VICTIM OF MERGER MANIA? A QUALITATIVE STUDY ON GERMAN MEDIA GIANT BERTELSMANN AG'S INTERNATIONAL STRATEGIES AND GROWTH OPPORTUNITIES

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ABSTRACT

JAN JOGIS-LAATS: Victim of merger mania? A qualitative study on German media giant Bertelsmann AG's international strategies and growth opportunities
(Under the direction of Dr. Frank E. Fee, Jr.)

The developments in technology and resulting uncertainty in the global media marketplace have put media companies in search of successful business models. This qualitative research studied Bertelsmann AG, one of the world's largest media conglomerates, and its realignment from an external-growth-oriented media company to a company concentrating on organic growth initiatives in core business areas. This research attempted to assess the company's outlook and to evaluate, whether Bertelsmann's repositioning could be seen as a model for success in a global economy.

For this purpose, interviews with nine industry experts were conducted. The results show that Bertelsmann has a strong record in remaining profitable, but its conservative approach may pose a threat to its global top-tier position. But the findings also indicate that Bertelsmann's approach could be a key for success in a global economy. These findings can provide further studies a point of reference when evaluating the growth strategies of global media companies.

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CHAPTER I

Introduction

The media and communications industries have witnessed an increasing globalization of markets and the consolidation of the companies active in those global markets during the last two decades. This process has been driven by the global developments in technology, politics, and economical regulations. As Pennsylvania State University professor Robert M. Frieden (2002) notes, more than 1.3 trillion U.S. dollars were invested in information and communication industries between 1996 and 2001, but the investment has shrunk substantially since then, “along with expectations about growth and new opportunities in converging information, communications, and entertainment industries” (p. 25).

Among the companies at the forefront in the mass media industry during the period when expectations on the new, digital era were high has been Germany’s Bertelsmann AG, led by its chairman Thomas Middelhoff, who sought to create a globally recognized media giant through major acquisitions and convergence-related initiatives. After the collapse of the dotcom economy at the turn of the century and the losses suffered by many media players, Bertelsmann was one of the companies among the global leading media conglomerates to witness changes in the top management and strategic orientation.

The purpose of this thesis project is to study how Bertelsmann has positioned itself strategically since the change of company’s leadership in 2002 and how industry experts see Bertelsmann’s future in the global media marketplace, mainly from the field of academia. Studying the company’s strategic positioning and evaluating its future can be seen as an attempt to construct a model that is helpful when examining this and also other global media companies' actions in the global marketplace during the current period of uncertainty in the industry.

In terms of revenue, performance, structure, and strategy, Bertelsmann belongs among the six--or seven if one includes Japanese electronics giant Sony, which draws only a small portion of its overall revenues from media related activities--biggest and most influential of the global media conglomerates. It is a group that includes, in addition to Bertelsmann, French and Canadian based Vivendi Universal, Australian News Corporation, and American Time Warner and Disney. This list of global players has also traditionally included Viacom, which split into two companies,Viacom and CBS Corporation starting January 2006,and the above mentioned Sony, whose media revenues account for around 15% of its total revenue. Of this group of the seven biggest players, during the last 15 years the most active in global media merger and acquisition transactions have been Vivendi and Bertelsmann, which took part in 249 and 210 international acquisitions respectively between 1992 and 2002 (Chan-Olmsted & Chang, 2003).

Bertelsmann's rise into the awareness of the wider public as one of the biggest global media conglomerates in the years around the turn of the 21st Century coincided with the period the company was led by Chief Executive Officer (CEO), Thomas Middelhoff. Middelhoff left his post in 2002 and the company's majority shareholder, the Mohn family, replaced him with Gunter Thielen as CEO. The current chairman's strategic approach,which enjoys the support of the company's owners,can be described as focusing on the company's core businesses or, in other words, adopting a back-to-basics approach (Ewing, 2004). At the same time, Bertelsmann,a conglomerate with significant presence in markets throughout the Western world,has reiterated its goal to be among the leaders in the markets it operates.

In light of changes in Bertelsmann's leadership and management strategies adopted after 2002, this thesis analyzes how a shift in strategy to focus mainly on existing core competencies reflects in the corporation's performance and positioning in the top tier of the global communications marketplace. In addition to looking at the company's current global position, this project attempts to evaluate the implications of Bertelsmann's strategic management and positioning in the media marketplace on the company's future success. Evaluating the future of Bertelsmann could also be seen as an attempt to build a basis for a theoretical model useful for positioning media companies in the global environment and in the global economy. Such a model is the first step toward a wider theoretical concept for evaluating the global media companies' approaches and should be followed by studies focusing on other companies with their respective unique characteristics.

In the form of a study conducted with the help of nine in-depth interviews, this project analyzes Bertelsmann's performance in light of CEO Gunter Thielen's notion that the "days of great leaps, blockbuster deals and billion-euro acquisitions are over for now" (Annual Report, 2002, p. 3). Yet there are authors who suggest that for any large corporation, meeting growth expectations and keeping a competitive advantage cannot be achieved merely by organic initiatives, i.e. growth excluding mergers, takeovers, and acquisitions (Ferrari et al., 2003; Smit et al., 2005). Therefore Bertelsmann's strategic positioning should be looked at in terms of its position in the global media marketplace and whether such a strategic approach can be seen as a key to success in the current period of uncertainty in the media industry.

To address those questions, this thesis project is divided into five chapters. The introductory first chapter is followed by a chapter with background information about Bertelsmann AG and its peers in the global media marketplace. The third chapter focuses on relevant literature, presents the research questions, and describes the method chosen for conducting this study. The methods section of this chapter also contains information about the participants and their recruiting and interview process, and addresses the reactivity and reflexivity issues of this qualitative research. I present the findings of the study in the fourth chapter and discuss the findings in the fifth chapter. Chapter V discusses the findings and ends with the conclusions together with suggestions for further research.

CHAPTER II

Background

Bertelsmann's rise from a European company with strong ties to Germany into a global media player with a notable presence in the United States, South America, and Asia can be attributed to its long-term chief executive officer, Mark Wössner (Anand et al., 2003). Wössner became the CEO in 1983, two years after the resignation of Reinhard Mohn, who rebuilt the family-owned company after World War II and led it until the age of 60 (Anand et al., 2003). When Wössner left his post in 1998 at the age of 60, which has been the company's mandatory retirement age, he was succeeded by Thomas Middelhoff who is credited with the beginning of a "phase of drastic changes at the company" (Radhika, 2003, p. 5). Middelhoff sought to create a truly global media player through international expansion and with the help of anticipated growth opportunities presented by the era of rapid development of the Internet and related technologies, or the New Economy.

In the United States, privately held Bertelsmann captured major headlines in 1998 when it acquired the leading U.S. book publisher Random House and merged it with the company's existing U.S.-based book-publishing group Bantam Doubleday Dell ("Bertelsmann Posts," 1999) in a deal worth an estimated $1.2 to $1.4 billion (Herrera, 1998; Klee, 1998). The acquisition of Random House could be seen as an example of the "spending spree" of large German companies (Bonfante, 1998) in buying production capacity in the U.S. market.

Other examples of big German companies' cross-border investment in the United States are Daimler Benz's takeover of Chrysler and Deutsche Bank's takeover of Bankers Trust

("After the deal," 1999), also in 1998. Appendix A gives an overview illustrating German firms' increased interest in the U.S. market.The data on Germany's Foreign Direct Investment (FDI) between 1980-2004 show a clear spike in late 1990s, with 1998 being the year with one of the biggest amounts of new investments into the United States.

The acquisition of Random House signaled Bertelsmann's rise among the global media giants, although in terms of revenue, the company also belonged among the largest media companies before the deal as shown by the revenue comparisons of the biggest media companies in Table 1 on the next page. At the same time, with Bertelsmann's rise among the familiar names in the media industry and the efforts by Thomas Middelhoff to create a globally recognized top tier media conglomerate, the whole media industry witnessed a phase of consolidation that coincided with the boom years associated with the hopes put onto new technologies and a subsequent cooling period. These developments made Bertelsmann a familiar name in the global media marketplace also in the sense that it was among those expansionist global media companies,Time Warner and Vivendi Universal being two other companies among the biggest media conglomerates,that witnessed "executive casualties" (Orwall & Peers, 2003).

The revenues of the leading global media conglomerates, also characterized as transnational media corporations or TNMC's (Gershon, 2006), between 1995-2005 are presented in Table 1 for information purposes only based on the companies' annual reports and do not explicitly take into account particular acquisitions, joint ventures, or divestitures over the years. For example, the table does not take into account the considerable effect mergers and acquisitions such as French Vivendi's merger with Canadian Seagram in 2000, Viacom's merger with CBS in 2000, or AOL and Time Warner's deal in 2001 to name just a few, that can explain the sharp hikes in revenues over the periods shown in the table.

Table 1. Annual revenues of the TNMC's 1995-2005

Company	Revenue (millions of $)				
	1995	1998	2001	2004	2005[1]
Time Warner	8,067	26,244	33,507	42,089	43,652
Disney	12,112	22,976	25,269	30,752	31,944
Vivendi[2]	1,326	7,032	25,410	28,943	23,087
Bertelsmann[3]	14,868	13,838	17,153	22,984	21,105
Viacom[4]	8,700	12,096	23,198	22,526	24,126
News Corp.	8,627	11,625	12,981	20,959	23,859
General Electric	70,028	100,469	107,558	134.481	149,702
NBC	3,919	5,269	5,769	12,886	14,089
Sony	43,326	56,622	56,979	66,912	47,712
media	7,842	10,837	9,614	8,883	6,888

Source: Company Reports

Notes: [1] Disney's Fiscal Year (FY) ended in September 2005, News Corporation's FY ended in June 2005, and Sony's FY ended in March 2005. [2] Vivendi's earnings include the French conglomerate's media and telecommunications holdings only, as presented in annual reports. [3] Until 2001, Bertelsmann's FY ended in June. For previous periods, the table includes annual revenues of fiscal years 1994/1995 and 1997/1998. Bertelsmann's revenue did grow between 2004 and 2005 5.1%; the decline in the table reflects the euro/US dollar exchange rate difference. [4] Viacom's numbers for 1995 and 1998 show only revenues for pre-CBS merger; the 2005 total represents the arithmetic sum of New Viacom's ($9,610 millions) and CBS Corporation's revenues ($14,536 millions).

Thomas Middelhoff's visionary leadership associated with the new era in the global media landscape can be illustrated by his appearance in a German TV commercial in a Star Trek uniform where he declared that Bertelsmann "pursue[s] big ideas--no matter where they lead" (Dennis, 2002, p. 8). Middelhoff expressed his firm belief in the Internet Era or New Economy and kept alive expansion plans even as other New Economy oriented businesses and projects were regressing (Hargrave, 2003). Then, surprisingly, the company's founding Mohn family ousted Middelhoff in July 2002, only a few weeks after he signed a new five-year contract. Officially, Middelhoff left because of differences between the management and the supervisory board regarding Bertelsmann's future strategy. The new CEO, Gunter

Thielen, has restated Bertelsmann's strategy as focusing on the company's core businesses and seeking growth primarily through organic initiatives, described by the CEO as steady and sustainable improvement of the products and services that result in increased earnings and returns (Annual Report, 2002).

A factor contributing to Thomas Middelhoff's departure as Bertelsmann's chief executive officer was apparently his "gamble on the future of electronic media" (Peers et al., 2002) that failed to produce the expected results. Projects in the Internet or in the New Economy that eventually failed include an attempt to create an online book-sales environment to compete with Amazon (Ewing, 2004) and Bertelsmann's music arm's disastrous deal with Napster. The company spent $85 million on this project between 2000 and 2002 before Napster went bankrupt and another company, Roxio, picked up its remains (Fritz, 2005). Those examples support the official version that Middelhoff's sudden resignation was not so much related to a single business failure but had more to do with differences in the company's strategy (Karnitschnig, 2003).

On the other hand, some analysts have indicated that the main reason Middelhoff was ousted was not because of the failure of his Internet strategies, but rather the dominant Mohn family's fear of losing control over the company (Radhika, 2003). Another possible and controversial explanation is presented by German authors, Frank Böckelmann and Hersch Fischler (2004), who argue that Middelhoff was forced to resign because the company's owners were worried about the potential legal consequences and the loss of reputation after some of Middelhoff's "tricks and transactions" (Böckelmann & Fischler, 2004, p. 45) related to Bertelsmann's role as a shareholder of AOL Europe.

The public may never fully discover whether Middelhoff's departure because of his losing the trust of the company's majority shareholders was a "Bertelsmann legend" (Böckelmann & Fischler, 2004, p. 45) or whether his departure had only to do with his failures in the business strategy and the departure was not a part of some bigger cover-up. Perhaps neither of those is true, or the true reasons can be found in a combination of both. Nevertheless, the company's public image, when it comes to Middelhoff's departure, shows a shift in strategy, even if the decision to return to the "old economy" was made by Middelhoff himself (Böckelmann & Fischler, 2004, p. 18).

The company's one-time visionary belief in the New Economy is illustrated by statements from its top officials that digitalization and interlinking distribution channels create multiple new opportunities and challenges for the company and that consumer value can be further enhanced by new kinds of digital content (Thielmann et al., 2001). The preferences have changed, though, and the new CEO, Gunter Thielen, has, with the approval of Bertelsmann's majority owners from the Mohn family, put the biggest effort into the company's core businesses: television, book and magazine publishing, music, and media services. However, the company also repeatedly stated its goal as being a leading media company worldwide and in its press release introducing the results for 2005, Bertelsmann described itself as commanding "globally leading positions in the major markets [and its] core business is the creation of first-class media content" ("Bertelsmann grows revenues," 2006).

When analyzing a global media conglomerate's strategic orientation and positioning, media economics authors have often chosen to look at individual companies in comparison with other corporations of comparable structure, performance, and strategy. Bertelsmann, the subject of this study, has thus been looked at as a company carrying the characteristics of a transnational media conglomerate similar to those of Time Warner, Vivendi Universal, Disney, Viacom, Sony, and News Corporation (Albarran & Moellinger, 2002; Chan-Olmsted & Albarran, 1998; Kunczik, 1997). Following, is a brief overview of the transnational media conglomerates together with background information about those companies' business lines.

One company in the group,Sony,has received variable treatment from different authors. For some, Sony should not be viewed as part of the top group in the global communications marketplace (Albarran & Moellinger, 2002), while for others (Gershon & Kanayama, 2002; Kunczik, 1997), Sony can be compared with other transnational media corporations. This is mainly because music and film revenues accounted for less than 10% each of the overall income for Sony in 2001 (Gershon & Kanayama, 2002), and most of the company's revenues are obtained through their consumer electronics division and the sale of video players and games (Albarran & Moellinger, 2002). In fiscal year 2005, Sony's music and film revenues accounted for 14.4% of the overall revenue, as seen in Table 1 above. But, because Bertelsmann's operations in one core business segment (Bertelsmann's and Sony's music arms entered into a joint venture in 2004 (Smith, 2006)) are inextricably intertwined with those of Sony, the Japanese company is considered a part of the leading actors in global media for this study and its strategies and actions are briefly addressed.

In terms of overall revenue, the biggest company with media interests is General Electric (GE), but it traditionally has been excluded from the group of top-tier global media companies because GE's holdings have until recently, been limited to NBC and its branded cable networks (Albarran & Moellinger, 2002). Since May 2004, however, GE's prominence in the global media marketplace has increased, as NBC and Vivendi Universal Entertainment formed through NBC Universal,where GE owns 80% and Vivendi Universal 20% of the shares,a global media company comparable to the other top-tier media conglomerates in size. But as NBC Universal's share of GE's overall revenues remains below 10%, General Electric itself cannot be considered a media conglomerate.

Albarran and Moellinger (2002) noted in their study on communication industry firms' structure, performance and strategy, a study that did not include Sony, that in several areas the structure of top media firms is remarkably similar to one another. Those similarities include revenue, the number of corporate officers, and market capitalization (with the exception of AOL Time Warner shortly after the merger of AOL and Time Warner). Additionally, the corporations share similarities in corporate goals and objectives outlined in mission statements (Albarran & Moellinger, 2002).

All the biggest players in the global media landscape operate in a number of communication industries, thus they form what is called a diversified corporation (Dimmick & McDonald, 2002). However, the extent to which a company has diversified its operations and how interrelated those operations are, in turn have influence on the growth potential of a company.

Robert Picard from Jönköping International Business School (2002) has looked at different media industries in light of industry life cycles and he saw industries progressing through decline, maturation, growth, and introductory periods. Each of those periods marks changes in sales, costs per customer, profits, customers, and competitors that are common across industries. Picard also located different media industries in periods of life cycles, presented in Table 2 as they stood at the beginning of the 21st Century. Following the table is a brief description on transnational media conglomerates' business portfolios, helpful in analyzing Bertelsmann's and its global peers' future outlook in terms of industry life cycles.

Table 2. Location of media industries in periods of industry life cycles

	Period	
Introductory	Growth	Maturation
“Streaming” or online video	Satellite Television Online Media Multimedia	Audio Recordings Books Magazines Motion Pictures Newspapers Radio Recorded Video Television Cable Television

Note: Source *The economics and financing of media companies* (p. 25), by R. G. Picard, 2002, New York: Fordham University Press.

Of the global conglomerates, Time Warner, for example, offers online services, cable and pay television, the film industry, and magazine publishing (“Our family of brands”). Vivendi Universal has interests outside media in waste management, energy, and transport; in media it operates worldwide in music, interactive entertainment, television, film, and telecommunications (Group Profile). The Walt Disney Company is divided into four major business segments: film studios; amusement parks and resorts; consumer products; and media networks that encompass television and radio properties (Company Overview). Pre-split Viacom was active in broadcasting and cable television, programming production, radio, movies, and publishing (Viacom overview), while the new Viacom focuses on cable network businesses and the other part of the company, CBS Corporation, on broadcast networks (Separation Overview).

Bertelsmann has interests in television, book and magazine publishing, the music industry, media services, and book clubs (Interim Report 2005). An organizational structure with the information about division names, divisional headquarters, business areas and share in overall revenues in 2005 is presented in Appendix B.

In book publishing, Bertelsmann is the leader in the U.S. market in trade publishing. In fact, in the global book publishing industry several top players are non-U.S. headquartered.Britain's Pearson, British-Dutch Reed Elsevier, and Netherlands's Wolters Kluwer are other non-U.S. leading publishers (Thussu, 2000; van Tulleken, 2004). Unlike other publishers, however, Bertelsmann stands out as a global actor in terms of having strong interests in additional industry sectors and this reduces its vulnerability to the decline cycle print media industry faces. Yet, compared to other transnational media conglomerates that are multi-divisional and operate in numerous media markets, Bertelsmann is certainly the most exposed to the threat of declining profits and profit margins facing the print media.

Sony's product portfolio includes consumer electronics, personal gaming devices, motion pictures, music, and insurance and banking (About Sony Group). Australian News Corporation, finishing this list of the biggest global media conglomerates, has diversified its operations into activities in the film industry, television, cable and satellite television, magazines, newspapers, and books (News Corp: Corporate Profile).

In this environment of global media marketplace and the biggest global conglomerates, the following chapter describes and analyzes the literature, mainly from the field of media management and economics research, but also from the news media, that discusses approaches one can use when evaluating the companies' strategic positioning. The literature review also reviews different authors' opinions about the challenges faced by companies operating in the global media environment, as those challenges helped to form this project's research questions.

CHAPTER III

Literature review

According to Albarran and Moellinger (2002), insight into the activities of the top media companies in the global setting can be gained by looking at those companies in terms of structure, performance, and strategy. Here one could also add a fourth factor--ownership--as Bertelsmann is privately held, unlike other major media conglomerates. Bertelsmann's former CEO, Thomas Middelhoff, did advocate plans to take the company public in 2005, but that plan has not been actively pursued since, because the company's "patriarch," Reinhard Mohn, has been unwilling to yield his majority control of the company (Hymowitz, 2002). This project specializes mainly in the strategy dimension of the conglomerates, but the other dimensions are also covered, when applicable.

In broad terms, the strategic objectives of the biggest media companies can be divided into two: content and distribution (Albarran & Moellinger, 2002). All those global conglomerates, plus Sony that was excluded from a study by Albarran and Moellinger, carry several content brands, but use different forms for distribution. The differences in distribution can be mainly attributed to the diversification of a corporation, as conglomerates with bigger interests in cable expectedly distribute their content mainly through that channel and companies strong in publishing tend to use applicable distribution channels.

Sjurts (2005) has constructed a comparative framework representing the strategic management style and orientation of the six biggest media conglomerates. She classified the global leaders,excluding Sony,according to four separate categories of competitive strategies, as presented in Table 3.

Table 3. The competition strategies of TNMCs

	Generic strategy		Strategic behavior		Strategic orientation		Internationalization strategy		
	Price leadership	Differentiation	Reactive	Innovative	Internal	External	International	Multinational	Global
Disney		*		*	*				*
Viacom		*		*		*		*	
Vivendi Universal		*		*		*			*
Time Warner		*		*		*			*
News Corp	*			*		*		*	
Bertelsmann		*		*		*		*	

Note: From *Strategien in der Medienbranche. Grundlagen und Fallbeispiele* (p. 472), by I. Sjurts, 2005, Wiesbaden, Germany: Betriebswirtschaftlicher Verlag Dr Th. Gabler/GWV Fachverlage GmbH.

According to Sjurts (2005), when looking at the generic strategy of a global media conglomerate, the companies could choose to be either leaders in price and cost or differentiate their product portfolio. When analyzing strategic behavior, classification between reactive (defensive) or innovative is made based on the resources, competencies, and value system of the company. In the strategic orientation category it can be analyzed whether a company sees its growth potential in organic growth from inside, or in the external growth options presented by acquisitions and by cooperation. The fourth category reflects the internationalization strategy of the conglomerates. A company with international strategy focuses mainly on its domestic market and the internationalization is done through exporting its products. Companies that establish subsidiaries or joint ventures abroad and follow in such ventures' local management strategies, adopt a multinational strategy. A company with a global strategy follows a homogenous and culture-neutral strategy throughout its organization.

Sjurts (2005) notes that the table shows relative uniformity when it comes to the strategic choices of global media conglomerates: apart from News Corporation and Disney, the dominant combination includes differentiation, innovative behavior, and external growth. Sjurts adds that when it comes to cooperation between global conglomerates, an increasingly popular choice recently, the diversification of operating areas has led to complex relationships between the companies where partners in one setting are direct competitors in another.

While the above represents the relative consensus on how the media companies' strategies should be analyzed and what the picture looks like in the top tier of the global media marketplace, the particular strategic decisions and choices during the recent years have not produced a great number of published studies. One explanation for this may be that several of the media giants are still trying to find winning strategies to guide them through the current period of uncertainty and relevant market challenges. Those challenges forcing the modern media corporations to seek new strategies are illustrated by *Wall Street Journal'* journalist, Matthew Karnitschnig's notion that "[t]he Internet … is forcing the major media companies to rethink how they sell their content" (Karnitschnig, 2006a, p. B1). In addition, Western Michigan University professor, Richard Gershon, points at two emerging trends to look at, when studying transnational media management:

> The first trend is the growing importance of the second tier [Transnational Media Corporations] that now provides an abundance of the world's media information and entertainment product. /…/ The second important trend is the demassification of media

and entertainment product made possible by the Internet and advanced recording and storage technologies." (Gershon, 2006, pp. 224-5).

Relying on Karnitschnig's remark about the challenges posed by the Internet to media companies, Bertelsmann's new strategic orientation and positioning should be analyzed in light of the former chairman, Thomas Middelhoff's, strong expectations related to the potential of the New Economy. Middelhoff wanted to transform the company into a leading global player "at the front of the Internet revolution" (Radhika, 2003, p. 5), a revolution that produced one of the biggest media conglomerates--AOL Time Warner--at the height of the New Economy boom through the merger of America Online and Time Warner in 2001.

This "Internet revolution" failed to materialize in solid financial performance in several cases and brought with it instead, reshuffles in the companies' top management, which have caused questions such as the one posed by Orwall and Peers (2003) about whether conglomerates in the entertainment industry make sense at all and what is the right economic strategy for media. Gershon (2006) notes on similar lines, that the companies may feel at times of increased competition that increased size makes for a better company, while it is not always the case.

It is not difficult to find other recent examples among the global media conglomerates that illustrate the need to study strategic positioning of top players in light of thoughts expressed by Orwall and Peers and Gershon. In the top group, failures in strategic leadership or management missteps have occurred, for example, in the merged AOL Time Warner venture, renamed as Time Warner in 2003 ("AOL Time Warner to Rename," 2003), and in Vivendi Universal ("Strategic leadership failures," 2004).

Gerald Levin and Steve Case, top managers behind the AOL and Time Warner merger, by Gershon's (2006) account "one of the worst mergers in U.S. corporate history" (p. 218), resigned within three years after the merger was announced (Albarran & Gormly, 2004). Vivendi Universal's CEO, Jean Marie Messier, dreaming of building a Franco-American media giant (Carreyrou & Smith, 2005), was forced to resign 1.5 years after Vivendi merged with Canadian Seagram in 2001 (Albarran & Gormly, 2004). And Bertelsmann's Thomas Middelhoff, having pursued aggressive expansion in the United States (Karnitschnig, 2005), left Bertelsmann's top post after what some authors have called strategic blunders in New Media (Ewing, 2004).

The degree of uncertainty in the media industry is further shown by the recent developments such as the split of Viacom into two companies at the beginning of 2006 in order to "adapt to a changing competitive environment" (Separation Overview). This drives one even further to pose questions about the viability of the "conglomerate model" in the media industry. Viacom made one of the biggest media industry mergers in 2000, when it reunited with CBS in a $45 billion merger after a split forced by the government 30 years ago (CBS Corporation: History), and the company has since clearly attracted attention as one among the biggest in the global media industry. Viacom's split in the beginning of 2006 will surely change the rankings based on revenues of the single companies, albeit the owner of the controlling stake in the "old" Viacom and the chairman of the company, Sumner Redstone, continues to hold a controlling stake in the two new companies (Flint, 2006).

A similar quest for success formulas is present in the uncertainty surrounding Time Warner's future (Karnitschnig, 2006b), where only in February 2006 did the dissatisfied shareholder, Carl Icahn, and Time Warner reach an agreement in a dispute over Icahn's attempt to break up the company ("Icahn and Time Warner," 2006). Plus, in the closing stages of this project the news media published reports that Bertelsmann may be on the verge of exiting from the music business in order to avoid taking the company public in 2006 (Bertelsmann, 2006; “Bertelsmann sale of,” 2006).

Such uncertainty surrounding the strategies of global media companies together with limited analysis available about current strategic orientation and positioning provide sufficient rationale for analyzing chosen management techniques and strategies that influence Bertelsmann’s performance in the global media market. While analyzing one company’s action in this marketplace, it must be remembered that the transnational media corporations, including the leading companies, are not monolithic in their approach to business, as they tend to operate in preferred markets instead of all markets in the world (Gershon, 2006). But as the conglomerates’, including Bertelsmann’s, strategic management, organizational structure and mere size following industry-wide consolidation have given basis to many different studies focusing on the global media industry and its biggest players (i.e., Albarran & Moellinger, 2002; Gershon, 1997, Sjurts, 2005), a study analyzing the implications of one actor’s strategy changes to the overall picture is contributing to the field of media economics. Plus, the findings of such a study can be seen as an attempt to lay the groundwork for a wider theoretical construction helping to analyze global media companies in the current environment.

When analyzing a company’s future outlook and speculating about the outcome, it is important to look for key factors that influence the whole market or operating environment. At the same time, the analyzed company’s unique characteristics must be placed into this setting. Therefore, when analyzing Bertelsmann’s current management and future prospects, it is important to remember that Bertelsmann is unique compared to its global peers when it comes to ownership. While private ownership is not entirely unusual among the top 10 or even top 20 media companies, at least in the biggest single market, the United States, privately held media firms are still outnumbered by publicly held companies by 17 to 3 (Jung, 2003). This fact makes it hard to compare and analyze Bertelsmann's and its competitors' basic financial performance indicators, such as earning per share, return on equity, and return on assets. On the other hand, while enjoying the "luxury of family ownership" ("My way or the highway," 2006), Bertelsmann has prepared itself for the capital markets ("Thielen: wir sind vorbereitet," 2006) and thus its actions in the global market could be viewed in similar terms to its peers.

Although Bertelsmann is technically prepared for going public ("Thielen: wir sind vorbereitet," 2006), the minority shareholder, Groupe Bruxelles Lambert's (GBL) request may not result in a public offering of Bertelsmann's shares, because the 25.1% share of GBL could also be acquired by some other minority shareholder or by the controlling Mohn family (Bertelsmann, 2006; "Mediengigant mit DAX-Ambitionen," 2006). The company's announced preparedness for going public, while remaining reluctant to do so, may be one of the factors helping to explain some of the strategic management choices and long term goals of Bertelsmann that the latest reports show, yet are not officially commented on by the company, about Bertelsmann's willingness to sell the music arm in order to prevent going public.

Privately held Bertelsmann has, similar to its competitors and industry peers, put a heavy emphasis on performance in the U.S. market. The U.S. market was seen by the company during its biggest merger and acquisition activity so far, the acquisition of book publisher Random House, as a new market helping to drive growth (Wolf, 2002). However, the share of the United States in the total revenues of Bertelsmann has fallen from 32.2% in fiscal year 2000/2001 to 20.5% in fiscal year 2005 (Annual Report, 2000/2001; Annual Report 2005).

Since Gunter Thielen took the top seat in this company headquartered in Gütersloh, a small town in Germany, Bertelsmann has pursued a conservative business model by returning to strategies utilized prior to Middelhoff's era that was marked with high profile expansion plans and attempts to increase competitiveness by centralizing a historically decentralized corporation. While the departure of Middelhoff has not brought about a return to searching for opportunities for cross-unit synergies, the company has re-emphasized the value it puts on the culture of decentralization in labor division and decision-making (Schulze et al., 2005).

During the last few years, the company has also sold its academic and professional book publishing division, Bertelsmann Springer, disposed of its U.S. magazines business (Annual Report 2003, 2004), and basically discontinued the e-commerce projects initiated by Thomas Middelhoff. At the time, those projects were viewed by this "media industry Wunderkind" (Peers et al., 2003) as tools helping Bertelsmann to become a global powerhouse with online distribution of books and music (Annual Report 2000/01).

Such developments lead a researcher interested in international communication and global media economics to ask what the future holds for Bertelsmann and what lessons may this approach entail for other media companies. Böckelmann and Fischler (2004), for example, characterize Bertelsmann transforming from a company that, in the second half of 20th Century put all effort into growth initiatives, into a company putting the brake on growth. For those authors, this means that Bertelsmann faces the challenges and stormy developments in global markets without clear objectives. On the other hand, it is not difficult to see chairman Gunter Thielen's logic behind the statement about the days of great leaps and blockbuster deals being over for at least the time being. Many giant companies in several industries, not only in the media, that emerged from "blockbuster" merger and acquisition deals have failed to produce expected synergies or achieve "efficiency enhancement" goals (Du Boff & Herman, 2001).

Mark Sirower, an merger and acquisitions professor at NYU's, Stern School of Business, argued before the media industry mega mergers starting in the late 1990s that about a third of companies create value in acquisitions and about 70% tend to fail (Sirower, 1997). Mergers and acquisitions in media industry are no exception in this regard. Analyzing merger and acquisition failures in media industries, Peltier (2004) notes that despite expected greater economic efficiency, especially through size effects, the hopes placed on those deals are often disappointing. Even before the burst of the "dotcom bubble," Kunczik (1997) argued that in light of the enormous investments into the media and communications industry, audiences may not be ready to spend enough for those investments to pay off. Thus, this global race between and among the existing media giants can be looked at also as a period not meeting the growth expectations, when the consumers couldn't pay for the investments and the expansionist strategies did not live up to the expectations. This, in turn, may have led Bertelsmann to its established core competencies that promise profitability, albeit with lower margins and in industry sectors subject to threats of decline.

To study Bertelsmann's future outlook in terms of its strategic positioning is also interesting in light of its continued careful approach to new acquisitions. With the help of industry experts, it can be analyzed whether future success for Bertelsmann is seen indeed in strategic initiatives such as Bertelsmann's and Sony's joint venture in the music business, a joint venture that can be dissolved in 2009 (Smith, 2006) and very recently has become the subject of reports about Bertelsmann's exit from the music business. Examples of outward-looking growth include a deal in 2005 to acquire DVD retailer Columbia House in the United States (Interim Report January-June 2005) and the company may expand into television and printing markets, its core businesses, in the Middle East ("Bertelsmann in talks," 2005). Additionally, Bertelsmann's participation in the European "Google-killer" initiative, an ongoing Franco-German project aiming to challenge the Internet search engine Google ("Quaero's challenge," 2006), serves as an example of the company's continued belief into the Internet and its importance for a media company.

Despite those examples of continued outward growth initiatives, the company has promised to allocate around three billion dollars for renewed expansion activities (Riering, 2005), Bertelsmann in general, seems to have taken a very risk averse approach to outward growth in recent years. This has led Böckelmann and Fischler (2004), whose book on Bertelsmann is a highly critical work on the subject, to suggest that a "world class media conglomerate who wishes to expand … and at the same time follows the principle of not making any mistakes, is an antithesis in itself" (p. 291).

Nowhere are the challenges in the current marketplace more vivid than in Bertelsmann's experience in a joint venture with Sony's music arm, that was established in 2004. Bertelsmann CEO Gunter Thielen acknowledged that merging the different philosophies of BMG and Sony creates difficulties ("Bertelsmann räumt Probleme ein," 2005), when Bertelsmann and Sony held talks about not extending Sony BMG's CEO Andrew Lack's contract set to expire in 2006 ("Führungskrise bei Sony BMG," 2005). And while the four-month battle between the two global conglomerates was settled in February 2006, it may yet take a lot of effort to "[mend] divisions that have beset the company at nearly all levels" (Smith, 2006, p. A4).

Thus it can be argued that this global media conglomerate has adopted an apparently conservative approach after some costly ventures at the turn of the century, and that the strategy is based on building corporate culture on partnership, decentralization, and entrepreneurship (Annual Report 2003). At the same time, the company wishes to be a leading media company in all markets it operates (Böckelmann & Fischler, 2004), and it carries only conditional competitive advantages when it comes to the global media industry because its content production relies heavily on television businesses in fragmented European markets and in print media (Sjurts, 2005).

This has led Böckelmann and Fischler (2004) to question whether the company has a future "global market vision" (p. 255) and "any idea at all, what to do in the mass media industry" (p. 292). On the other hand, Lehning (2004) suggests that Bertelsmann has gained such a strong position in the market that it will either control the markets with few competitors or even conquer a dominant position. Lehning goes even as far as using a term *Bertelsmannization* for the strategies other conglomerates may choose to follow.

The developments in the global media marketplace that have led media conglomerates, Bertelsmann among them, to seek strategies for success, the limited nature of recent comprehensive analysis on identifying such strategies and their outlook, and conflicting suggestions by authors about the implications of changes implemented by Bertelsmann since 2002, led to the research questions about the company and its future as presented next.

Research questions

Robert G. Picard, the author of several works on media management and director of Media Management and Transformation Centre at Jönköping International Business School, has noted that media managers have been forced to adopt new techniques to operate in changing environments and markets (Picard, 2004). This is necessary because media managers have been ill prepared to counteract past turbulence in the market (“Media companies,” 2003), and they are still struggling to find the strategies that work.

The current uncertainty faced by many media companies, different strategies sought to face those challenges and ensure future success were the basis for developing the two research questions addressed in this study. The research questions attempting to position Bertelsmann in the global media marketplace and wishing to analyze the success outlook of those strategies are following:

RQ1: Do Bertelsmann’s actions and strategic statements indicate the corporation’s continued interest in maintaining its position among the leading media corporations?

RQ2: How do media industry experts evaluate the success potential of such a new strategic approach in a global environment, where other large players may have chosen a different and less risk averse path?

As management consulting firm McKinsey & Company consultants have noted, it is unlikely that market expectations in the media and entertainment industry can be met merely by organic initiatives (Ferrari et al., 2003), and large corporations face tough decisions in meeting growth expectations and keeping a competitive advantage (Smit et al., 2005). Such expectations are countered by pessimistic looks at growth through acquisition or convergence. These counter-statements do not rule out the effect of convergence on success altogether, but they caution not to look at acquisitions and/or mergers as the “big idea“ that helps companies achieve success by itself (Dennis, 2002; Gershon, 2006). Similarly, looking at one global conglomerate and evaluating its future outlook may be helpful in analyzing, what strategies current media giants are adopting to face the challenges posed by the “time of great upheaval in the media industry” (Karnitschnig, 2006a, p. B.1) and how an established media conglomerate faces threats from New Media companies that may “shunt old ones aside as producers of content” (“King content,” 2006).

Some of the available analysis on management strategies of global media conglomerates is focused on public companies, because it is no doubt easier to evaluate their performance and compare their financial data with those of their publicly traded peers. But Bertelsmann competes with the publicly held conglomerates in the same markets and it has not completely abandoned the idea of going public (Becker, 2005; “Thielen: Wir sind vorbereitet,” 2006), therefore, findings from a study on Bertelsmann can be helpful in analyzing other media conglomerates and their strategic orientation.

Time constraints, the changing nature of the global media industry, and the recentness of many of the strategic choices addressed would undermine any comprehensive conclusions about the success of an adopted new strategy or strategies. Also, this study carries within it the problems of temporal validity as media organizations evolve constantly (Doyle & Frith, 2006). On the other hand, the study can be looked at as an attempt to evaluate whether the steps taken by Bertelsmann as one of the major media conglomerates can be seen as bringing success in light of what some other conglomerates are currently undertaking. And the findings and conclusions of this study can be used as a benchmark for further studies on the subject.

Methods and theoretical framework

The two research questions outlined above can be answered by employing different methods or methodological approaches. In the form they are stated, they direct a researcher to utilize methods available for conducting a case study, a research tool commonly used in media management and economics research (Doyle & Frith, 2006). The method chosen was built around in-depth interviews with sources mainly in the field of academia but also from the company itself and in the news media.

The problem with in-depth interviews and the decision to choose a case study approach is the accessibility to relevant data that can be provided by industry insiders. In fact, the response from company insiders contacted for the purpose of this study was almost nonexistent; access was secured to only one corporate executive in the company, while the requests for interviewing Bertelsmann AG's former chairman, Thomas Middelhoff and current chairman, Gunter Thielen were turned down or not answered. Therefore, I approached outside researchers and experts in the field of academia and journalism who had produced works or given comments on the subject of global media economics. This research is thus not a traditional case study with the informants being mainly the company insiders, but rather a constructed study, where the case is built relying on outside experts' perceptions of a company's inner workings.

Böckelmann and Fischler (2004) proved in their critical study on Bertelsmann that it is possible to produce a substantial work with the help of outside experts and without direct input from the corporate "façade" (p. 12). Thus, this study should not be rejected on the basis of the mere fact that it looks at the company mainly through the eyes of outside observers, but rather the results should be viewed as mainly consolidating external observers' opinions.

Participant recruiting and interview process

This qualitative research was conducted with the help of a small number of in-depth interviews, and the data consist of interview transcriptions and additional information obtained through follow-up contacts with the participants. I identified potential interviewees based on background academic literature and articles in the news media. Since this qualitative research studied a particular phenomenon in the setting of the global media industry, the sampling of interviewees was purposeful, a combination of variation and snowball sampling (Lindlof & Taylor, 2002).

The number of potential participants, media economics scholars, Bertelsmann AG executives, journalists, stock market analysts, and management consultants, able to discuss this subject was relatively small and geographically very dispersed. This, together with the lack of external funding for in-person interviews conducted in various states in the United States or countries in Europe, directed me to use 30-60 minute phone interviews for data collection. The interviews were conducted according to the loose script presented in Appendix C. One interviewee asked the researcher to conduct the interview in written format and, given the difficulties of recruiting more than only a moderate number of participants, that participant's wish was met by the researcher. While using a different method could have influenced the data collection considerably, because the researcher and the interviewee lacked the benefits offered by a personal phone-call, such as developing a follow-up question or discussion on some of the responses, all input by industry experts is nevertheless useful. Additionally, as the written questionnaire was based on the phone interview script, the data collected with the alternative method were integrated with the data gathered from other interviews.

I sent requests for interviews to 28 people either directly or through organizations these people are affiliated with. A total of eight phone interviews were conducted and one interview was done in written format. While limited in overall number, the sample of eight phone interviews and one written interview is suitable for a thesis project bearing the characteristics of a case study, as every participant is a renowned expert in the field and has been referred to or have themselves written in scholarly literature and in the news media in relationship to the topic under study. Additionally, acting as an indicative proof of the limited "pool" of potential scholars, is Böckelmann and Fischler's (2004) substantial study on Bertelsmann. The two authors co-operated for their book with around 70 experts from various fields that included the company itself, various journalists, publishers, agents.

Of the nine interviewees, four were media economics and media management academics currently working with U.S. academic institutions: Alan Albarran, Professor and Chair in the Department of Radio, Television and Film at the University of North Texas; Everette Dennis, Professor in the Fordham University Graduate School of Business Administration; Richard Gershon, Professor in the School of Communication at Western Michigan University; and Ann Hollifield, an Associate Professor in the Grady College of Journalism and Mass Communication at the University of Georgia.

Three interviewees were scholars currently affiliated with European academic institutions: Marian Keynes, Professor with an European university;[*] Robert Picard, Professor and Director of the Media Management and Transformation Centre in Jönköping Business School at Jönköping University, Sweden; and Bozena Mierzejewska, a doctorate student at

[*] This interviewee is identified with a pseudonym and the institutional affiliation is given at a general level.

the Media and Communications Management Institute at the University of St. Gallen, Switzerland.

In addition to the scholars in the field of media economics, the group of interviewees also included one journalist and one Bertelsmann employee. Matthew Karnitschnig is a journalist with *Wall Street Journal* writing about the media industry and he worked in Germany until the beginning of 2006 covering news about corporate Germany, including the media. The ninth interviewee was Stephan Sieprath, vice president of Bertelsmann's Corporate Network business unit.

All interviews, including the interviews with two participants whose native language was not English, were conducted in English. I attempted to obtain the participants' views to address the research questions and analyze whether Bertelsmann is perceived as wishing to maintain its status in the global industry among the top players and how its future outlook is seen in this setting through semi-structured interviews, identified as a suitable tool for such research by Hollifield and Coffey (2006). In the course of discussions I sought participants' answers to the question whether Bertelsmann can be seen as being interested in remaining among the biggest and the most influential media corporations in the world by using its extra careful approach to further expansion through acquisitions, or must the company still be open to bold moves in any given market, as suggested by some background literature (Smit et al., 2005).

Researcher as the research instrument

The influence that my personal background may have had on the data gathering and analyzing process was most likely related to my background as a European graduate student conducting a study on a European media conglomerate. Constructing the research questions, interview questionnaire, and interpreting emerging categories that describe this media conglomerate's global positioning may all have been connected to my closeness to European, and especially German, culture in general and business culture in particular. Therefore I had to be careful not to let my European background subjectively influence interpreting the data. On the other hand, my background as an international student with certain knowledge of cultural norms and conditions in Europe may have acted as a benefit to this study by directing me to ask some questions and interpreting the answers in a way that scholars from the United States may not always be able to do, due to their different cultural background.

On the other hand, the study may also reflect my reliance on U.S. scholarly literature. Although a considerable amount of media economics research is done outside the United States, and that trend is upward moving, a notable portion of the background literature used for the design of the study was U.S.-based and thus may reflect the value systems and cultural norms prevalent in U.S. media economics research.

On assessing the reaction to me as a researcher on the part of potential participants, two major issues can be pointed out. First, the reaction by potential sources affiliated with or close to the company may have been generally rejecting, given the company's non-public status and the low profile, a Master's thesis, of the study. Secondly, the reaction from the scholars contacted on the subject can be generally viewed as appreciating, given the still relative novelty of media economics research in general and research on this global player in particular.

In addition to the reaction my requests for interviews may have prompted, it is likely that the actual interviews themselves may have raised some questions related to the level of my academic and linguistic abilities. The participants, to whom English is the first language, may have had some concerns regarding my language proficiency. Similarly, some participants, with English being their second or third language, may have had concerns both about my ability as well as their own ability to convey all ideas or thoughts clearly.

It is reasonable to suggest, however, that the international nature of media economics research played down those concerns. Some support to this suggestion can be found from my success in recruiting through snowball sampling, as I recruited three people through snowball sampling and every participant was clearly willing to help me beyond her or his personal comments and thoughts, suggesting additional sources who could be of help.

Data analysis

While transcribing the interviews by myself no doubt would have had advantages, such as knowing the participants and the context, picking up certain themes or issues, and thus listening to the interview in a more studied way (Lindlof & Taylor, 2002), due to time constraints, all interviews were transcribed by a professional transcription service. To minimize the effect a person unfamiliar with the subject transcribing the interviews, I listened to all of the interviews and compared them to their transcription at least once before the data analysis.

Since the subject of this research was to study a phenomenon, a company in a setting of the global media industry, the analysis was based on smooth verbatim transcript of the interviews. While the line between editing for clarity and editing that somewhat damages the original social situation (Lindlof & Taylor, 2002) may be unclear, it is reasonable to suggest that smooth verbatim transcript conveyed the meaning of the text on the subject under study.

I coded the interviews according to guidelines by Lindlof and Taylor (2002) and Strauss and Corbin (1998). In the open coding stage the analysis was aimed at identifying key concepts from the interview transcripts, concepts helpful in identifying all possible categories explaining the subject under study. While in this stage of analysis I was looking at all possible categories emerging from the data, it was also in this stage when the initial subcategories were identified. In this stage a total of 58 categories emerged from the interview transcripts.

After the open coding process, I examined the data with an attempt to integrate the categories where possible, and looked at the categories in a way that offered either new categories or seemed to suggest a theme that reached across several categories. It was also in this stage where I consolidated the category list, because the initial coding process produced several interviewee-specific categories that related to slightly different initial categories emerging from other transcripts. Eventually, the open coding process produced 21 categories and these categories, together with excerpts from interviews illustrating the categories, are listed in Appendix D.

Following the open coding and initial axial coding processes that helped to identify the instances in the transcripts forming the categories, I looked at the categories with the intent to look for connections between categories that suggested a central concept describing the connections of all single concepts illustrated by the categories. During the analysis process, I also looked for possible negative cases emerging from the data. Where applicable, such negative cases that suggested alternative interpretation to the dominant theme of a concept or a phenomenon are also presented in the results section.

The analysis did not reach the stage of theoretical saturation in a way that no new properties or dimensions emerged from the data (Strauss & Corbin, 1998). At the same time, the interviews reached the point of data saturation in terms that no new information or themes were identified in the data. The data analysis also left few questions or gaps in the categories, such as evaluating the importance and prominence of those categories as seen by the interviewees. But given the limited time available for a thesis project, it was not feasible to pursue theoretical sampling strategy or recruit new participants to sufficiently develop the category in terms of properties and dimensions (Strauss & Corbin, 1998) in all cases.

Acknowledging those limitations that should be addressed in further research, the discussions with participants produced several categories suggesting initial answers to the two research questions. The results from the interviews and the categories that emerged from eight discussions over the phone and one written interview are presented in next chapter.

CHAPTER IV

Results

Based on the discussions with the participants, I constructed a general framework with a set of concepts aiming to answer the research question that inquired about the visible evidence of Bertelsmann's continued interest in being a top-tier transnational media conglomerate and the research question that aimed to evaluate the future prospects of Bertelsmann as a transnational media conglomerate. The individual categories building this framework are presented in Appendix D. A full description of the results divide this chapter into two main parts, each addressing one of the research questions of this study.

The first research question attempted to find out whether Bertelsmann's actions and statements indicate an interest in keeping its status among the top-tier media corporations. The data suggest this question can be answered by summarizing the concepts emerging from the interviewees' views on the global media environment and how Bertelsmann's performance and strategic orientation look in this setting presented in the first part of the results chapter.

I will address the second research question about the interviewees' views on the outlook of Bertelsmann succeeding in the current global environment in the next part of this chapter. Because I looked at Bertelsmann throughout this study in comparison with its peers in the top tier of global media conglomerates, this part of the framework also presents the interviewees' views on the current challenges faced by all conglomerates in the media industries in addition to the challenges faced by Bertelsmann.

With every category and the description of results, it must be remembered that although the respondents' views showed considerable consensus in certain aspects and dichotomous opinions in others, this was a qualitative study with only nine participants. Therefore, all statements about the similarities or differences between opinions represent only the views of the participants and they should not be seen as presenting views that can be generalized to a larger population, such as most or the majority of academics or experts.

Category I. Bertelsmann's current strategic management

To build a comprehensive picture about Bertelsmann's current strategic management and actions as understood by outside observers, as were eight of the nine interviewees, the first main category produced a setting where Bertelsmann is placed among its global peers and other actors in the global media marketplace. The excerpts illustrating the subcategories in this section describe how the respondents saw Bertelsmann among its global competitors and how they evaluated the company's actions in this environment. In detail, this main category consists of four subcategories that emerged from the discussions and are presented below.

Category I.I. Complexity of the media marketplace

A dominant theme emerging from many of the interviews is the level of complexity of global media marketplace, and the fact that this complexity is often overlooked. It may be argued that it is not very relevant in regard to this study that is looking only at a very small piece of the overall picture. However, the interviewees' frequent reference to the various layers of the global media marketplace must be summarized, because this subcategory helps to understand their positioning of Bertelsmann AG in the global environment and evaluation of its strategic orientation.

Five of the nine interviewees stressed the importance of looking beyond the commonly listed top media conglomerates when analyzing the global media and communications environment. At the same time, the interviewees, some of whom are authors of the works referred to in the literature review, were rather unanimous when classifying the top-tier companies in the overall picture.

For the University of Georgia's Grady College of Journalism and Mass Communication Associate Professor, Ann Hollifield, the global media marketplace:

> is much more complex than is usually acknowledged in discussions of it. Both research and media discussions of the global media marketplace tend to focus on the major players in the marketplace, what [Anthony] Smith called the "global behemoth." … The really major players such as Sony, AOL Time Warner or Time Warner now, Bertelsmann, Viacom--[there are] five or six really major companies…. But, in fact, the global media marketplace is a lot more complex than that. There's a whole second tier of companies that have major investments overseas.

On similar lines, Professor Keynes emphasized the complicated nature of the global media landscape and the difficulties faced when trying to develop theories about global media:

> I think [the global media landscape] is a very diffused and varied field. I think it's very difficult to come up with universal characteristics to be honest. I mean, stratified in different ways obviously by the various sectors of the media industry by the sizes of the players within their sectors. And then obviously we have the kind of conglomerates as well, who are sort of a meta-group in a way, actually within various segments, but also kind of a group of their own. I think one of the problems actually in developing any kind of intelligent theory for media industry is actually the diversity there.

When asked to position Bertelsmann in this setting based on the company's past and current performance, not surprisingly, all participants looked at Bertelsmann in comparative terms with the other biggest media conglomerates. As with the available literature, the interviewees' listing of the biggest media conglomerates varied slightly, but none of the companies listed as the global players was outside the group of seven biggest companies identified in the background chapter. The following excerpts from the interviews serve as examples of which companies the respondents saw as the most important global media conglomerates.

> *Bozena Mierzejewska*: For me, biggest media players, what I see them as global media players, will be Time Warner merged with AOL…. The other will be Bertelsmann, that is also a very important global player and at the same time very important global player in Europe. And the third from my point of view, very important global media player, will be … Rupert Murdoch's company … News Corporation.

> *Matthew Karnitschnig*: You have the top five [major players in global media. Time] Warner is biggest, and then Viacom, which recently split into two companies, in what they call the New Viacom … and then you have the other half of the old Viacom…. It's owned by the same person, controlled by the same person…. And then you have News Corp, which is similar to Bertelsmann in that it's very international. That's the one owned by Rupert Murdoch…. And then you have Bertelsmann obviously, which is focused mostly on old-line media assets….Disney, of course.

> *Alan Albarran*: Pretty much the global landscape is dominated by seven companies. It's a global oligopoly that exists and the … companies have come from three different regions of the world. And the U.S. is Viacom and Disney, Time Warner, and, most recently, News Corporation, which … [has] moved their base of headquarters to New York. And then you have Bertelsmann … in Germany, which is really the lone European representative. We have Sony out of Japan, which is another one…. [The seventh company is] NBC Universal. We traditionally had had two players out of Europe, the other one being Vivendi. But then when of course they had their troubles and went into decline and essentially sold off the bulk of their media assets to GE's NBC division, then that really ratcheted up that company or that part of the GE empire to become more of a global player.

The views of those three interviewees were similar to the answers the other six persons gave to the question about the top tier or major media conglomerates. In light of the uniform view of Bertelsmann in the global media marketplace as one of the major players, the interviewees with almost similar consensus stressed the unique nature of Bertelsmann. This uniqueness formed the second subcategory that is presented next.

Category I.II. Bertelsmann is unique

While Bertelsmann is among one of the "usual suspects," as the top-tier companies were categorized by one of the participants, Bertelsmann and its management bear unique characteristics that help to explain the company's strategic orientation and development. Not surprisingly, Stephan Sieprath, the only company insider among the interviewees, made the strongest statements indicating the company's uniqueness and its benefits. While other participants also supported Sieprath's views about Bertelsmann being significantly different from the other conglomerates, not all the interviewees agreed with Sieprath about the benefits of those unique features.

The unique nature of Bertelsmann, compared to the other large media conglomerates, was illustrated by its private ownership, German background, and the historical evolution of the company. Two examples of the reasons why the interviewees saw Bertelsmann as being unique among the global media conglomerates, are presented below:

> *Ann Hollifield*: Bertelsmann … is a fairly unique company in that pantheon of true global behemoths for several different reasons. First, of course, it is the only essentially private company in the group…. It is also unique in that … its core business was very different from the core businesses that provided the foundations for the other global behemoths…. And the company is quintessentially German.

> *Matthew Karnitschnig*: There's a term in German--*Bodenständig*--which means sort of down to earth, which is actually what that company is, it feels very down to earth.… [Bertelsmann] has a very conservative approach to debt, so what that has meant is that they have sort of limited themselves to businesses that are not really high growth, like books and magazines.

Although the overall perception of Bertelsmann's unique nature, illustrated by the above excerpts, was representative of the interviewees' opinions, not every interviewee agreed that private ownership is an exclusive feature found only in Bertelsmann. Professors Keynes and Gershon noted when addressing Bertelsmann's private ownership, that the company is not that much different from some of its global peers because there are also similar controlling family related influences on publicly traded News Corporation and Viacom, given the strong influence that Rupert Murdoch and Sumner Redstone have on the operations of those companies respectively.

Another difference between Bertelsmann and the rest of the "global behemoths," to use Ann Hollifield's classification, is the decentralized management structure of Bertelsmann. Not surprisingly, again, the person referring to this particular characteristic and its benefits over being a highly centralized company was Stephan Sieprath from Bertelsmann. Sieprath's view, presented below, that their decentralized nature distinguishes Bertelsmann from the other global companies was also in line with opinions expressed by other interviewees, as illustrated by an excerpt from the interview with Richard Gershon:

> *Stephan Sieprath*: We are indeed a very decentralized company, we probably have 600 different business units and they are run by a managing director each, and these managing directors, they really believe that, well, they actually regard the company that they're running as their own company…. Decisions are made very quickly and that is … very helpful, and that's also compared to Time Warner or to other major companies that also have very good strategies.
>
> *Richard Gershon*: The thing that has always been remarkable thing about Bertelsmann is that it has been so decentralized…. Here you have this company, whose headquarters is in a town called Gütersloh, Germany, and … my understanding is that it's not a very big town, and yet it manages this huge facility and that all of its external operations are far bigger than the central headquarters.

These three main characteristics, a German background, private ownership, and decentralized nature, making Bertelsmann unique among the top media conglomerates were also the factors used when evaluating Bertelsmann's positioning in the global arena. The next section presents the views, based largely on Bertelsmann's unique nature, on how these characteristics influence the company's performance.

Category I.III. Uniqueness and global ambitions

The interviewees often referred to the private ownership, decentralized management, and German-ness when evaluating Bertelsmann's current performance and the signals the company has sent out about its future strategic objectives in the international media environment. In this regard, however, the interviewees' opinions did not carry the relative consensus of the previous two categories and instead fell into two opposing camps. One opinion, expressed in strongest terms by Stephan Sieprath, Richard Gershon, and Everette Dennis, suggested that the way those unique characteristics are employed by the company could be seen as strong indicators of Bertelsmann's continuing global top-tier ambitions. On the other hand, *Wall Street Journal*'s Matthew Karnitschnig and University of North Texas' professor, Alan Albarran tended to see Bertelsmann's uniqueness and the company's behavior as more limited in scope. Additionally, Karnitschnig took the most critical view of Bertelsmann, as he saw the company already sending out signals that it is pulling back from global competition.

For Stephan Sieprath, the decentralized nature of Bertelsmann allows the company to move "very, very fast" forward with new initiatives and projects and this, combined with Bertelsmann's commitment to growing both organically and through acquisitions, is a factor contributing to the company's continued growth. On a similar note, Richard Gershon suggested that while allowing a great degree of freedom, Bertelsmann's corporate headquarters requires accountability and exercises corporate authority that is aimed at further development.

> *Richard Gershon*: Very distinct about this company [is] that they're really willing to allow these companies to more or less operate autonomously. And yet at the same time I think it's interesting that even though this happens, there is a real accountability. I mean

that "you go ahead, BMG, and do your thing in the United States musically and otherwise, but you're accountable for making sure that you meet your targets financial and otherwise."

Fordham University's Everette Dennis noted that Bertelsmann has the advantage of acting in the global media marketplace as a private company that does not have to worry about shareholder value and quarterly profits as much as a public company must. Therefore Bertelsmann can be, and also has been, much more methodical and makes investments in enterprises that don't have to pay off immediately. He added, though, that this capability of being bold does not mean private companies, including Bertelsmann, always are bold. For Dennis:

> Bertelsmann was particularly out of the box in that period of the late '90s to 2002 or … '03, in a way that some other privately held companies were not. Sometimes privately held companies are very conservative about what they do. But then they have the stability that if they want to make investments, significant ones, and not worry too much about the immediate returns, they will. On the other hand, … they're not usually the first company to go out and be an innovator. They could, they have more capability to do it, but they don't always, of course.

Dennis' notion about Bertelsmann's apparently proactive approach and its relationship to private ownership was further supported by Richard Gershon, who noted that:

> The problem with Bertelsmann, I think, is [private ownership is] both its strength and its weakness. It's really a two-edged sword. I think … Bertelsmann as a whole is a very well managed company, but it's also a little bit parochial…. Maybe "stuffy," maybe just a little bit. A little bit more traditional, because it is family. It is a little bit more private. It isn't quite feeling the pressures of the public, in a market, as dramatically as some of these other companies.

Compared to those positive evaluations of Bertelsmann's positioning, Matthew Karnitschnig was critical towards Bertelsmann's situation and the company's positioning compared to the other media conglomerates. For Karnitschnig, "nobody else really does book clubs [and with] the whole Arvato [printing and service-providing business] they don't really compete with any group." Acknowledging that Bertelsmann's current positioning has kept the company profitable and may do so in the future, Karnitschnig countered Gershon's view about the company's corporate decisions made at their headquarters in a small German town far from the media industry metropolises, referred to in the previous subsection, in the context of how to position a media conglomerate, because:

> if you're sitting in Gütersloh making decisions about what people are going to want to see or read, or whatever, I just don't think that's necessarily the right place…. You need to have some creative solutions in the media world now, I think, to confront all these issues, and I just wonder if they are really attuned to that, and I don't think that they are.

Additionally, Matthew Karnitschnig saw disadvantages in Bertelsmann's international nature and strong connection to the European market, because producing contents for different markets in Europe in different languages is expensive and all formats do not travel very well. He also pointed to the fact that Bertelsmann's television arm RTL generally doesn't have majority stakes in various affiliates within the RTL Group because of the legal restrictions in several markets.

Providing a similar critical tone to Karnitschnig's, Robert Picard, who has observed Bertelsmann for about 20 years, offered a counter-argument for the benefits of private ownership in the context of the company's positioning. Picard suggested that Bertelsmann's private ownership has created conservativism in the company and it has lead to a "culture in which business units and firms are run independently with separate incentives that reduce the ability of the firm to seek performance benefits across operations."

Less harsh in criticism and acknowledging the success Bertelsmann has enjoyed in creating the world's biggest book publishing group in Random House, Alan Albarran saw as a "pitfall," Bertelsmann's inability to achieve comparable growth in areas with higher profit margins. As Albarran noted, Bertelsmann has:

> not been able to move out of, or expand [television and New Media] operations out of the European region, and in particular the Western European region, into the rest of the world…. So, in terms of where the bigger money is, let's say, which tends to be television, filmed entertainment, sound recording to a lesser degree, they have not been able to achieve that level of expansion that some of the other bigger players have, who have had a lot of success about going into different regions.

The interviewees' consensus on the overall unique nature of the company and opposing views on the implications of this uniqueness built the ground for the fourth subcategory, evaluating whether the company is signaling its intent of remaining a global top tier media conglomerate. The results in this subcategory are presented next.

Category I.IV. Does the company wish to be a leading global player?

The fourth subcategory describes the outside observers' impressions and understanding of the management style of the company since Thomas Middelhoff left in 2002. The discussions on the subject of Thomas Middelhoff's departure and the company's performance under Gunter Thielen's leadership aimed to evaluate whether the managerial practices indicate the company's commitment to being a top-tier media conglomerate. The answers presented in this subsection also form the core of the discussion concentrating on the first research question in the next chapter.

Somewhat of an exception with his answers compared to eight other interviewees was Stephan Sieprath, Bertelsmann AG's corporate development executive, whose comments should be viewed as those of an insider. His comments, acknowledging the restrictions a person may have when speaking about his employer, were nevertheless to a large extent comparable with the answers by other interviewees.

The instances from interviews in this subcategory clearly indicate that there is a consensus on Bertelsmann's past commitment to strengthening its global presence during Thomas

Middelhoff's reign. Similarly, the interviewees' responses by and large suggest that the new CEO Gunter Thielen is less prominent in the public eye. The opinions differed, however, when interpreting the message conveyed by the lesser publicity about the company's future global ambitions. There was also no clear consensus whether Bertelsmann's current strategic orientation sets the company in a preferred position or at a disadvantage compared to its direct competitors and industry peers.

Bozena Mierzejewska presented the most optimistic view when evaluating the company's strategic management under Gunter Thielen. She acknowledged that while Thomas Middelhoff "was that sort of visionary who had very clear ideas about how to enter into Electronic Age," it could nevertheless not be argued that under Gunter Thielen's leadership the company lacks such vision. In Mierzejewska's view:

> Mr. Thielen's … vision maybe is less, or his direction is less of a[n] expansion into completely unknown areas, and rather building on "what we have" and adapting the strategy of the traditional divisions to new changes…. [But] just as an example for you that not only the traditional back-to-business is important for Bertelsmann, it looks like they're also trying to invest in search engine technologies and to integrate them into television stations.

Similarly, Richard Gershon referred to Bertelsmann's music arm, BMG's joint venture with Sony, as a sign of the company's commitment to remain a successful global media enterprise after the departure of Thomas Middelhoff, whom Gershon described as "a very creative … and very forward-thinking" person. For Gershon, the Sony BMG joint venture "says something about [Bertelsmann's] commitment to understanding how to do music better and distribute better."

Contrasting such positive views on Bertelsmann's clear strategic orientation and visionary leadership were Ann Hollifield and Matthew Karnitschnig, although the conclusions of Hollifield and Karnitschnig's assessments were different. To Hollifield, Bertelsmann's strategic management is different from the other global conglomerates such as Disney, News Corporation, or Time Warner in that there does not seem to be a clear "meta-strategy" that is pursued by Bertelsmann. Yet for Hollifield, the apparent lack of a clear meta-strategy is not necessarily a hindrance to the success. On the other hand, Karnitschnig saw the company as lacking visionary ideas under the leadership of Gunter Thielen and this is a disadvantage for the company. The excerpts of such views by the two respondents, similar in describing the situation, but adversarial in assessment, are presented below.

> *Ann Hollifield*: When I look at the other global behemoths, I can identify clear … meta-strategies that the companies, by and large, are pursuing. And in Bertelsmann, I've never really been able to see, what their meta-strategy is…. It may be that the [Mohn] family is not pursuing a meta-strategy per se for the long-term, that they're really pursuing more limited goals with the profits they have…. If Bertelsmann doesn't have a meta-strategy that is evident to me, that doesn't mean it doesn't have a meta-strategy. But even more than that, I'm not sure that's necessarily a bad thing.

> *Matthew Karnitschnig*: The people making decisions at the top, they're, you know, like Thielen--he's a very nice guy and good businessman, [but] he's not really a media person…. He ran the printing business … and his successor [Hartmut Ostrowski] … also comes from the printing business. So where are the sort of great visionary ideas about the media … business. And I think … you need somebody to help envision about where he wants to take this company, about how the media world is going to look. Somebody who's going to be able to take risks or allowed to take risks.

To a certain extent, supporting Karnitschnig's criticism was Robert Picard, to whom "one sees less flamboyant leadership, fewer major mergers and acquisitions, and a loss of industry leadership" in the management strategies of Bertelsmann after the departure of Thomas Middelhoff. But Picard added that such scaling back is not very different from the processes going on in Time Warner and Vivendi Universal, for example. Three other interviewees shared the view that Bertelsmann, like other major conglomerates, is cautious when entering into new acquisitions and the company thoroughly explores new ventures and their fit into the existing portfolio before making any moves.

Bertelsmann's Stephan Sieprath also referred to the similarities between Bertelsmann and its global competitors in this aspect, because of the cost reduction programs in other major media companies. In addition, Sieprath argued that Bertelsmann has in fact been unique in that it was the first major conglomerate to already adopt new growth initiatives in 2003.

In sum, thus, the respondents' views on Bertelsmann's recent actions and strategic orientation were coherent to a considerable degree in acknowledging the lesser degree of "flamboyancy" in industry leadership, to use Robert Picard's word choice. Several respondents also agreed that Bertelsmann is not alone in scaling back its outward activities in recent years. There were different opinions in this group of nine people, however, on how this new strategic orientation has prepared the company for future challenges and where the company may find itself in the future. These opinions were the basis for constructing the framework for answering the second research question about Bertelsmann's future outlook. The results forming this framework are presented in the next section of this chapter.

Category II. Bertelsmann's future in the global media environment

The following section presents the interviewees' responses to the questions asked about Bertelsmann's future in the global media marketplace. Some of the subcategories and the responses forming those subcategories are closely linked to the subcategories in the previous section. This is because I asked the respondents to look at Bertelsmann's future in the same terms of its present, not in an isolated space, but in comparison to its peers and competitors and other actors in the global media environment.

The structure of the framework presented by this category is similar to the first major category that evaluated Bertelsmann's current performance and actions. First, I present the respondents' views on the overall future outlooks of the media industry. The second subsection addresses the technology challenge in particular and the third part of this section presents respondents' evaluations and speculations on whether Bertelsmann's chosen approach, outlined with the help of the first main category, will bring success.

Category II.I. High degree of uncertainty facing all media

All respondents described the future of the global media marketplace in similar terms. Again, there was consensus between interviewees when looking at the broadest level of the state of affairs and this is best described by two related terms: uncertainty and technology challenge. Some sample responses describing perhaps the greatest uncertainty ever, in which all media organizations find themselves, are presented below:

> *Alan Albarran*: It's a very interesting time, because there's a lot of uncertainty and more uncertainty I think than there ever has been about the future of the media business…. I talk to people all the time in the business, at least locally, and they're all saying "we're trying to find the business model. We don't know what it is, you know, and we don't know how to make that business model work." But they're all agreeing that they can't continue to do business the same way they have been doing business.

> *Ann Hollifield*: In the 30 years that I've been associated with the media, there's never been a period anything like this. And the uncertainty levels are escalating with every year, not declining. And so I think almost anybody would hesitate to try to look into a crystal ball and say what the future holds, because every single month there's some new breaking story or item that really calls into question your assumptions from the month before.

> *Matthew Karnitschnig*: The whole industry is in sort of … at a strange crossroads now, and there [are] all kinds of different influences there, and nobody really knows, how things are going to look in five years.

Richard Gershon used an analogy from the 1980s to illustrate the difficulties faced by the media companies in finding a right strategy for those challenges:

> One of the interesting things when you're a company doing media is that it's like called "the problem of being first," because sometimes being the first doesn't necessarily ensure your success…. Sony has been there on a number of occasions--Sony was the first, for example, to demonstrate high definition TV in the United States in 1985 or '86. And by rights they were the first to really demonstrate its possibilities. And even though

> it made a very impressive splash, as far as its possibilities, it would take twenty plus years for high definition TV to really finally take hold in the United States, and today Sony isn't even a player, as far as HD is concerned, in the United States.

Terms mentioned by the interviewees that cause this uncertainty were fragmentation, finding strategies for coping with technology and Internet related challenges, competition, media abundance, declining return per title and channel, saturated domestic markets, and the content's orientation toward the western world. These reasons represent the general consensus among the interviewees about the current challenges in the overall media marketplace.

The responses provided less unanimous opinions when addressing the structure and overall picture of this global marketplace in the near-term future. These differences were not major, however, and focused mainly on particular details of the challenges faced by existing media conglomerates. In addition, Alan Albarran referred to some positive developments in the current environment in terms of gradual improvement in revenues since 2003.

There was also some variation in answers when evaluating the role of New Media companies in shaping the global media marketplace, but there was general consensus that the main challenge is related to two factors, producing content to fragmented audiences and delivering the content in a financially effective way. The particular challenges faced by Bertelsmann and its competitors, especially the established media conglomerates as compared to the emerging media organizations, were identified in responses that formed the second subcategory in this section.

Category II.II. Technology challenges

In discussions with the interviewees focusing on uncertainties, almost everyone acknowledged the difficulty or even the impossible nature of identifying future sure trends in the media industry, as illustrated by some of the responses presented on the previous two pages. There were some potential areas, however, where the respondents saw the media companies focusing their energy and trying to address the challenges posed by technology. In addition to the traditional transnational media conglomerates, prominent New Media companies, Amazon, eBay, Google, Yahoo, were also brought into the picture.

The respondents presented two possible alternatives of how the media marketplace may be influenced by the technology challenge, and those alternatives, producing content for the fragmented markets and delivering that content profitably, are not mutually exclusive. Those two factors identified as key challenges shaping the media industry in the future were described by Bertelsmann's Stephan Sieprath in the following terms:

> Certainly there could be other companies, I mean if you look at two or three years ago, there was no Google or Yahoo joining that kind of the major, let's say the top ten media groups. But nowadays they are, and … certainly one of the trends is that I think they're growing much, developing much more, much quicker and that Internet companies are certainly taking a pie of the market…. I think what we would see is a mixture of old and new economies. I very much believe that in five or ten years time, people will still read books the way they … do these days. They will certainly use media like music. The question is, what is going to be the music source … but they still will use music. And so … I think if you are in the content business, I think you don't need to worry too much about the situation.

Matthew Karnitschnig offered a similar prediction, the importance of content and its online distribution, on future trends. Karnitschnig also identified video content as the key in content, because to him:

> It's clear that … the future growth is going to come in some sort of online-related video sphere. I think that's what we do know, we're going to be … sort of Internet television and … that's why [we see] Time Warner trying to do stuff with AOL, which also it owns. And you have Google doing deals to get the content, and all of these things that are happening now.

This view about the importance of content and finding effective ways to deliver content, especially video content, serves as an example of the relative consensus among the interviewees about the future of the media marketplace. As with the first main category trying to position Bertelsmann strategically among its peers, the general picture with related challenges and opportunities was seen mainly in similar terms. But the opinions differed considerably when asked to evaluate how Bertelsmann will perform in tackling those challenges and grasping the opportunities. The third and final subsection of this chapter presents the participants' responses to the questions asking to evaluate what the future holds for Bertelsmann in the current global environment.

Category II.III. Bertelsmann's future

This subcategory combines the responses from the discussion that asked the interviewees to present their views on how Bertelsmann will perform in the media marketplace with its challenges and current level of uncertainty. As was already emerging from the other main category and its subcategories, the respondents answers did not produce a consensus, but provided me with a dichotomous range where the interviewee working for the company was on the positive end of the spectrum and the *Wall Street Journal* journalist on the side marked by dim colors. Stephan Sieprath's optimism about Bertelsmann's future was, although not in as strong terms, supported by three other interviewees. At least one respondent saw Bertelsmann facing similar threats to those articulated by Karnitschnig, and another pointed out similar potential factors of concern regarding the company's future.

For Sieprath, Bertelsmann's strength in content, particularly publishing, and commitment to media services through Arvato business unit are two main drivers for revenue growth in the future. The same business segments were also brought up by Matthew Karnitschnig as examples of why Bertelsmann is not a well-prepared media company for the future. Karnitschnig's views were, to a certain extent, supported by Robert Picard and Alan

Albarran, who saw Bertelsmann's strong reliance on print as posing challenges for the company.

> *Stephan Sieprath*: The businesses itself, the content business … that's what it's all about. Content business is still a very good business to be into. If you looked at some media, like if you look at Dan Brown, for example, he published *Da Vinci Code* and then three or four other books. He sold some 40 million books, and it doesn't really matter, whether it's going to be a hardcover or a soft cover, or even an e-book, it's still going to be the content that's going to be sold. And I think that is what we are extremely strong in, because we have a lot of creative potential, and our creative artists are the ones that are driving revenue.

> *Matthew Karnitschnig*: I don't think people are going to start reading magazines more than they are now, or they're not going to all of a sudden start subscribing to book clubs, or reading more books than they do. I mean [Bertelsmann has] got some serious issues, and I don't think that they have any answers to them, except that they're looking at Arvato. That doesn't mean that [Bertelsmann] won't be a profitable business, a stable business, but I just don't think that they're going to be sort of a major factor in the global media, or accepted in books maybe, … because Random house is still big and Gruner [+ Jahr].

Alan Albarran noted that during Thomas Middelhoff's leadership, Bertelsmann tried to establish a much stronger presence worldwide and enter into ventures outside the core competencies. But, because some of those New Media ventures did not turn out well, the company replaced Middelhoff and Bertelsmann has not been able to move significantly beyond publishing and this is going to be one of the company's challenges. Nevertheless, Albarran was not as critical as Karnitschnig, because he saw Bertelsmann as still being a very strong company, whose strength in publishing is one of the guarantees that keeps Bertelsmann one of the major global players.

Similarly to Albarran, Robert Picard viewed Bertelsmann as remaining in the top-tier of media conglomerates at least in the near-term future, but being more focused on Europe than other leading companies and having a stronger tie to publishing. However, Picard added a note of caution based on the fact that Bertelsmann is apparently acquisition adverse at the moment, which may limit the company's opportunities in broadcasting and New Media in the mid-term future and push the company into the second tier of global players. But Picard went on to note that while this would be highly undesirable for a publicly funded company, being in a second tier globally is not a terrible position for a privately held firm. Picard also added that strategies can change over time and that the strategies five or ten years from today may be quite different from the current ones.

While three interviewees were addressing some particular threats Bertelsmann faces in the future media marketplace and one of them, Matthew Karnitschnig, was rather critical in terms of looking at Bertelsmann as a media company, Stephan Sieprath from Bertelsmann was not alone in seeing the outlook for Bertelsmann as a media company in a positive light. Richard Gershon, who described Bertelsmann as one of the best-managed media companies in the world, used Bertelsmann's joint venture with Sony in the music business as providing it with a positive outlook:

> I think Bertelsmann will probably take a play out of the Sony handbook as far as how to [make the Internet work financially], because Sony has long understood that if you want to market hardware, you have to sort of tie it with software. There's a value owning both media software as well as hardware properties. Bertelsmann has not historically been in consumer electronics, but I think they understand that they have to have some involvement with hardware, and what form that takes, remains to be seen. But I have a feeling that they're going to get their hands around that sort of thing. And I think … they're well positioned in the years ahead.

Among other interviewees who looked at Bertelsmann's future outlook in a positive way was Everette Dennis, who considered the company as having a "very creative and adroit footprint" in business operations and he was confident that Bertelsmann remains proactive in the global markets, probably just less in the public eye. This belief was also shared by Bozena Mierzejewska, who described Bertelsmann as being "very innovative in the online markets" and saw the company growing at a respective rate with its competitors or even faster.

In summary, the second major category with its subcategories, outlined the respondents' views on the current state of affairs in the global media marketplace, the major challenge faced by all media companies, and Bertelsmann's future outlook in light of those challenges. While the perception of uncertainty in the media industry was widely supported by almost all participants, their responses were fairly uniform in evaluating Bertelsmann's future financial performance. But when it came to evaluating Bertelsmann's future as that of a media company, the prognoses fell into opposing camps. Those findings, together with the results presented in the section addressing the first research question, are discussed in the following chapter.

CHAPTER V

Discussion

Based on the background literature and the results section, this chapter aims to analyze the findings based on the two research questions in two parts. The division into two follows the general build-up of the results chapter, the first part of the discussion looks at the interviewees' responses in light of the literature addressing Bertelsmann's current strategic orientation and the second part of this chapter aims to evaluate, based on those responses, what Bertelsmann AG's future could look like in the current global media environment.

When interpreting this study's results and conclusions, the following aspects should be kept in mind as the limitations of this project. First, as the current developments in the media industry show, any research on the industry focusing on very specific aspects of the global communication environment may become outdated quickly because strategies and market conditions change rapidly. Nowhere is it more evident than with the most recent reports, published only a week before submitting this thesis to the committee in early April, 2006, describing Bertelsmann's potential exit from the music business.

Second, when interpreting the findings and the conclusions based on those findings it has to be remembered that the number of interviewees for this qualitative study was small and the time constraints did not allow for additional member checks to follow-up on the conclusions. In addition, whether the initial findings and conclusions represent a wider understanding of the experts and scholars in the field of global communications and media and industry insiders, can be tested only through supplemental discussions with such individuals.

Acknowledging those limitations, the first section of this chapter discusses the findings in light of Sjurts' (2005) summary on the competition strategies transnational media conglomerates, as outlined in Table 2. I chose to analyze the findings based on this model, because the four categories of competitive strategies of TNMC's provide a good setting to place the framework and the concepts that emerged from the findings. Additionally, the data helped me to position Bertelsmann in the model presented in Figure 1 on the next page, a model I constructed partly based on Sjurts' framework of transnational media corporation management. In broad terms, this model looks at a company in the light of theoretical conceptions about the management of global media companies, whether the growth strategies should be based on aggressive expansion and external growth by seeking stronger integration and cross-unit synergies throughout the organization, or does it seem reasonable to adopt a more conservative and internally oriented path where success is guaranteed by championing and supporting the entrepreneurship of different business units. This model should also serve as a tool for viewing any media company, but Bertelsmann in particular, in a wider theoretical setting of what the desired or preferred approach should be for a media conglomerate, depending on its strategic goals.

A theoretical construct that one can use for identifying a media conglomerate's strategic management and positioning, presented below, is based on the concepts emerging from the literature, particularly from the framework built by Sjurts (2005), to look at and analyze the management strategies of media companies. By looking at the company's positioning in light of this model, I attempted to lay the groundwork for a theoretical construction that can be helpful in building a theory for evaluating media conglomerates' growth perspectives and strategic management steps.

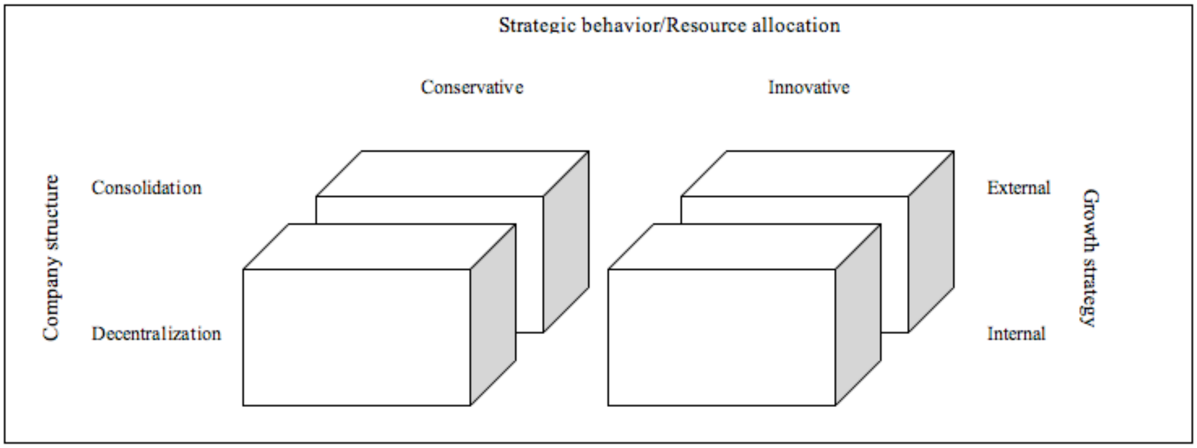


Figure 1. **Strategic positioning of media companies: structure, behavior, and growth strategy.**

The second part of the results chapter analyzes the respondents' answers and the concepts which emerged from those answers in light of the challenges Bertelsmann faces in the future, referred to in the literature review section. The outline of this subsection is similar to the second part of the findings section, as I will address each of the subcategories of category II, Bertelsmann's future in the global media environment.

Remaining a leading actor globally is not the primary objective

To analyze the respondents' views on the strategic orientation of Bertelsmann and whether the company is indicating its intent to remain one of the leading transnational media conglomerates, I looked at the results in light of the competitive strategies summarized by Sjurts. Thus, the following discussion analyzes the findings in light of Bertelsmann's generic strategy, strategic behavior and orientation, and internationalization strategy.

Bertelsmann's generic or base strategy under the current leadership, emerging from the discussions with the interviewees, builds an interesting picture that is a mix of a differentiated and international product portfolio with the strongest position in the company's core markets in Europe, especially in the German speaking parts of Europe. The differentiation is evident through the company's product portfolio and there is a strong emphasis on decentralized management. The great liberty granted to the managers of those business units can be seen as a factor keeping the company financially healthy.

At the same time, however, Bertelsmann, under the leadership of Gunter Thielen, seems to have reduced the degree of importance of product portfolio related strategic management and placed a higher emphasis on the bottom-line figures instead. While financial well-being is vital to all business ventures and the need for "being in the black" was emphasized by all interviewees, there was no single conclusion to be drawn about the implications of the relative conservativism in financial matters. Instead, two different conclusions can be drawn in this regard.

First, "number-crunching" may have been one thing that has kept Bertelsmann successful in the international arena and the level of accountability required from the decentralized business units has resulted in the company being very strong in its core markets. The strength pursued in the core markets, to be a leader and financially successful in every market the company acts in, has resulted in strong performance especially in the European markets and core industry sectors, like publishing and television. Several of the interviewees appeared to indicate that this is the case, that Bertelsmann is exercising a financially solid general strategic approach that is strengthening its position as a successful and leading media conglomerate.

A different conclusion about Bertelsmann's current generic strategy is based on the assessments and more critical statements emerging mainly from discussion with Matthew

Karnitschnig and the written interview with Robert Picard. These statements suggest that Bertelsmann's strategic management is keeping the company somewhat distanced from the global markets. To continue on the lines of such critical assessment, it can be suggested that the critics also agree with the notions about Bertelsmann's financial success and the company's strength in its core business sectors, but that also means pushing the company more into a niche player or a financially successful conglomerate with media assets as opposed to a global media conglomerate. The company can be seen as operating on the sidelines or moving towards becoming a niche player in the sense that Bertelsmann's revenue drivers are publishing with its relatively low margins, a television business in a fragmented European market, and income from business services such as call-centers.

To evaluate Bertelsmann's strategic behavior in terms of it being defensive and reactive to the markets or adopting an innovative approach, the findings suggest that for obvious reasons, economic losses and smaller than expected growth ratios, every major conglomerate is somewhat defensive currently. While defensive or reactive traits are evident, the findings also indicate that Bertelsmann has great opportunities, due to its private ownership and resulting freedom from shareholder pressure, to pursue an innovative strategy or innovative strategies in the global market. Yet, as illustrated by Richard Gershon's apt opinion about the private ownership being both Bertelsmann's strength and weakness, those opportunities are not always used. The external conditions forcing Bertelsmann into being more defensive may, in combination with the nature of the company, have resulted in transforming from an "out of the box" industry leader into someone with less willingness to dive into innovative solutions and taking related risks.

The fact that Bertelsmann is not among the leaders when it comes to innovation is, of course, not a reason to deplore the company's strategic management per se. On the contrary, Bertelsmann's reliance on solid financial accountability and its "down to earth" approach may well reflect its belief of the "problems of being first" and the lessons learned from history where the innovator may eventually not turn out to be the most successful company. Looking at this approach based on the first research question of this study, however, the findings suggest that being one of the biggest media conglomerates is not as important to Bertelsmann as being on financially solid ground.

Looking at the third strategic dimension and evaluating whether Bertelsmann is building its strategy on external or internal growth, it is evident from both the background literature and the discussions with the interviewees, that the company currently gives preference to organic and internal growth ahead of external growth through acquisition. Again, Bertelsmann is not too different in this regard from at least some of its competitors, some of whom witnessed serious setbacks in recent years. But the interviews did indicate that such reliance on operational growth might not be sufficient for achieving the level of expansion of some other global media conglomerates.

Therefore it can be argued that the company may face the dangers of becoming a niche player in a global sense through its reliance on the organic growth in core markets, particularly in Europe. On the other hand, given the difficulties media conglomerates faced after the consolidation stage of the late 1990s and the losses it brought to the shareholders of public media corporations, the apparent strategic choice at the current moment to prefer organic growth is very reasonable. The potential problem here is the fact that with its conservative and reactive strategic behavior, the company may find itself in a disadvantageous position when faced with the challenges of finding new areas for growth in the fragmented and saturated (core) markets.

Bertelsmann has stated as one of its goals to be a market leader in every international market it is active in and several interviewees described the company as the most international company of the leading transnational media conglomerates. Given also the decentralized nature of Bertelsmann, it is reasonable to suggest that the company's strategic orientation continues to be what Sjurts identified as multinational, establishing subsidiaries or joint ventures abroad and following local management strategies in these ventures. A decentralized nature allows the company to be successful in various markets around the world and as the company has repeatedly emphasized the importance of its international operations, the company's strategic management thus clearly indicates Bertelsmann's continued ambitions to remain a leading global media company in this regard.

At the same time, however, Bertelsmann is committed to meeting the targets for profits and the company has a relatively strong orientation towards European markets. As Matthew Karnitschnig pointed out, it is more expensive for Bertelsmann to distribute its content in Europe than it would be to do so in the United States, which is the biggest single media market in the world. Thus, an international strategy of being a leader in every market where the company has a presence may result in further strengthening of the core businesses of publishing, book and music clubs, and TV in Europe. But due to the smaller presence, especially in the sectors with high profit margins, in the United States, this strategy may also distance the company from the global leaders and create favorable conditions for a strong second tier conglomerate.

When looking at Bertelsmann's positioning in terms of the model presented in Figure 1 above, the company's current approach best fits into the "box" of conservative, internal growth oriented strategy and decentralized management. Positioning Bertelsmann or any other media conglomerate into this model does not mean, of course, that the borders are very clear-cut, similar to the borders in the figure. For example, it probably cannot be said about any media company that it is not innovative at all or it looks only for external growth opportunities, or that it doesn't allow its business units any operational freedom. Instead, this model can be used for evaluating the general strategic orientation of a company, while remembering that any single identifying characteristic may be a mix of those dichotomous identifiers.

To sum up the above, the interviewees and the existing literature on the subject suggest that while being one of the top global media conglomerates has been important to Bertelsmann, its primary strategic objective is profitability and leadership in the established core areas of competency. As I have stated multiple times above, those two strategic goals are not mutually exclusive. But depending on the market situation and developments, the primary objective of financial soundness can push Bertelsmann out from the global top tier of the media industry. And according to Robert Picard, being pushed out of the leading group would be highly undesirable for a public company, but it is not a terrible position for a privately owned company.

It remains to be seen in the future when Bertelsmann's and its peers' performance are evaluated from a historical perspective, whether such assessments or suggestions turned out to be true and whether it is possible to use the strategic positioning model for evaluating future success of this or any other media company. For additional speculations and suggestions on Bertelsmann's future that can be reviewed for accuracy in the future, the next section of this chapter analyzes the potential outlook for Bertelsmann with its current strategy.

The future looks promising in financial terms

After suggesting that the orientation Bertelsmann has taken in the global media market is directed primarily towards solid financial results and being a leading global media conglomerate in size is not a target in itself, I will analyze the respondents' views on Bertelsmann's success in the future. This discussion intends to come up with a conclusion, what Bertelsmann's arguably defensive and less innovative strategic orientation means in terms of the company's future performance.

The current great degree of uncertainty, largely present because of the challenges posed by new technologies faced by all media, was evident from both the background literature and the interviews with the people familiar with the industry. This uncertainty is probably also a factor when looking at the findings related to the first research question about the strategic objectives of Bertelsmann. And while some interviewees' conclusions were different from mine in this regard, there was almost unanimous agreement on the part of the interviewees that the way Bertelsmann is managed can be seen as a key to future financial success.

It was almost surprising how participants with different assessments on how to evaluate Bertelsmann's behavior and strategic orientation as a leading transnational media conglomerate, emphasized their belief of Bertelsmann's financial success. In light of a period of uncertainty about the future that, according to the background literature and expressed by the interviewees, is the greatest in decades, there was a remarkable unity among the interviewees in evaluating Bertelsmann's outlook. In short, therefore, the answer to the second research question is firmly positive. In other words, the interviewees strongly indicated that Bertelsmann is managed in a way that has a high potential for producing favorable results in the current global environment.

In addition to the general belief regarding Bertelsmann's outlook, there are a few things to note that relate to such financial success. First, and this relates back to the findings under the first research question, compared to its peers, Bertelsmann's strength lies traditionally in sectors with lower margins and in smaller, more fragmented markets compared to the U.S. conglomerates with strong presence in the United States. This in turn may mean that Bertelsmann will be underperforming in terms of market expectations for growth, as compared to the other global conglomerates. But again, referring to Robert Picard's notion, being potentially pushed into the second tier of media companies in terms of size is not a terrible position for a private company at all.

The second observation from the interviews is the relative unity in evaluating Bertelsmann's readiness to face current challenges and find successful business models. With the exception of generally critical Matthew Karnitschnig, other interviewees suggested that Bertelsmann's uniqueness and good management practices have prepared the company well for facing the challenges in the sectors it is operating. The best example to support this argument is a thought expressed by Richard Gershon who saw Bertelsmann being ready to learn the lessons about how the others in the industry have succeeded. Several other interviewees also expressed Gershon's belief and this indicates that Bertelsmann is at least by this group of interviewees seen as being able to develop successful business models in the sectors it is active in.

In light of its readiness to meet the general challenges faced by the media, and this has mostly to do with challenge posed by "disruptive technology," as labeled by Ann Hollifield, Bertelsmann's competitive outlook in this regard can also be addressed. Several interviewees referred to the challenge posed to traditional media conglomerates by the New Media companies, whose competencies lay mainly in infrastructure and distribution of the content at the moment. However, nearly everyone agreed that future success will still depend on the quality of the content and therefore the media conglomerates must find ways to deliver that content to the audiences. In the case of Bertelsmann, there again seemed to be general consensus in that the company will find the most financially effective ways to deliver its creative products to the consumer.

It was somewhat surprising, how positively most of the interviewees saw the outlook for Bertelsmann given the prominence of skepticism in the secondary sources, especially in the news media, when discussing the global media conglomerates' future in light of the challenges posed by the marketplace. Possible reasons why the interviewees had such a positive conception may include Bertelsmann's solid financial performance throughout its history, relatively strong performance compared to some other media companies in recent turbulent years, and the company's private status and the lesser degree of scrutiny it may have attracted from observers compared to the publicly traded media conglomerates. It can also be a combination of those reasons related to the fact that despite a high degree of uncertainty, the global media industry's financial health is somewhat improving compared to the turn of the century and therefore the outlook of a historically strong and profitable company was also seen in positive light.

Conclusion and suggestions for further research

The dominant theme emerging from discussions with a small group of experts in the field suggested that Bertelsmann's current strategic positioning illustrates the company's strong commitment to its core markets and industry sectors. Another theme emerging from the literature and the interviews is the company's emphasis on organic growth and Bertelsmann's strong decentralized business culture. In the model I constructed during this study, presented in Figure 1, Bertelsmann is placed as a conglomerate that is internal growth orientated; the company is decentralized, and has a predominantly conservative business strategy.

The findings also suggested that Bertelsmann, declaring itself as aiming to command the leading status in the markets it operates, is not primarily targeting to remain in the top echelon of global media companies if retaining this position results in weaker than desired financial results. That conclusion led the way for evaluating the future outlook or speculating on the outlook and the experts helping to conduct this study saw the future for Bertelsmann generally in positive terms. On the other hand, while the future was seen as positive in regard to the financial health of the company, the interviewees' opinions were not consensual in evaluating whether financial strength to a considerable extent in industry sectors with lower margins and with more exposure to fragmented markets in Europe would be desired for other companies with different characteristics, mainly companies that, unlike Bertelsmann, are listed on the stock markets.

The findings of this study indicated that given the current degree of uncertainty facing the media, it is extremely difficult to assess what strategic approach could be the best generic recommendation for the media companies worldwide. Similarly there was no clear-cut recipe emerging from the limited number of interviews that would be helpful in analyzing the degree of success media companies achieve in their quest for a winning strategy. However, the discussions with the experts provided a consensual view on Bertelsmann's future outlook in that the company appears very well positioned and managed to deliver solid financial results. But there were also thoughts expressed by the interviewees that the current approach may result in Bertelsmann's future growth being outperformed by media conglomerates with better exposure to industry sectors with higher profit margins and a stronger presence in the biggest single media market in the western world, the United States.

On the other hand, it may be possible to look at privately owned Bertelsmann as a strong media conglomerate that has managed to keep the company profitable during the turbulent years of the early 21st Century with a strategic approach that considers strength in one's core competency areas, individual decision-making power at the business unit level, and solid financial results being superior to the mere size of the company. Those characteristics were also a basis for placing Bertelsmann in the model constructed for this study. It remains to be analyzed in the course of future research, whether a strategy carrying those characteristics, internal orientation, decentralized management, and a conservative approach to resource allocation, turns out to be a winning one in an environment where the media is struggling to come to terms with challenges posed by the revolutionary developments in technology. Thus further research should be conducted to assess whether the model constructed for this study may be used effectively in positioning any media company in terms of its strategic orientation and whether this positioning is helpful in speculating over the future potential of those companies.

With all of the results presented in the previous chapter and the discussion based on those findings, it must be remembered that all but one of the interviewees were people evaluating the questions about a particular company in the global media marketplace as outsiders. Additionally, the questions asked the interviewees were often general in nature, because of the way the research questions were stated and because most of the interviewees' specialization was not Bertelsmann in particular, questions related to specific aspects of Bertelsmann's management and growth opportunities may have been left unasked and may thus not be reflected in the results. Those questions could be partially answered through follow-up member checks to test whether my interpretations of the interviewees' answers fully reflect the idea conveyed. As such member checks were not conducted due to time constraints, this acts as a major limitation in interpreting any of the findings and should be considered as terminus a quo for further research on the subject.

Appendices

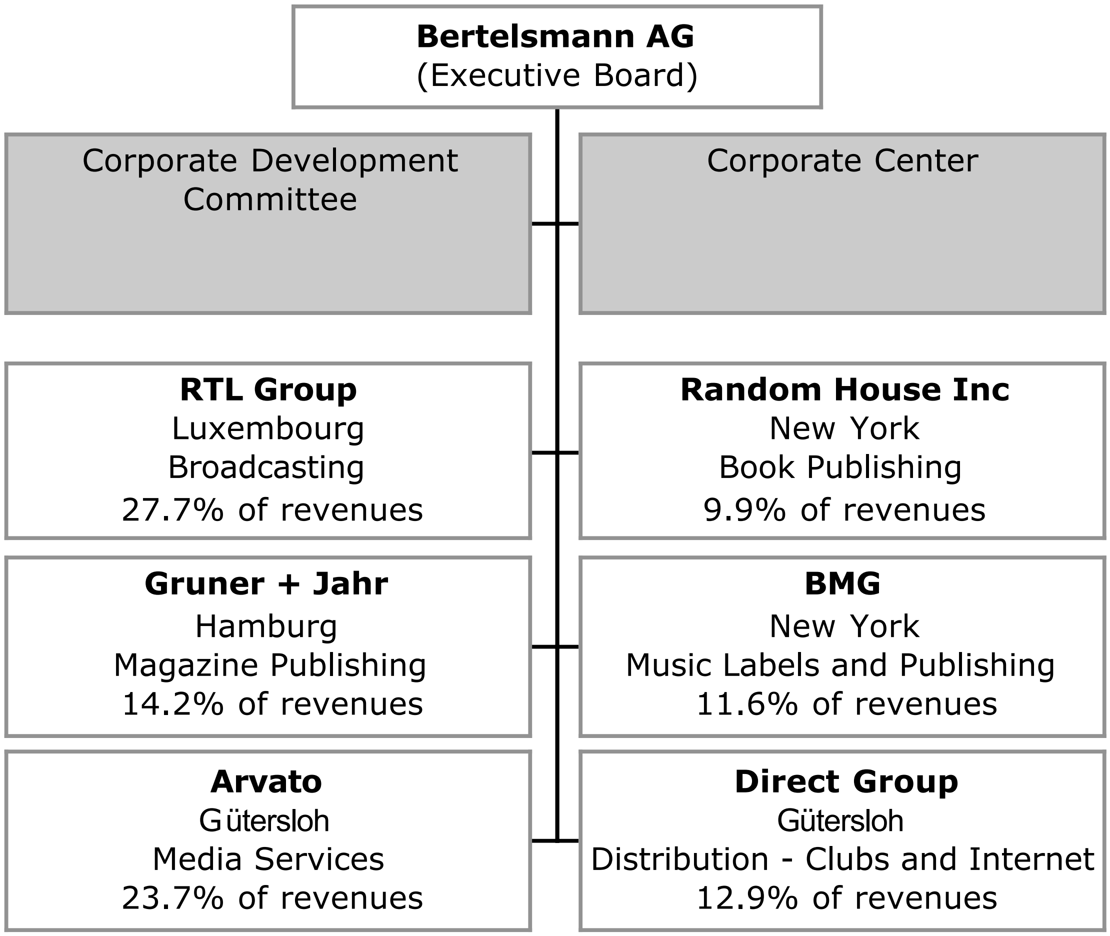
Appendix A. German firms' investments in the U.S. 1980-2005

Year	New investment in $ millions
1980	1,777
1981	1,687
1982	1,259
1983	1,325
1984	1,182
1985	2,148
1986	5,315
1987	4,326
1988	5,288
1989	3,839
1990	4,681
1991	5,237
1992	4,988
1993	2,995
1994	3,819
1995	9,912
1996	9,069
1997	8,797
1998	40,586
1999	20,028
2000	27,697
2001	52,060
2002	21,366
2003	12,285
2004	12,637
2005	6,127

Source: *Deutsche Bundesbank*

Note: Until the end of 1998, the German Bundesbank presented data in German Marks (DM), from 1999 the data are given in euros (€). For purposes of comparison, yearly investment in US dollars is calculated by using the following year's first bank day's (i.e. January 2, 1998, for the year of 1997) the official exchange rate as published by the Deutsche Bundesbank and the European Central Bank respectively. While this calculation is an artificial creation by the researcher, it nevertheless gives an indication of the direct investment amounts.

Appendix B. Bertelsmann's organizational structure



Source: Company Website, Annual Report 2005
Note: The share of divisional revenues from the total revenues is shown before corporate consolidation.

Appendix C. Phone interview script

First, after initial formalities, ask the interviewee to sign the consent form if you are meeting with that individual in person. If the signed consent form was obtained via fax or in mail and the interview is conducted over telephone, remind the interviewee that he/she has signed a written consent and agrees to be a participant in this study. Then start the recording device or remind the interviewee that the phone-call will be recorded and follow these steps:

- State the name of the interviewee, the date, location (if applicable), and the starting time of the interview.
- Ask questions related to demographic and professional background of the interviewee:
  - Brief overview of professional career and main research interests.
  - Present position and professional or academic specialization.
- Ask the interviewee to describe in general terms, what type of research has he/she done or is doing in the field of media management and global media economics. Ask him/her to discuss briefly the main areas of interest.
- Ask the interviewee to describe in his or her own words, how could one describe the global media landscape, who are the major players in this area, what particular characteristics (if any) could one attribute to these major players, and what (if any) general trends one could identify in global media environment currently and during the last few years.
- Ask the interviewee to tell you in his or her own words, how familiar is he/she with Bertelsmann AG in particular and its operations worldwide, and Bertelsmann's strategic position in global media landscape.
- If the interviewee did not mention change in leadership in Bertelsmann in 2002, ask if he/she is aware of this fact. If yes, then ask him/her to describe in own words what may have been the reasons behind this change and how have these changes reflected in company's position and performance within the environment it operates. If the interviewee is not aware of this change, inform him/her about some of the reasons stated for the departure of Thomas Middelhoff in news media, academic literature and corporation's own published materials.
- Ask the interviewee, if he/she is familiar with the strategic statements made by Bertelsmann AG after 2002 that reflect company's decision to drop further aggressive expansion plans and focus on core business. If the interviewee is familiar with such goals, ask him/her to evaluate the perspectives of such strategy and inquire, whether the interviewee can evaluate, whether the change in strategy has already produced some results. Ask him/her to evaluate also those results.
- Ask the interviewee to evaluate following statements:
  - Relying on organic growth perspectives in Bertelsmann's core business and only careful expansion through mergers and acquisitions are sufficient to ensure company's successful development and financial well being and the company is in no danger to become a global niche-player.
  - Bertelsmann holds such substantial competitive advantages--that are executed in an efficient way--in its core business segments that even abolishing aggressive expansion strategies will not affect its position as one of the leading media companies.

- Ask the interviewee to discuss, how do Bertelsmann's management strategies since the departure of Thomas Middelhoff compare to other global media conglomerates. Ask the interviewee to find remarkable differences (if any), similarities; what may be the reasons for such similarities or differences; how will those similarities and differences reflect on companies' performance in respect to their peers?
- If the interviewee has not yet touched in detail the impact "dotcom" boom may have had on the departure of Bertelsmann's former CEO, ask his/her views on how the expectations and development plans related to new media may have contributed to the leadership change. Be sure to ask, whether those decisions made in the end of 1990s during boom and beginning of 21st century right after the bubble burst do seem justifiable considering the time they were made and also looking those decisions at present time.
- If the interviewee has not brought up the issue of ownership, ask if he/she is aware of Bertelsmann's private ownership and if this has any considerable effect on company's strategic management and performance. Be sure to ask the interviewee to explain specifically, how one factor or another related to ownership may influence the performance of a company and distinguish privately held company from publicly owned firm.
- Ask the interviewee (unless he/she has done so already), how would he/she evaluate Bertelsmann's current management strategies compared to the strategies advocated by the previous CEO and current strategies' influence on company's position in the market. Be sure to inquire, what factors may change interviewee's opinion or evaluation, and what possible internal or external factors may trigger any such scenarios.
- Ask the interviewee if there is any other issue he/she would like to address regarding the topic covered, either in particular or in general terms. Depending on the answer, continue discussion on the subject or thank the interviewee again for contributing to this research. Also remind him/her once again that while you're transcribing the interview by him/her and by other participants in this study, or while you're analyzing the data gathered, you may contact him/her again for clarifications and potential follow-up questions.

Appendix D. List of categories

Cat #	Category description	Main/ Sub I/ Sub II	Example
1	Top-tier global media conglomerates	Sub I	AA: Pretty much the global landscape is dominated by seven companies.
2	Global New Media companies	Sub II	MKe: I think it's unlikely that Google will ever develop really significant content competencies…. They have obviously a dominance of the Internet and a dominance of a lot of distribution architectures and I would imagine probably there'll be just alliances with people supplying the content.
3	Bertelsmann is unique among top-tier conglomerates	Sub I	AH: Bertelsmann in my view is … a fairly unique company in that pantheon of true global behemoths.
4	Bertelsmann is privately owned - positive	Sub II	RG: When you are privately owned, you have a certain level of control, as far as your business decision-making, that's not true for a publicly traded company.
5	Bertelsmann is privately owned - negative	Sub II	MKa: I don't think [Bertelsmann has] the financial muscle to do the kinds of deals that are going to be necessary to create … the kind of growth that they've had in the past going forward.
6	Bertelsmann's current performance	Sub I	BM: I think [Bertelsmann] still [has] a solid vision, where they are going.
7	New Economy - opportunities	Sub II	RG: Bertelsmann … dived in fairly early into the Internet communications as far as seeing value in being part of that.
8	New Economy - downturn	Sub II	MKe: [There] was a huge turnover of the big media companies chief executives … and a lot of them it was to do with the fact that it had got just over exuberant in the Internet era.
9	New Economy - cost reduction in Bertelsmann	Sub II	SS: Because of the downturn starting in 2001, we were, like any other major media company, we were kind of having our cost reduction programs.
10	Bertelsmann's current Internet strategy	Sub II	BM: It looks like [Bertelsmann takes] the new technology with all the potential and integrates it to their core business.
11	Bertelsmann's decentralized management - positive	Sub II	SS: Decisions are made very quickly and that is … very helpful.
12	Bertelsmann's decentralized management -	Sub II	SS: Of course, if you have decentralized company, there is the potential that they do sometimes compete with each other.

	negative		
13	Future developments in the media	Main	SS: The business itself, the content business … that's what it's all about.
14	Current trends in the media industry	Main	MKe: obviously technological change and the need to respond to the technological change is, I would say, is one of the big [trends in media industry] right now.
15	High degree of uncertainty in the media industry	Sub I	AH: Certainly right now the industry is experiencing a high degree of uncertainty about the future, including in some of their most profitable and core businesses.
16	The media industry is very complex	Main	AH: The global media marketplace is much more complex than is usually acknowledged in discussions of it.
17	Meta-strategies of top-tier media conglomerates	Sub II	AH: I can identify clear, or what appear to me anyway, clear meta-strategies that the companies, by and large, are pursuing.
18	Technology challenge - unpredictable	Sub I	AA: This whole iPod phenomenon is fascinating to watch, because it's just another extension of you and I and other consumers now having control of when we want to access content.
19	Reasons for Middelhoff's departure	Sub II	RP: [Change in Bertelsmann's leadership primarily] resulted from conflicts between the company culture and Thomas Middelhoff.
20	Bertelsmann's future performance	Sub I	RP: [Bertelsmann] still remains a leading global player, certainly in the top tier of players, but is more focused on Europe than other leading players and has a stronger tie strategically to publishing.
21	The importance of Bertelsmann's corporate history	Sub II	MKa: [Middelhoff's] strategic moves tended to diminish the role of the traditional core publishing and music activities, which provided the bulk of the funding for the firm.

Key to names: AA – Alan Albarran
AH – Ann Hollifield
BM – Bozena Mierzejewska
ED – Everette Dennis
MKa – Matthew Karnitschnig
MKe – Marian Keynes
RG – Richard Gershon
RP – Robert Picard
SS – Stephan Sieprath

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