{ million}$$

$$ROI = (56.14 / 200) \times 100 = 28.1\%$$

By those numbers, Comcast's optimal strategy would be the vertical integration into content creation and packaging by an acquisition of Discovery Communications. That strategy has the highest NPV, at \$108.08 million. In terms of ROI the vertical integration strategy is also the best selection. Its ROI, over the 6-year period, is 61.8%, in contrast with the CenturyLink option whose ROI is 48.1%, and that of internal diversification, at 28.1%.

## Decision Tree Analysis

A methodology to choose among determinative options is to use a "decision tree," in which various outcomes are presented with their probability as well as their cost and payoff. This is represented in a graph that shows a flow chart with decision points and possible consequences, including cost, benefits, probabilities, and chance events. One can then identify the option with the highest expected benefit. A decision tree

analysis offers structure and clarity in presenting information to decision-makers.<sup>79</sup> On the other hand, a disadvantage is its formalism,<sup>80</sup> breaking everything into yes–no, either A, B, or C type decisions.

78 Based on Jan, Obaidullah. "Capital Asset Pricing Model." *Accounting Explained*. Last accessed July 14, 2017. ► <http://accountingexplained.com/misc/corporate-finance/capital-asset-pricing-model>; Shapiro, Alex. "The Foundations of Finance: The Capital Asset Pricing Model (CAPM)." Last accessed July 14, 2017. ► <http://pages.stern.nyu.edu/~ashapiro/courses/B01.231103/FLL09.pdf>.

79 The numeric example is taken from Quinlan, J. R. "Decision Trees and Decisionmaking." *IEEE Transaction on Systems, Man, And Cybernetics* 20, no. 2 (March/April 1990): 339–346.

80 Quinlan, J. R. "Decision Trees and Decisionmaking." *IEEE Transaction on Systems, Man, And Cybernetics* 20, no. 2 (March/April 1990): 339–346.

77 Brealey, Richard A. and Stewart C. Meyers. *Capital Investments and Valuation*. (New York: McGraw Hill, 2003), 185–219.

Case Discussion

**Comcast: Decision Tree**

Suppose three potential generic strategies exist for Comcast<sup>81</sup>:

- Product upgrade (internal production);
- Vertical integration M&A with content media (Discovery communications);
- Globalization by entering The European DBS market.

The probability for each decision alternative is derived from the risk analysis study of each step, derived from data where it exists and from expert opinion through brainstorming.

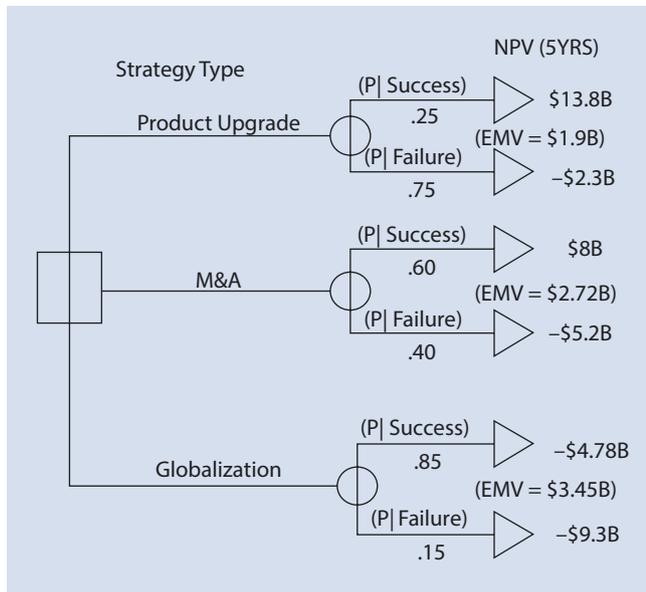
Applying decision tree analysis (DTA) to choose between strategic options, managers can use estimated monetary value (EMV) to find the composite value.<sup>82</sup>

$$EMV = \sum_{n=1}^N \text{Value}_n \times \text{Probability}_n$$

The EMV (expected monetary value) is the “total of the weighted outcomes (payoffs) associated with a decision” and is a useful tool for “choosing the most valuable option.”<sup>83</sup>

Comcast has \$2 billion and can invest in a long-term strategic plan or reward shareholders with dividends. It can utilize the DTA to determine the optimal generic strategy for the company (■ Fig. 14.9). This is the outcome in terms of the payoff, weighted by the probability for each stage to occur.

The strategy that emerges from the decision tree analysis of ■ Fig. 14.9 that shows the highest composite value is “globalization” (EMV = \$3.45 billion). Although it also has the greatest potential downsides (−\$9.3 billion), the probability of success is high.



■ Fig. 14.9 Decision tree for Comcast

The Imputed Value

A useful strategy tool for a firm is to calculate (“impute”) its value as a company under several strategy scenarios. For example, does a demerger generate greater value than remaining a conglomerated firm? There may exist a potential “conglomerate premium” or, conversely, a “conglomerate discount.” One can determine the imputed value of each of the divisions of a conglomerated firm by estimating its market value based on a comparison with a comparable “pure play” firm—that is,

an undiversified firm—in the same industry.<sup>84</sup> The value of such a division is based on the assumption that each division would be valued by the stock market according to the market-to-book value of the comparable “pure play” firm.

The firm’s Total Market Value (MV) = Equity + Debt

$$\text{Imputed Value (IV)} = \sum_{n=1}^N (M_n \div B_n) \times \text{Book}_n$$

One then compares the company’s aggregate IV of the various divisions with the MV.

14.6.3.4 Case Discussion

**Comcast: Imputed Value**

How can Comcast decide whether it should stay a multidivisional firm or divest several of its divisions and become a focused firm?

- Table 14.3 is purely for illustrative purposes and is not a factual analysis of Comcast’s division book values and the median market-to-book values.

Comcast has a total MV of \$140 billion but an imputed value of its divisions of \$115,650 million. Therefore, the market value of the conglomerate is higher, by approximately 21% of the divisions’ imputed value.

According to these numbers, Comcast would reduce value for its shareholders by pursuing a divestiture strategy and becoming a focused firm to close the gap between its market cap and the anticipated market value. The preceding NPV analysis finds that vertical integration into content should be a strategic priority.

- The DTA finds globalization to result in a high expected value.
- The Imputed Value Analysis finds that a divestiture would reduce overall value.
- Together, these three approaches conclude that the company should strengthen its content and global roles through acquisition, and that its conglomerate structure adds value to investors.

81 Anders, George. “Comcast Wins Skirmish, Girds for War.” *The Wall Street Journal*. February 20, 2008. Last accessed July 11, 2017. ▶ <https://www.wsj.com/articles/SB120346320004678295>.

82 Vanguard Software. “Expected Monetary Value.” Last accessed July 11, 2017. ▶ <http://www.vanguardsw.com/dphelp4/dph00076.htm>.

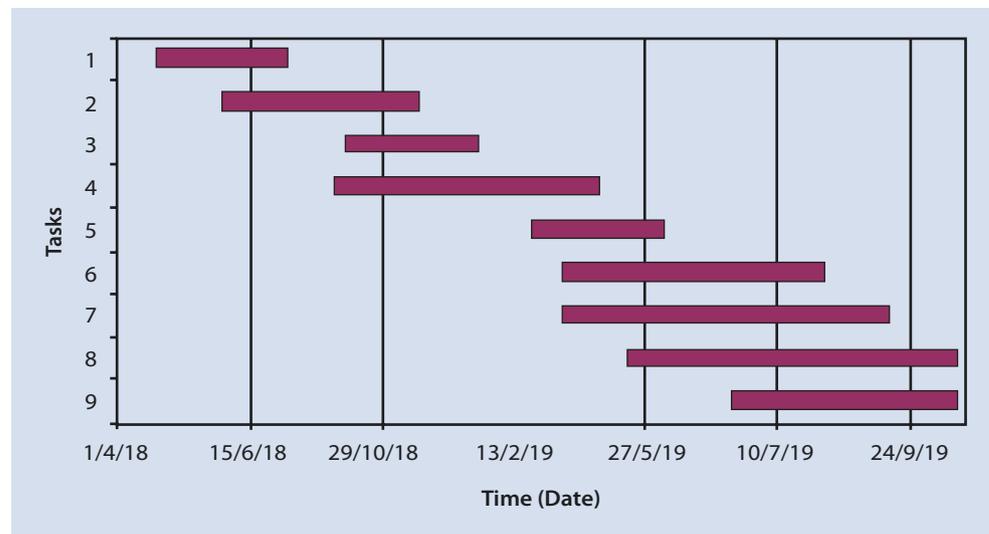
83 BusinessDictionary. “Expected Monetary Value.” Last accessed July 11, 2017. ▶ <http://www.businessdictionary.com/definition/expected-monetary-value.html>.

84 Nanda, Narayanan. *Finance for Strategic Decision Making: What Non-Financial Managers Need to Know*. San Francisco: Jossey-Bass, 2004.

■ **Table 14.3** Value of Comcast divisions (hypothetical)

Divisions	Comcast book value (\$ millions)	Pure-play firm median market-to-book value	Imputed value of division
Broadband Internet access	20,000	2.1	42,000
Cable TV network platform	19,000	1.3	24,700
TV network	22,000	1.1	24,200
TV network	10,000	1.6	16,000
Cable networks	3000	0.9	2,700
Video on demand service	7000	0.65	4,550
Voice over internet provider service	2000	0.75	1,500
Total	83,000		115,650

■ **Fig. 14.10** A Gantt chart for the implementation of strategy



## 14.7 Implementing the Strategy

Creating a strategy is difficult, but its execution is even more difficult. It requires an organization to develop a road map, create an organizational structure, and establish integration, co-ordination, communication, incentives, and controls.

### ■ Tools and Steps for Implementation of Strategic Plan

An implementation should be well-planned, with targets and deadlines. It should cover the following:

1. Communication;
2. Reorganization;
3. Budgeting;

4. Government relation;
5. Monitoring and control.

A Gantt chart comes in handy (■ Fig. 14.10).

### 14.7.1 Internal Communication

Effective internal communication throughout the organization is vital. The responsibilities and accountability for key decisions and actions must be clear.<sup>85</sup> All within the organization should understand the basic strategy and they should “buy in.”

<sup>85</sup> Alkhafaji, Abbass. *Corporate Transformation and Restructuring*. (Westport, CT: Quorum Books, 2001), 17.

### 14.7.1.1 Case Discussion

#### Comcast: Implementing the Absorption of NBC Universal

Once the acquisition by Comcast of NBC Universal became public, in a joint letter to all employees the two CEOs (of Comcast and NBC Universal) wrote a letter to all employees and reviewed the history of both companies, their combined strength, and the opportunity for innovation for the merged company. After the merger was consummated, NBC Universal employees received gift packages including vouchers for 25 Comcast shares, worth about \$400 at the time. Beyond the financial gift, this gave them a small financial stake in the new company.

Comcast also had to address the opposition of labor unions. First, there was concern about a greater opposition to unionization by Comcast management. NBC Universal was much more heavily unionized than Comcast. Roberts assured the unions concerned that he would deal with them not differently than the prior management. The second sensitive point was the protection of jobs. Comcast was in a delicate position when it came to layoffs. On the one hand, the deal was sold to Wall Street investors as creating synergies by reducing duplication, which means a reduction of jobs. But this created morale issues, especially in the acquired company. CEO Brian Roberts countered rumors of widespread layoffs. He pointed to a limited overlap in this primarily vertical transaction. In the end, approximately 500 NBC employees were laid off after the merger in order to eliminate duplicated positions.<sup>86</sup>

### 14.7.2 Reorganization

There is a relationship between strategy and organizational structure. Structures affect productivity, costs, and benefits. How should company structure be handled when a company embarks on a new strategy? Most management strategists hold that a firm should develop its strategy first and then define the organizational structure as part of the implementation. Others believe that the relationship between strategy and structure is not one directional and that structure defines strategy; and thus the existing structure may prevent certain strategies and need to be changed first.<sup>87</sup> Since both perspectives have some merit, this means that strategy and structure may have to be developed simultaneously. Given that strategy must be flexible in a dynamic world, structures have often moved from stable arrangements to increasingly fluid ones.<sup>88</sup> This includes temporary joint ventures and ad hoc structures focused on one-time projects. Such a project-based structure has existed in the film industry for a long time.

86 James, Meg. "NBC cuts about 500 employees." *Los Angeles Times*. November 12, 2012. Last accessed July 11, 2017. ► <http://articles.latimes.com/2012/nov/12/entertainment/la-et-ct-nbcuniversal-cuts-500-employees-20121112>.

87 Lynch, Richard. *Corporate Strategy*. (Upper Saddle River, NJ: Prentice Hall, 2003), 596.

88 Küng, Lucy. *Strategic Management in the Media: Theory to Practice*. Thousand Oaks, CA: SAGE Publications, 2008.

### 14.7.2.1 Case Discussion

#### Comcast: Reorganization After the Merger

Comcast's reorganization after the NBC Universal acquisition included a new management structure and division of responsibilities. NBC's new structure was "flatter" than before, allowing for more direct influence on the individual NBC networks by NBC CEO Steve Burke. To facilitate this transition, several executives associated with the old NBC had to leave the company, including CEO Jeffrey Zucker, often with lucrative "golden parachutes." Their roles were taken by several Comcast executives, for example was Matt Bond, formerly in charge of Comcast programming negotiations (i.e. the acquisition side), who took over the role of overseeing NBC program distribution.

### 14.7.3 Budgeting

Firms must support a strategy through the allocation of resources. Strategy must be translated into the budget process, otherwise short-term budget considerations will overwhelm long-term strategic decisions. But that is not always easy where resources are constrained and allocations are entrenched. Giving more to some activities will often mean giving less to others.

In planning a new strategy, the elements that need to be implemented are identified, with the specific activities required by each relevant business unit in addressing it. Each unit then creates its operational plan, which is costed.<sup>89</sup> The strategic plan leads to the creation of an operational plan and to assessing the resources needed. This is done by designing a budget to cover the work.

The operating budget consists of the day-to-day, periodic, and recurring expenditures, such as salaries. There are two basic approaches to fund strategy. The first is incremental budgeting, where one determines a growth rate for an activity, such as adding 5% to the advertising budget. The alternative is zero-based budgeting, where each expenditure must be justified from scratch. That technique works better for young and dynamic organizations. Some firms combine the two approaches, with a percentage of the budgets assured but with a substantial remainder zero based each year.

Typically, operating budgets are drawn up for the fiscal year or for another time frame. In contrast, the capital budget deals with large capital purchases or acquisitions that are non-recurring, such as buildings, or M&A deals.

89 Civicus. "Budgeting." Last accessed July 11, 2017. ► <http://www.civicus.org/documents/toolkits/Budgeting.pdf>.

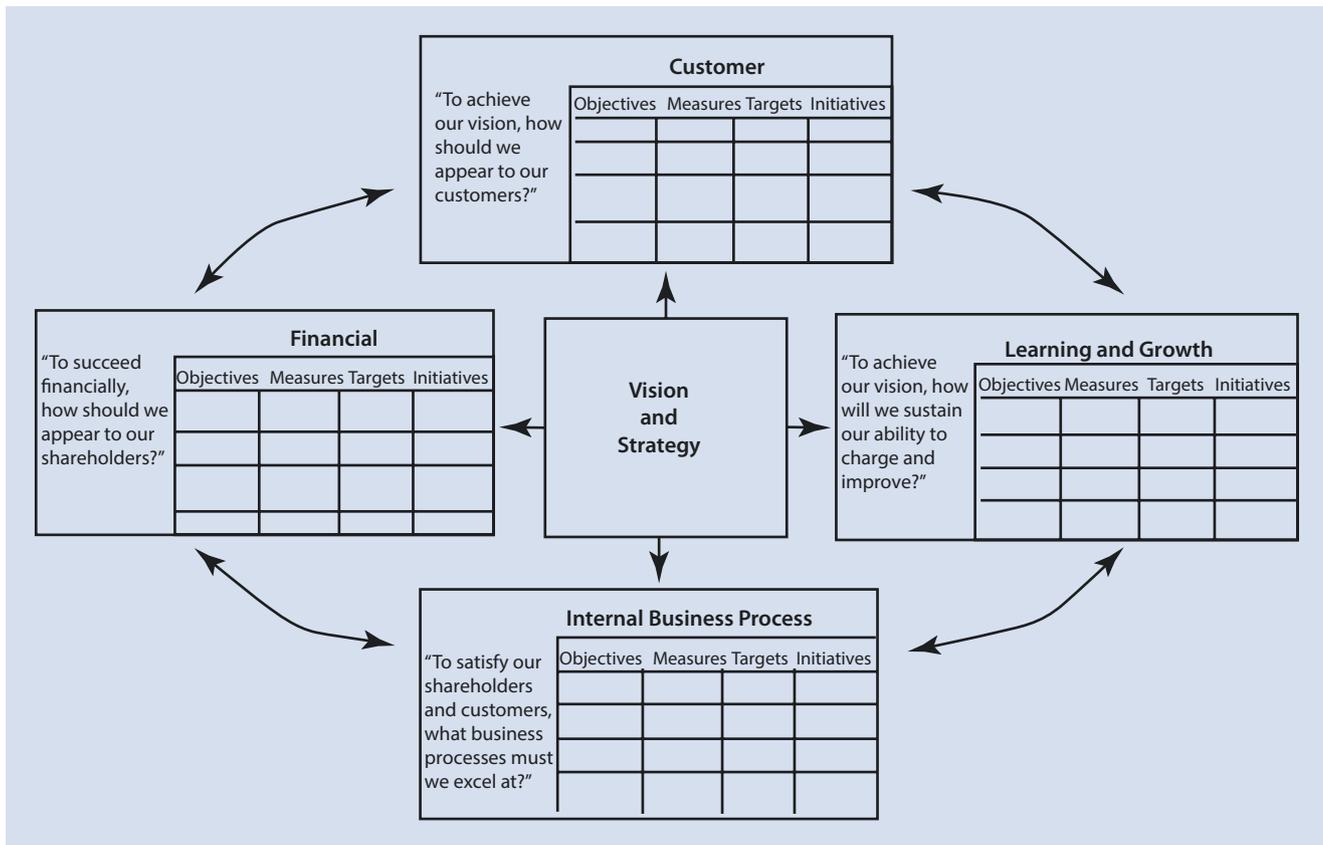


Fig. 14.11 Balanced Scorecard

### 14.7.4 Monitoring, Control, and Feedback

The implementation of a strategic plan includes monitoring of internal performance and business outcomes. It also includes a monitoring of external impacts.<sup>90</sup> Financial measures are important for companies, but other indicators, such as customer satisfaction, are essential as well. One technique for an evaluation is the Balanced Scorecard approach.

This is a strategic planning and management tool, created by Robert Kaplan and David Norton. It adds non-financial performance measures to traditional financial metrics. The system uses a set of metrics to measure if the organization is meeting expectations. It translates a more generic mission and vision statement into a comprehensive set of objectives and performance measures.<sup>91</sup> It identifies through a set of “scorecards” what the performance objectives are, what the performance metrics are, and how much the company has achieved. What the company’s targets are, and what initiative it is taking to meet those targets.

The typical dimensions of performance are:

- Financial performance;
- Customer value performance;
- Internal business process performance;
- Innovation performance;
- Employee performance;
- Learning and growth.

Figure 14.11 shows an example with four dimensions (financial performance, customer relations, internal business processes, and learning and growth). A set of objectives is defined, together with objectives, measures, targets, and planned initiatives. For example:

- Financial Scorecards:
  - Objective: become more profitable.
  - Measure: percentage increase of net income.
  - Targets: increase net income from 3% to 4% within the next six months.
  - Initiatives: two options:
    - Either increase revenue (raise prices or sell more);
    - Reduce costs (cut costs per unit variable/fixed or sell less);
    - Choice: increase its prices.

90 New Zealand Ministry for the Environment. “Measure the success of your strategy.” Last accessed July 11, 2017. ► <http://www.mfe.govt.nz/publications/rma/live-work-play-jun02/guide/success.html>.

91 Rigby, Darrell K. “Management Tools 2011: An Executive’s Guide.” *Bain & Company*. December 13, 2010. Last accessed July 11, 2017. ► <http://www.bain.com/publications/articles/management-tools-2011-executives-guide.aspx>.

- Internal processes scorecard:
  - Objective: build technological capabilities close to the customer.
  - Measure: the number of new technological improvements and features in online and cable services.
  - Targets: increase the average number of innovations in network services from three to five per month.
  - Initiatives: create interactive digital content production and distribution groups and monthly progress reports.
- Learning and growth scorecard:
  - Objective: grow faster and create the organizational setup for growth.
  - Measure: ramp-up time for new employees.
  - Targets: decrease the ramp-up time for new employees (the time until they are ready to fulfill their tasks full force) from three days to two days.
  - Initiatives: introduce a quality management system that documents the lessons learned and best practices for each process in the company. When onboarding new employees, they can learn from the documented best practices and lessons learned in each process and get a faster overview. That will decrease the ramp up time drastically.

The Balanced Scorecard reports several dimensions but does not provide a multidimensional overall measurement of performance.<sup>92</sup> A different approach that combines a set of metrics known as “objectives and key results” (OKR). It was introduced by Intel and used by companies such as Google and many tech companies.<sup>93</sup> The aim is to have an objective grading. OKRs are typically set by the person/team themselves for themselves and not by the supervisor, and are subject to objective measurement. At the end of the period that is being evaluated, key results are graded on a 0–1 scale. Perfect scores close to 1.0 (100%) indicate that the goals were set too easy; scores around 0.4 or lower indicate problems or lack of realism. A score of 0.6–0.7 is the sweet spot. The various scores are then averaged.

As an example, we apply the OKR framework to the performance of a video channel.

**Objective 1:** Become the preferred video channel of (target) customers.

■ **Key Results 1:**

- Increase the customer satisfaction metric from 7.3 to one of 8.3. The result after one quarter is 8.0, which is an achievement of 70% of the goal and the grade is therefore 0.7.

- Decrease monthly churn rate from 2% to 1.7%. The actual performance is 1.85%, which is an achievement of 50%, and the grade therefore 0.5.
- Increase new monthly viewing by 1%. The result = 0.8%, achieved 80%, the grade therefore 0.8.

The result for the first objective is the average of all key results:  $(0.7 + 0.5 + 0.8) / 3 = 0.67$ . That scale is in the desirable range.

**Objective 2:** Become more profitable (net profit).

■ **Key Results 2:**

1. Increase number of advertisements sold by 4%. The result after one quarter is 3%, an achievement of 75%, the grade therefore is 0.75.
2. Decrease fixed costs by 3%. The result after one quarter is 1%, an achievement of 33.33%, and the grade therefore 0.33.
3. Decrease variable costs by 2%. The result after one quarter is 1%, an achievement of 50%, and the grade therefore is 0.5.

The result for the second objective is the average of all key results:  $(0.75 + 0.33 + 0.5) / 3 = 0.53$ , which depicts an under-performance that should be analyzed to discover what went wrong.

The overall score can then be derived, and represents the last quarter’s performance on average throughout a business unit or even the whole organization. In our example, the overall result of Objectives 1 and 2 would then be again the average of the two  $(0.67 + 0.53)$ , which is 0.6 and therefore in the acceptable range.

OKRs can be applied to all parts of an organization, to a team, even to one person. At Google, all OKRs are internally public, including that of CEO/Founder Larry Page.

A weakness of the OKR approach is that all objectives and goals are given an equal weight in the aggregation/averaging, whereas clearly some are more important than others. For example, raising profitability seems more important to the organization than lowering consumer churn, yet they are treated the same. (They are interrelated, of course, but that does not mean they carry equal weight.) Thus assigning weights to goals and objectives would make sense. These weights may be subjective but so are some of the metrics and performances themselves. The key is consistency over time.

The organization should allocate its budget to the various dimensions of performance goals based on the impact of these funds on improvement, weighted by the importance of that goal and relative to the cost of achieving that improvement. The weighted results of budget allocations toward improvements in the various performance goals should be equal across the various goals.

92 Brudan, Aurel. “Learning from practice - A brief history of performance measurement.” *Aurel Brudan*. August 7, 2010. Last accessed July 11, 2017. ▶ <http://www.aurelbrudan.com/tag/history-of-performance-measurement/>.

93 Yarow, Jay. “This is the Internal Grading System Google Uses for its Employees — And You Should Use it Too.” *Business Insider*. January 6, 2014. Last accessed July 11, 2017. ▶ <http://www.businessinsider.com/googles-ranking-system-okr-2014-1>; Rotenberg, Zorian. “List of Top Companies That Use OKR Goals.” *Atiim Inc*. Last accessed July 11, 2017. ▶ <https://www.atiim.com/blog/top-companies-that-use-okrs/>.

$$\frac{\Delta \text{Improvement in Goal\%} \times \text{Weight of Goal 1}}{\Delta \text{Budget Allocation 1}} = \frac{\Delta \text{Improvement in Goal\%} \times \text{Weight of Goal 2}}{\Delta \text{Budget Allocation 2}}$$

$$\frac{\Delta \text{OKR}}{\text{budget allocation}} \times \text{weight} = \text{Incremental Performance Measure (IPM)}$$

For example, if \$1 million in spending toward Goal 1 results in an improvement in the OKR score from 0.5 to 0.7, and the weight of Goal 1 is 8, then the \$1 million has bought an improvement worth  $0.2 \times 8 = 1.6$  (IPM). Assume that the same \$1 million, used toward achieving Goal 2, results in an improvement from 0.3 to 0.6, with a weight of 7, and therefore an improvement score of  $0.3 \times 7 = 2.1$  (IPM). Spending on Goal 2 therefore results in a greater improvement, and should be prioritized and possibly augmented relatively to a spending on achieving Goal 1.<sup>94</sup>

Any quantitative system leads to strategic behavior by the participants. They will de-emphasize low-weight goals and emphasize high-weight ones. Some people deem it inefficient to have employees or groups chasing after certain measures in order to maximize performance scores.<sup>95</sup> But properly designed, this provides management with an effective incentive and feedback tool that optimizes what the organization values, beyond the financial bottom line.

### 14.7.5 Implementation of Strategy: Government Relations

Almost any strategic reorientation by a large organization will have some regulatory or employment implications that will result in necessary steps before governmental bodies. Rivals may use this process to block or delay a company's strategy. Hence, to implement a strategy will usually require preparatory work to pave the way with regulators. This

was discussed in ► Chap. 8 Entertainment Law and Media Regulation.

## 14.8 Outlook

### 14.8.1 Constraints on Strategy

Not all economically desirable strategies are open to a company. Some require funding, technology, or partners that are not available. But even financially and technologically viable projects might be constrained by governments. Given the importance of media in society, media firms are not quite able to function like most other businesses.<sup>96</sup> Some strategies cannot be followed simply because they would violate the law, international agreements, or contractual commitments. Such constraints include:

- Antitrust, anti-monopoly, and ownership laws that affect mergers, pricing, price discrimination, business practices, and consumer protection;
- Foreign ownership restrictions and domestic content requirements;
- Laws governing marketing practices and advertising;
- Tort liability for the impact of products;
- Liability for employee actions;
- Shareholder rights and financial disclosure requirements;
- Environmental laws;
- Union contracts;
- Patents held by others.

#### 14.8.1.1 Case Discussion

##### Comcast: Government Regulation as a Constraint

In Washington, the Federal Communications Commission and the Department of Justice had to approve the merger of Comcast and NBC Universal, and later of Comcast's attempted acquisition of Time Warner Cable. They set a list of conditions for the NBC Universal acquisition. Comcast agreed not to use its programming or networks as an anti-competitive tool. It has to provide its TV programming to online distributors who want it, in addition to satellite telecom video and distributors who already have such rights by law and regulation. Comcast cannot

exercise corporate control over programming available on the online platform Hulu. NBC programming cannot be withheld from other cable and satellite operators, as well as online distributors, and has to be offered at fair and reasonable rates.

Comcast also agreed to carry eight new independent channels owned or managed by African Americans or Latinos. Comcast is prohibited from unreasonably discriminating in the transmission of an online video distributor's traffic to a Comcast broadband customer. Comcast is required to give other

firms' content equal treatment under any of its broadband offerings. (This resembles net neutrality provisions that, for a while, were set to regulate the ISP industry as a whole.) Comcast had to agree to offer internet service at reduced rates to low-income households.

A few years later, when Comcast intended to buy Time Warner Cable, (the number two cable operator), opposition to big media mergers had grown. Facing determined resistance and governmental scrutiny, Comcast abandoned the merger.

<sup>94</sup> Assuming relative stability in the parameters.

<sup>95</sup> Duggan, Kris. "Weighting OKRs - Unnecessary Complexity." *Better Works*. August 4, 2016. Last accessed July 11, 2017. ► <https://betterworks.zendesk.com/hc/en-us/articles/211366166-1-Better-With-Kris-Weighting-OKRs-Unnecessary-Complexity>.

<sup>96</sup> Butler, Kelley M. "Examining the benefits of corporate social responsibility." *Employee Benefit News*. May 1, 2006. Last accessed July 11, 2017. ► <http://connection.ebscohost.com/c/articles/20826550/examining-benefits-corporate-social-responsibility>.

### 14.8.1.2 Case Discussion

#### Comcast: Conclusion

Comcast is a large and established media company in the entertainment and telecommunications sector. For both video channels and broadband it holds the largest US market share of connecting information providers and households. With its acquisition of NBC Universal, it has added creative production to its portfolio. This vertical integration furthers its strength in the media field, giving it an advantage over other cable TV companies and other large media firms.

But what is Comcast's next path of growth? Its size will remain a target for government, and Comcast must therefore tread lightly. Does that mean expanding worldwide rather than seeking market share in the USA? Or will Comcast instead launch new products domestically?

Expanding outside the USA in cable TV platforms would involve a massive infrastructure investment. The company could grow by acquiring a foreign cable TV or satellite company, which would already have a subscriber base and infrastructure to utilize. But that would be expensive too.

Growth opportunities are flat in most industrial countries, but there are some opportunities where cable is relatively weak. For example, cable penetrations are low in Japan, Italy, Spain, India, and China. In emerging markets demand is growing for broadband and cable services, but domestic companies do not have the capital to invest in such cost-intensive and high-risk endeavors.

Comcast's strategies to achieve or protect its competitive advantages would be to invest in barriers to entry, including by raising customer lock-in. But this is subject to regulatory scrutiny. Can Comcast differentiate its product? Actually, as the company has become wider, not narrower, in focus and hence less differentiated, it is exposed to competition by more specialized and fast-moving firms. Video distribution, at the same time, is becoming a commodity service.

In such a commodified market, can Comcast be a leader? The company has been efficient but has not aimed to be the low cost provider, nor is it likely to be able to be so. Its size gives it some advantages,

of course, but the quality of content and performance are more important. Its internet broadband service is priced at the high end, as is its cable TV service. Can Comcast then differentiate the product by an innovation strategy? To do so, it would have to possess unique technology assets or R&D resources. While it has done a good job in adopting technology it has no unique access to it.

To conclude on Comcast strategy:

- Domestically, Comcast should move decisively into mobile and thus to quadruple play, partly through an MVNO approach, and partly through acquisitions or partnerships with Sprint or T-Mobile, in collaboration with other cable companies.
- In video platforms, Comcast should extend its cable operations into selected markets in emerging countries, and to satellite TV platforms in developed markets.
- In content, Comcast should strengthen its position through vertical integration.

## 14.8.2 Conclusion: Strategic Priorities

What is the best strategy to pursue? The classic business school approach is to analyze and then to select the optimal direction: “chart the best course.” That could be accomplished in various ways, such as by product innovation, entry into new markets, or cost efficiency. The alternative approach, and the conclusion to this chapter, is to “build the best ship.” The strategy prescription of this book is get the parts right and the whole will work out. The main strategic recommendation is to build the best organization. Optimal strategy will keep changing. An organization of effective sub-systems can handle the rapidly shifting needs that will inevitably occur in a quickly changing world of media business, technology, and policy. Mutation and “strategic morphing” are needed to succeed in a volatile environment.<sup>97</sup> Organizations need to develop strategies that are adaptable, rather than seeking an illusory long-term blueprint.<sup>98</sup> As Charles Darwin concluded, “It is not the strongest of the species that survives, nor the most intelligent, but rather the one most responsive to change.”<sup>99</sup>

This then is our *Fundamentals* perspective on strategy: “*The Company is the Strategy.*”

97 Kauffman, Robert J.; Miller, Tim; and Wang, Biin. “When Internet Companies Morph; Understanding Organizational Strategy Changes in the ‘New’ Economy.” *First Monday* (July 2006).

98 Sánchez-Taberner, Alfonso. “The Future of Media Companies: Strategies for an Unpredictable World.” In *Strategic Responses to Media Market Changes. Media Management and Transformation*. Ed. Robert G. Picard. Jönköping, Sweden: Jönköping International Business School LTD., 2004.

99 Brul, Caroline van den. *Creativity by Design*. Last accessed on 12 July 2010 at ► <http://www.creativitybydesign.co.uk>.

## 14.9 Review Materials

### Issues Covered

In this chapter, we have covered the following issues:

- How the strategy function applies to the media industry.
- How media strategy misjudgments affect businesses.
- What the intellectual stages have been that business strategy thinking passed through.
- What the strength and limitations of the competitive advantages approach are.
- What the strength and limitations of the core competencies and of the resource-based view are.
- How to organize the process of strategy setting.
- Who engages in strategy planning, and what the problems are.
- What strategic plans contain.
- How to conduct external and internal assessments.
- What kind of basic strategy options for information and media sector firms exist.
- How to evaluate and pick strategy.
- How to choose the best strategy.
- How to implement strategies.
- What the constraints to strategic options are that affect firms in the media industry.

**Tools Covered**

We used these tools:

- SWOT analysis.
- Game theory.
- Core competencies approach.
- Resource-based view.
- Strategic morphing.
- BCG growth share matrix.
- Demand analysis.
- Competitor analysis.
- Radar chart.
- Oligopoly analysis.
- Benchmarking.
- Initial tests for fit (e.g. constraints test, originality test, purpose test, or flexibility test).
- NPV.
- ROI.
- Decision tree.
- IV.
- Gantt chart.
- Incremental and zero-based budgeting.
- Balanced scorecard.
- Objectives and key results
- Porter's five forces industry analysis.
- General Electric/McKinsey matrix.
- Technology velocity analysis.
- Internal audit.
- Value chain analysis.
- Patent audit map.

5. Apple took a leap of faith with its digital media player (iTunes), portable media player (iPod), and multimedia smartphone (iPhone), and ended up winning first-mover advantages. What advantages can second and late movers utilize to take market share from Apple?
6. A magazine publisher has drawn strategic plans for product differentiation via the addition of specialized magazines to its already extensive portfolio. What are the risks of a product differentiation strategy? What can you do to avoid them?
7. What are the necessary components of content strategy for a music company?
8. As a media consultant, how would you advise a broadcast radio company whose goal is to seek growth through expansion or widening of its operations?
9. What is the planning process for capital budgeting? Describe the two budgeting techniques, incremental and zero-based budgeting, and discuss how they are applied.
10. Comcast wants you to spearhead the management of a recently acquired videogame company. Your first priority is organizational restructuring. What are principles for successful organizational restructuring? How would you apply these principles?
11. How would a start-up apply OKR? A huge conglomerate?

**14.9.1 Questions for Discussion**

1. An established media firm in the USA wants to go global. What are the benefits of globalization? What are the potential problems?
2. Yahoo, once a shining star, lost market share to Google. As a consultant, you're asked to design a plan for how Yahoo may regain its competitive advantage. Discuss the general principles for creating a competitive advantage which may be the guidelines you want to apply to your strategic plan.
3. What implementation tools are necessary to fulfill the execution of a strategy plan? Briefly describe each tool.
4. Suppose a cable company wants to diversify its portfolio by acquiring a cable news channel provider. As an executive assigned to manage this new venture, how would you use the acquisition to increase the market share of both the cable company and the news channel?

**14.9.2 Quiz**

1. Which of the following is *not* part of directors' role in strategy?
  - A. Make major strategy decisions in board meetings;
  - B. Approve fundamental transactions;
  - C. Review and approve corporate strategy and policy based on recommendation provided by senior management;
  - D. Delegate day-to-day managerial responsibilities to the senior officers.
2. What gives media and information firms high rates of uncertainty?
  - A. High failure rate of content;
  - B. Short shelf life of content;
  - C. Content is too abstract;
  - D. Fickle consumer demand;
  - E. All of the above.

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3. Which of the following is *not* a theory of business strategy?
    - A. The Strategic Gameboard;
    - B. Game Theoretic Frameworks;
    - C. Threat Matrix;
    - D. Creative Destroyer;
    - E. Share Development Tree.
  4. Which of the following is part of market assessment?
    - A. Define market;
    - B. Assess market size, growth, and trends;
    - C. Assess technology trends;
    - D. Identify major plays;
    - E. All of the above.
  5. Which of the following is *not* part of external assessment?
    - A. Audiences and customers;
    - B. Competitors;
    - C. Environment;
    - D. Market;
    - E. HR.
  6. Which of the following is *not* a technique to determine consumer demand?
    - A. Bayesian networks;
    - B. Focus Groups;
    - C. Econometrics;
    - D. Self-reporting;
    - E. Survey of retailers.
  7. Competitive advantage is achieved by which of the following?
    - A. Brand identity;
    - B. Customer base;
    - C. Access to capital;
    - D. Globalization;
    - E. A, B, and C.
  8. What are the benefits of alliances?
    - A. Gain technologies or skills;
    - B. Reduce competition;
    - C. Realize economies of scale;
    - D. Gain access to new market segments;
    - E. All of the above.
  9. How would Apple describe, in 2018, a new model of its iPhone on the growth share matrix?
    - A. Star;
    - B. Dog;
    - C. Cash Cow;
    - D. Question Mark.
  10. Why is a Gantt chart one of the best ways to lay out a strategic plan for an organization?
    - A. It is the cheapest and easiest method of laying out a company's strategic plan;
    - B. It is an implementation tool for a strategy that was set;
    - C. It is the only method for laying out a strategic plan;
    - D. All of the above.
  11. How do "war game exercises" assist strategy groups in setting strategic plans for the company?
    - A. They set employees up against one another, causing competition among the employees to devise the best strategy for the company;
    - B. They pull in individuals from various departments allowing them to devise plans that they would have difficulty devising otherwise;
    - C. They allow the company to run through various scenarios in market developments, new competitors, and various governmental regulations, generate observations, and plan solutions around their observations;
    - D. They create a military environment which instills attention to detail and focus, allowing for the design of high-end strategic plans.
  12. Limitations on the core competency approach are:
    - A. It is difficult to sustain non-imitable advantage;
    - B. It is better suited for start-ups than for mature companies;
    - C. Core competencies are primarily based on patents that expire;
    - D. The success of Asian companies cannot be explained by the core competency approach.
  13. All of the following are components of strategic planning except:
    - A. Review the internal capabilities;
    - B. Identify, analyze, and select the best options;
    - C. Develop a plan;
    - D. Internal polling of whether to continue the plan.
  14. In performing a SWOT analysis of a company, which of the following would be described as a threat?
    - A. Low customer churn;
    - B. High CAPEX requirements;
    - C. Disruption by other platforms;
    - D. Demand for new products and services.
  15. All of the following are ways for a company to develop a core competency except:
    - A. Protecting core strengths;
    - B. Acquiring new companies and divisions;
    - C. Understanding the wants of its customers through surveys and other means of deciding what the customer values;
    - D. Comparing itself to other companies, and seeing how it is doing, by benchmarking.

## 14.9 · Review Materials

16. Which person or group is ultimately responsible for the strategy of a corporation?
- The CEO;
  - The company's Board of Directors;
  - An outside strategy consultant;
  - Division heads;
  - All of the above.
17. What type of strategy deals with the widening and deepening of a firm's product?
- Scope strategy;
  - Product strategy;
  - Distribution strategy;
  - None of the above.
18. A useful way for a company to select a successful strategy is to test different scenarios and see what value they generate for the company. This is referred to as:
- War Games Exercise;
  - Total Market Value;
  - Imputed Value;
  - Gantt Analysis.
19. What does SWOT stand for?
- Strength, weaknesses, opportunities, and threats;
  - Successes, warnings, objectives, and techniques;
  - Strategy, weaknesses, offerings, and tactics;
  - Strength, warnings, objectives, and threats.
20. What is a prisoner's dilemma?
- One party's gain is another party's loss;
  - In the absence of collaboration everyone loses;
  - Coordination is sought in the absence of communication;
  - When a rival firm doesn't cooperate but everyone wins.
21. Which statement about the Core Competencies approach is not correct?
- In a dynamic environment of media and technology it is difficult to sustain a non-imitable and unusual capability in any resource;
  - A company wanting to develop core competencies should consider outsourcing non-core capabilities;
  - The approach is suitable for start-ups;
  - A company can develop core competencies by identifying its key abilities and leveraging them.
22. Which statement is true for most strategy gurus?
- They use statistical and analytical methods;
  - They use case studies;
  - They have a high predictive value;
  - They are bad at explaining the past.
23. Which statement applies to product strategies?
- Product strategies focus on the design, quality, and production process;
  - Product strategies focus on reaching buyers and placing the product;
  - Product strategies deal with the scope of the firm's products;
  - Product strategies are separated into two dimensions: widening and deepening.
24. From which area does game theory originate?
- Chess;
  - Military;
  - Sports;
  - Video games;
  - None of the above.
25. What is not a possible way to achieve competitive advantage?
- Focus on improving brand reputation relative to the firm's competition;
  - Invest in research and development (R&D);
  - Stand ready to cut prices to deter rival entrants;
  - Develop strong government relations to strengthen media entry barriers;
  - None of the above.
26. What are possible first ways to select a strategy?
- Purpose tests and constraints tests;
  - Risk tests and execution tests;
  - R&D tests and originality tests;
  - HR recruitment flexibility tests and execution tests.

## Quiz Answers

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- ✓ 1. A
- ✓ 2. D
- ✓ 3. B
- ✓ 4. B
- ✓ 5. D
- ✓ 6. A
- ✓ 7. A
- ✓ 8. E
- ✓ 9. C
- ✓ 10. B
- ✓ 11. C
- ✓ 12. A
- ✓ 13. D
- ✓ 14. C
- ✓ 15. B
- ✓ 16. B
- ✓ 17. A
- ✓ 18. C
- ✓ 19. A
- ✓ 20. B
- ✓ 21. C
- ✓ 22. B
- ✓ 23. A
- ✓ 24. B
- ✓ 25. E
- ✓ 26. A