

The Growth and Development Of New and Young Media Firms

Alexander McKelvie

Whitman School of Management
Syracuse University

Robert G. Picard

Jönköping International Business School

The secret is out. New and young media firms are no longer merely gadflies disturbing the large, “serious” media actors. New and young media firms have a significant impact on the media sector, perhaps more now than ever before. The opportunities for new entrants and promises for growth of these new firms are growing exponentially as national protectionism decreases, customer demands fluctuate, and new technologies appear. The traditional giant media firms no longer operate in supplier-driven national and local markets, maintained by domestic public policies and natural market limits, in which competition is constrained and consumer choices limited. The stability, relatively easy profits, and managerial simplicity that once existed have disappeared and media enterprises and their managers are now faced with highly competitive and disorderly markets that are driven by fickle consumers and that require thoughtful, decisive, and agile management and degrees of entrepreneurship absent in many media firms for many years (Picard, 2004).

Today, however, information and entertainment functions of established media are being offered through new types of content distribution and users are substituting the contemporary forms. Technological changes are making users more active participants through electronic games, self-created content, and new forms of social communities. These developments are creating enormous pressures on the longstanding business models of well established media. Consequently, existing business models and value chains no longer offer the opportunities for growth and reward that existed previously.

The number of firms offering media products has dramatically increased as economic and technical conditions and public policies have promoted new content providers. Technological changes are now allowing content to migrate from its traditional distribution systems and

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dedicated content receivers and players to multiple types of hardware, thus increasing the availability of content. Today radio is no longer merely a terrestrial broadcast medium but a satellite and Internet medium as well. Motion pictures and television programs are downloaded and streamed via broadband to computers, television sets, and handheld devices, as well sold as DVDs. These technologies give consumers more choices about what content to consume and when, where, and how it is consumed.

The technological advances have also led to the emergence of new producers of content that are not driven by the organizational motives of established media firms but are adapted for use in the new distribution systems. These individuals produce for a variety of motives: self expression, art, leisure activity, notoriety, and financial reward. Much of their material is available at no cost as “consumer created” content and is attracting increasingly large audiences as its technical, aesthetic, and entertainment quality improves.

The difficulties faced by individual broadcast channels or publications have led media companies to create and operate portfolios of media products designed to appeal to and serve small audiences (Picard, 2005). The proliferation of targeted television/cable/satellite channels is one example of this practice and many now have different channels aimed at urban and rural audiences, children, minorities, music lovers, sports fans, high news users, classic movie buffs, etc.

Despite the growth of portfolios and large media firms, the strength of the companies is eroding. Today no media companies are in the top 500 firms worldwide and the reach of media companies is declining even though they have grown bigger. Each has less of each viewer’s, readers’, and listeners’ attention than in the past. The power of newer media firms is overtaking that of more established media. Google’s market capitalization is significantly greater to that of largest “traditional” media counterpart, Time Warner (Economist, 2006).

Underscoring all of this is a fundamental power shift in communications. The media space was previously controlled by media firms; however, it is today increasingly controlled by consumers. It is no longer a supply market but has become a demand market. This is accentuated by the fact that financing of contemporary initiatives in cable and satellite, TV and radio, audio and video downloading, digital television, mobile media are based on consumer payment model. Today, worldwide, for every dollar or euro spent on media by advertisers, consumers spend three (PriceWaterhouseCoopers, 2005). The end result is that media industries are becoming more market oriented than they were in the past.

Many of the changes have been initiated by new firms that entered the media arena and brought with them innovations in products and processes that have shaken existing players, forcing them to become more customer focused. The entry of new firms has occurred in all branches of the media industry in the past two decades and the pace of

entry does not seem to be subsiding because technology and policy continue to create new opportunities domestically and globally.

The appearance of those new firms has been particularly important in creating new competitive spaces and altering markets of established media (dal Zotto, 2005), in inducing some pre-existing media firms to reconsider their strategies and products (Picard, 2004; Aris & Bughin, 2005), and in making some pre-existing firms more entrepreneurial, renewing their businesses by expanding the scope of their activities through corporate venturing or mergers and acquisitions of innovative young firms. The acquisition and subsequent integration of young enterprises, their cultures, and their practices, however, has created conflict within some established media firms because their traditional organizational structures were designed only for organic growth and to accommodate the strong process orientations required for continual production and distribution of a single product.

Most pre-existing media enterprises show significant division of labor spread among relatively autonomous departments, with coordination provided by strict adherence to established policies, procedures, and hierarchy. The continual flow and volume of work has been synchronized with organizational capacity and organizational cultures are characterized by an inward focus on the organization and its activities rather than on products, consumers, and markets. These structures, orientations, and processes often conflict with the entrepreneurial approaches of younger firms, making it difficult for established media firms to gain full benefits from the assimilation of such firms and making them more vulnerable to competitive young media firms.

The new environment and the changes driving it produce consumer benefits, however, by increasing content and content choice, increasing choice among suppliers, restraining or lowering prices, and improving products and services provided. They also provide advantages to established companies and the industry itself by introducing efficiency, promoting the introduction of new products and practices, and making media enterprises more customer-focused.

INTRODUCTION TO THE SPECIAL ISSUE

This fundamental change in media and growing opportunities for new firms provided the impetus behind this special issue of *Journal of Media Business Studies* that Alexander McKelvie was asked to edit. One key concern, at least from an academic perspective, was that there was a dearth of research examining these issues. While some attention has been paid to entrepreneurial activities within large media entities (Hang & van Weezel, 2007), such as the development of a portfolio of media products and corporate venturing, scant attention has been directed towards independent startups. However, many new and young media firms, such as YouTube, Facebook and Skype within new media and

Pixar, Metro, and XM in more traditional media, have fundamentally resculpted the media landscape. These firms are now all household names. Perhaps more importantly, they have built such value-creating business models and innovations that the big players have been forced to act and react to in a serious way. The purchase (for an obscene price nonetheless) of some of these firms by more established players is one clear example of this. Lesser known young media firms are also taking central roles in driving new innovations to market and challenging incumbents in different ways.

Despite the importance of these new ventures to media consumers and media industries, they have been the focus of relatively few scholarly studies. There is also a clear absence of material about business renewal, new firms, growth, and entrepreneurship in the teaching literature of media management. The contributions that are being made by this special issue of the *Journal of Media Business Studies* are thus highly significant and important to the development of scholarship.

The papers included in this issue were first presented at a workshop sponsored by the Media Management and Transformation Centre and held in late March 2007 in Jönköping, Sweden. Each of the articles included in the special issue help shed light on important aspects of the growth and development of new and young media firms. Together, they show that the performance of new and young media firms is dependent on a large number of internal and external factors. The first three papers look at internal aspects of new venture development, and examine capabilities, partnering strategies, and managing alliances respectively.

The study carried out by Davis, Vladica, and Berkowitz focuses on the development and deployment of capabilities in a novel setting—the independent producers of children’s television programming in Canada. The authors apply the Davidsson and Klofsten business platform model to understand what capabilities are necessary and when in driving firm growth. Their findings help to understand the market and internal challenges that need to be overcome in order to grow within this highly competitive market.

Dubini and Provera turn their attention to the music industry and, in particular, the role of independent newcomers. This is an important unit of measurement of analysis as this industry has historically been dominated by the major record labels. Dubini and Provera find that the new, independent firms primarily engage in finding new talent—but generally do not have the same success as the majors. However, the developing organizational form of partnerships, where independent firms team up with established majors, is only successful when it involves bringing new talent to the forefront. The implications of this are that there are still ways for independent firms to be successful—at the same time as adopting a more open approach to managing their relations with larger incumbents.

Thirdly, the Bouncken, Lekse, and Koch article deals with an imperative aspect of overcoming liabilities of newness in a dynamic

market. In particular, they look at managing alliances and relationships in order to develop innovative content in the new media industry. Their study sheds new light on how firms can better manage their alliances in order to acquire and utilize new knowledge that is imperative for new product development.

The fourth paper, by Raviola and Dubini, changes focus from the internal aspects of the firm and examines the changing roles of incumbents and newcomers in the face of an architectural innovation. Their study of the Italian music industry's adaption and adoption of digital music technology shows that there are varying options and opportunities available to both newcomers and incumbents. They show that one key aspect, which is commonly overlooked, is that cooperation—not competition—between firms is useful for overcoming potentially sustainability-threatening changes to the market. Furthermore the observation that firms need to invest in developing complementary assets, not necessarily core assets, is a pre-condition for adapting to external changes, contributes to our knowledge of how new firms can overcome external shocks.

Finally, Achtenhagen provides a case study of an innovative startup in more traditional media. While the very few studies looking at new firms in media—both in terms of the 'media darlings' and academic studies—has been clearly set on young firms in the 'new media', start-ups in traditional media do exist. Achtenhagen argues that there are a number of reasons why researchers have ignored traditional media but that entrepreneurial ventures can and do still prosper despite the odds. Moreover, she shows that many of the 'traditional' factors of success still apply for start-ups in traditional media industries—such as building alliances and diversifying, but at the same time as carving out a specific market place, including stirring up emotions and balancing commercial and non-commercial motives.

MOVING FORWARD

The studies included in this special issue clearly contribute in their own way to our understanding of the drivers and issues involved in the development of new and young media firms. Nevertheless, there remain a number of key opportunities for future media research to exploit:

- 1) Novel theory generation concerning the new era: What is novel about media firms? This is an important historical question that has spawned a number of answers. But perhaps more importantly, at this stage of development of the field of media management, a more appropriate question is what can more established fields, such as management, learn from media firms? What currently is different and valuable to the broader management field is that the types and pace of innovation in this field are idiosyncratic to media – especially in the sense that the average consumer is directly affected by these

innovations on a daily basis. Relative to highly technology- and knowledge-intensive industries, such as biotech, innovations in media are centered on the public, not other scientists. And, in many cases, these media innovations are created by the public. The advent and popularity of user-driven content and consumer-lead product innovation surely is different than what is going on in other industries. These innovations are the source of frame-breaking changes to the entire industry, and in some cases, even helping to spur new industries. Furthermore, these developments do not appear to be well explained by extant theoretical frameworks (Handke, 2008).

One natural opportunity for media management to provide new theory is by examining the issues that are most inherent and confined to media firms. The new opportunities developing within the field, and the subsequent creative products, business models, and industries developed in response to these, provide the empirical scene from which novel theory can be generated. There appear to be a plethora of valuable questions relating to creativity, opportunity recognition, and radical innovation that seem ripe for the taking.

2) What is growth for a media firm? The issue of “growth in terms of what” was implicitly dealt within each of the included papers. Yet, this was not explicitly discussed despite the fact that questions relating to the dependent variable of growth remain fundamental to understanding the motives and performance of new and young firms. Media firms are not always commercial-at-any-expense entities, but rather balance commercial and creative aspirations (Küng, 2007). The mainstream Entrepreneurship literature has traditionally espoused financial or organizational metrics, such as profitability, sales growth, or the number of employees (see Delmar, Davidsson & Gartner, 2003 for a review). However, the recent sale of a substantial portion of Facebook to Microsoft shows that financial measures of growth may not be as germane for media firms. While the financial performance of Facebook appears to be anything but special, the number of registered users and potential for future users seems to be the key metric appreciated by Microsoft. Other acquisitions of new firms, even within more traditional media, seem to be based on varying non-financial performance measurements. In these cases and others, the number of hits, downloads/uploads, deliveries, or even level of satisfaction of the limited number of niche customers may seem to be more viable instruments for understanding how and why new and young media firms grow than mere financial performance.

In a related vein, attempting to unlock the relationship between certain factors and their impact on the *type* of growth appears to be a natural extension. For instance, the same factors that help lead to further downloads may be different from those that lead to registered users or increased financial performance. While the entrepreneurship

literature has begun to realize that growth is not a homogenous phenomenon, there remain few studies that compare and contrast differing performance metrics, especially in the media context.

3) Moving towards increased generalized findings: One challenge that remains is the ability to generate generalized findings and theory about new and young media firms. Indeed, the development of the field of media management is at least partially due to the fact that scholars felt that the extant management theories tend to oversimplify or disregard issues that media firms face (Küng, 2007). The result is that the majority of studies examine single industries, defined either broadly (e.g. new media, the music industry) or narrowly (e.g. the Canadian children's television programming industry). There are only a few studies that examine cross-industry issues (e.g. McKelvie & Wiklund, 2008). This is odd considering that media industries—perhaps more than other industries—are considered to have blurred boundaries or subject to convergence (Albarran, 2006). In any case, the result of generalized findings has led to fragmented theory (Habann, 2008) and little impact of media management studies on other fields of inquiry.

A key opportunity for overcoming this challenge is to re-consider some of the key methods involved and their appropriateness in answering particular questions. Naturally, questions relating to developing novel theory may be most suitable for case study and exploratory qualitative studies (Doyle & Frith, 2006), but large-scale survey-based research may be most appropriate for testing theories, especially across industry boundaries (McKelvie, 2007). A natural preference of these types of studies would be to examine these issues over time in a longitudinal manner, so that the effects of age and time can be captured. As a central argument for studying new media firms is that their environments are fast-changing, it is a given to try to capture how this dynamism affects these firms and their subsequent growth over time.

We are witnessing a media revolution. The new and young media firms are key actors in this revolution. The articles in the special issue help us understand how and why these firms are able to achieve as much as they have.

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