**JOMC 551.01**

**DIGITAL MEDIA ECONOMICS AND BEHAVIOR**

**Fall 2014**

**12:30 to 1:45 p.m., 283 Carroll Hall**

**Tuesdays and Thursdays**

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**Course Description**

We are living through a period of immense economic disruption in the media industry. The creation of the Internet and all that it has wrought – interconnectivity, immediacy – set in motion the destruction of the business models that have supported traditional news organizations such as newspapers, broadcast television and radio for decades. This course begins by examining the broad economic issues facing the media industry – including the changing dynamics of consumer behavior, pricing, market segmentation, economic cycles and global competition. In the second half, we will focus more specifically on the challenges and opportunities for specific industry segments, including newspapers, magazines, broadcast, cable and online.

While the primary focus of this class will be on the changing economics affecting 21st century news organizations and traditional media, we will also study the economic drivers of other content providers – such as music companies, movies, online aggregators and commerce sites – for lessons that can be applied across industry segments. This course is designed for future journalists (regardless of the medium in which you “distribute”), as well as for students focusing on advertising, marketing, digital management and strategic communications. With a foundational understanding of the media landscape and the broad economic issues affecting it, students should emerge with a framework for better assessing future opportunities and risks of business enterprises and innovations they will work for, write about, compete against or create themselves.

**Course Objectives**

This course is designed to teach you:

* **Basic concepts in business and economics,** especially as these relate to the media industry**.** You should emerge with a working proficiency in the “language of business and economics” as it applies to all types of industries. You should be able to recognize the basic terms and concepts used in the fields of accounting, finance, marketing, strategy, macroeconomics and microeconomics – and you should understand how to piece together information from all these disciplines to get a high-level picture of an industry or a company. By the end of the semester, you should feel very comfortable reading and comprehending all articles – regardless of whether the focus is on marketing or finance – in business publications such as *The Wall Street Journal, Financial Times* and *Bloomberg Businessweek.*
* **Basic knowledge of individual media companies, their leaders and the various top-level strategies each is pursuing.** You will gain a foundational understanding of the media business and of the specific challenges facing some of the largest and best known traditional and entrepreneurial companies – ranging from *The New York Times* to Google and LinkedIn. Early on, you will select a publicly owned media company to follow closely throughout the semester, analyzing and reporting to the class on both the short-term and long-term strategic decisions that company has made – or makes during the semester. You will learn the basics of how companies are “valued” by the market (the company’s shareholders), and why the market reacts in a certain way to a company’s reported financial performance, as well as major news about mergers and acquisitions, or downsizing.
* **How to analyze the business strategy of a media company.** We’ll begin class using a simple strategy template that asks these three basic questions: Who are we? Who are our customers? Are we in a cycle or a cyclone? Next, we’ll examine the financial statements of a specific media company and learn the difference between cash flow and net income, for example, and how these line items affect a company’s strategy. *Yes, you will be expected to do some basic business math, such as figuring percentages and comparing year-over-year trending of various line items on financial statements.* After learning the financial basics, you’ll then feel capable of researching a company by using both industry research reports, as well as media analysts’ assessments – both of which are available through the Park Library.
* **How to tackle real-life business decision-making.** Through in-class discussion of assigned case studies, most of which are published by the Harvard Business School and “ripped from the headlines,” we will focus on recent business decisions made by executives in media companies. In the first half of the class, we’ll focus each week on only one company – dissecting the strategic choices available to the company and analyzing the pros and cons of how the executives reacted. In the second half of the class, you will have the opportunity to make in-class “board presentations.” With your fellow classmates and guests acting as members of the board of directors, you will assume the role of SVP of Strategic Planning and present your recommendations for a specific company, based on the assigned case studies.

**Course requirements**

Students are expected to attend class and actively participate in discussions, roughly half of which will be based on pre-assigned case studies. Typically, a new topic will be introduced by a lecture based on a reading, followed in the second class that week by discussion and analysis of a case study about a specific company. The case studies are chosen to give a sense of reality and grounding to broad economic concepts. **Students should read assigned texts as instructed in the syllabus and come to class ready to volunteer insights and perspectives.**

In addition, students should regularly read *The Wall Street Journal* and *The New York Times* business section– and come to class prepared to discuss breaking news of start-ups, acquisitions and mergers in the media industry. You can find quick access to these links as well as information on reserves and other class readings and research reports on Sakai.

In addition, on Sakai, under the section entitled “Resources, Week 1 Readings” I have posted advice and comments from students who have previously taken the course, with suggestions ranging from how to use *The Wall Street Journal* to the value of the assigned readings.

**Grading and assignments**

Grades are based on written assignments, including a final paper, as well as your class participation. Because this is new material for many of you, I weigh the final grade more heavily toward your demonstrated progress during the semester and diligence in mastering the course material. Therefore, it is possible to make up a low grade in the first part of the semester by coming on strong in the final half. In addition, throughout the semester, I try to offer several extra credit opportunities. Taking advantage of the extra credit opportunities allows you to demonstrate your commitment to the course and to building your skill set. Here’s how the grading is figured:

Class Participation 20%

Homework Assignments 20% (due Sept. 2, 9, 16 and 30)

Midterm 20% (due by 2 p.m., Oct. 14)

Final Paper (10 pages) 40% (5 p.m. Wednesday, Dec. 3)

**Class Participation (20%):** In order to receive a good grade in class participation, you need to attend regularly and be attentive. You can only participate in a constructive way if you come prepared, by reading the assigned material as well as the cases. I realize that it may be difficult for some of you to speak up in class – at least initially. So, I try to divide the class into small discussion groups whenever possible so that it will not be as intimidating. On the other hand, if you are not prepared and haven’t read the case or assigned material, your lack of preparation is much more apparent in a small group to your classmates and me.

In addition, for those of you are an initially shy, there will be plenty of opportunities to participate via the discussion board on Sakai. There will be two standard questions for each week this semester: What’s in the News? (in which you are encouraged to post significant stories about the media company you are analyzing or about topics we are discussing in class) and What Did You Learn This Week? (in which you are encouraged to share any “Aha” moments you encountered in either the readings or the class discussions). In both instances, I am more interested in the quality of your posts, than quantity.

On Sakai resources, inside each week’s folder is a guide page where I have posted important quotes from the readings, along with learning objectives, for each week of class. In addition, once a week, class notes will be posted into their respective week’s folders to supplement these learning objectives. I will produce the notes for the first three weeks, and then assign this task to one of you. You should expect to have this assignment at least once during the semester. This suggestion of having students post their notes on a rotating basis actually comes from other students who have taken this course. It builds on the notion that you learn best from your colleagues – and it also reinforces the notion of collaboration with your colleagues, which will be so important to your success in the business world. I will post a separate sheet explaining how to produce the notes.

Get the most out of this course! Resolve to do the readings prior to coming to class. And, please, ask questions about concepts you do not understand – either in class, or after. My office hours are listed above and I am always glad to make a separate appointment, if these times are not convenient. In addition, your teaching assistant will hold a review session on financial statements prior to the midterm. This optional review session is an excellent opportunity to make sure you understand business basics. The assistant is also available by appointment.

**Homework (20%):** Because it is essential that you understand business basics and how the digital revolution affects the bottom line, there will be four homework assignments **due Sept 2, 9, 16 and 30**. These homework assignments are front-loaded for a reason. Based on student evaluations of this material, I’ve learned that the sooner you dive in, the more you get from the class. For credit, all homework assignments should be posted prior to class on the day they are due.

The first assignment (due Sept. 2) concerns the New York Times financials (available on Sakai) and asks you to answer a series of questions. The remaining three homework assignments will ask you to answer a series of questions about the company you are following, based on class readings and discussions. These questions are designed to help you begin crafting your final paper – by understanding your company’s strengths and weaknesses, opportunities and threats.

**Midterm (20%):** This is a course designed to teach critical thinking skills, as well as in-depth business knowledge of the economics affecting both traditional and entrepreneurial media companies. The take-home midterm will consist of five questions, each worth 20 points. Four of the questions will be short answer essay questions, usually built around a quote I have found in the *Wall Street Journal,* *Financial Times* or *The New York Times.* It is designed to test your understanding of the key concepts discussed in either the readings or in class. The fifth question consists of a series of questions that can be answered by consulting the financial statements of your company. The midterm is due by **2 p.m., Oct. 14.**

**Final Paper (40%):** Strategic and competitive assessment

Choose one of the following publicly owned media companies:

1. News Corporation
2. The New York Times Company
3. CBS/Viacom
4. Walt Disney Company
5. Time Warner
6. Thomson Reuters
7. McClatchy
8. Lee Enterprises
9. Comcast
10. Discovery
11. Google
12. Yahoo
13. Gannett
14. Facebook
15. Netflix
16. Amazon

In a 10-page paper, you should, at a minimum, address the following issues:

1. Its competitive and current strategic position;
2. The impact of disruptive technology on its business model;
3. Its ability to “build” on its core business;
4. Its recent flexibility in “transforming” its business model;
5. Its level of future strategic risk (Where will the company be in three years, five years, ten years?);
6. Your assessment of the company’s future (Would you purchase its stock? Apply for a job?). Why, or why not? Make a convincing argument, based on what you have learned.

**You will need to choose your firm by Aug. 26 and should come to each subsequent class prepared to discuss breaking news about your company, its current stock price and any other significant developments by competitors or potential competitors in the industry.**

You have the option of presenting your final paper in one of these two formats:

1. A sell-side analyst’s report on the company
2. A memo sent to the company’s board or CEO detailing a three-year business plan for the company, or a division of the company.

***The paper should be turned in by 5 p.m., Wednesday, Dec. 3, the last day of classes this semester.***

***Note to Graduate Students:*** Youwill also be responsible for researching and presenting to the class an overview on one of the industry segments discussed in the second half of the semester – newspapers, magazines and books, broadcasting and movies, cable networks or distributors, telecoms, online sites.

**Required Reading**

As you can imagine, textbooks on the subject of Digital Media Economics quickly become dated. Therefore, I’ve attempted to survey recently published books on the topic and give you an edited anthology of the most relevant chapters in those books. However, many of these books are cost-prohibitive, and so I’ve worked with the library to come up with the most cost-effective reading plan for you. Readings are available either via online reserves (via Sakai), in the Park library or in the folders on Sakai.

You should attempt to do the readings prior to the class discussion on a specific subject. In general, a new topic is introduced on Tuesdays and we cover the case studies on Thursdays.

**Textbook:**

*Understanding Financial Statements: A Journalist’s Guide.* By Jay Taparia, CFA. Marion Street Press. 2004. Several copies are available in the Park Library, or it can be purchased online.

**In the Library:**

*Saving Community Journalism: The Path to Profitability. Chapters 1-3,* by Penelope Muse Abernathy, UNC Press, 2014.

**Online Reserves:**

“The Gales of Destruction” (Chapter 5) and “The Ubiquity of Creative Destruction” (Chapter 12) from *Creative Destruction: Why Companies That Are Built to Last Underperform the Market – and How to* *Successfully Transform Them*. By Richard Foster and Sarah Kaplan. Currency Doubleday. Available through UNC Reserves.

*The Curse of the Mogul: What’s Wrong with the World’s Leading Media Companies.* Chapter 12 (Bad Mogul: Media Mergers and Acquisitions). By Jonathan Knee, Bruce Greenwald, Ava Seave. Portfolio.

*Media Economics: Applying Economics to New and Traditional Media.* Chapter 10 (Pricing and Marketing Segmentation) and Chapter 13, “Government Intervention” *Media Economics: Applying Economics to New and Traditional Media,* by Colin Hoskins, Stuart McFadyen, Adam Finn. 2004.

*(AVAILABLE ON INTERNET) The State of the News Media.* By The Project for Excellence in Journalism. 2014 report. <http://www.journalism.org/packages/state-of-the-news-media-2014/>

*(AVAILABLE ON SAKAI)* “The One Number You Need to Grow” by Fred Reichheld. *Harvard Business Review*. December 2003. Available through UNC Reserves.

*(AVAILABLE ON SAKAI)* “Moving Upward in a Downturn” by Darrell Rigby. *Harvard Business Review*. June 2001. Available through UNC Reserves.

**Case Study Set: Harvard Business Case Studies,** *Purchase online*

These case studies will act as a workbook for applying the analytical and strategic methods discussed in class. In general, we will discuss these case studies on Thursdays. You should read the case studies prior to class and come prepared to offer your analysis.

Details on how to purchase this online set will be available under “Announcements” online on Sakai. We will also send an email with full instructions.

**Course Calendar**

**Week 1 Aug. 19, 21:** Introduction: An overview of the media industry and introduction of the strategic and economic framework we will use this semester (the concepts of the firm, marketplace and environment)

**Sakai:** Select “Resources” folder and “Week 1 Readings”

***The Concept of the Firm (Who Are We?)***

**Week 2 Aug. 26, 28:** Costs, Revenues and the Bottom Line: A look at the basic business models for media companies.

**Text:** Chapters 1-3 (Taparia) *Understanding Financial Statements: A Journalist’s Guide*

**Mini Case Study:** Class Handout, New York Times Financials (done in conjunction with the readings)

**Week 3 Sep. 2, 4:** Costs, Revenues and the Bottom Line (cont.)

**Text**: Chapter 9 (Taparia) *Understanding Financial Statements: A Journalist’s Guide*

**Mini Case Study:** Class handout, The New York Times financial statements

**Case Study (Harvard):** The New York Times Co.

***The Concept of the Marketplace (Who Are Our Customers and Competitors?)***

**Week 4 Sep. 9, 11:** Advertising, Pricing and Market Segmentation: How pricing determines audience, and how advertising affects consumer behavior

**Online Reading:** Chapter 10, “Pricing and Market Segmentation” *Media Economics: Applying Economics to New and Traditional Media,* by Colin Hoskins, Stuart McFadyen, Adam Finn.

**Case Study (Harvard)**: Radiohead: Music at Your Own Price, 2009 (A&B)

**Week 5 Sep. 16, 18:** Advertising, Pricing and Market Segmentation (cont.): How this affects the competitive landscape and customer loyalty.

**Online Reading:** “The One Number You Need to Grow” by Fred Reichheld.

**Case Study (Harvard):** What’s the Deal with Living Social?

***The Concept of the Environment (Are We in a Cycle or a Cyclone?)***

**Week 6 Sep. 23, 25:** Economic Cycles vs. “Creative Destruction” of Business Models

**Online Reading:** Ch.5. “The Gales of Destruction” and Ch. 12. “The Ubiquity of Creative Destruction” from *Creative Destruction: Why Companies That Are Built to Last Underperform the Market – and How to Successfully Transform Them”* by Richard Foster and Sarah Kaplan

“Moving Upward in a Downturn” by Darrell Rigby

**Case Study (Harvard):** Apple Inc. in 2012

**Week 7 Sept 30, Oct. 2:** How Will We Grow? Mergers and Acquisitions vs. Organic Growth

**Online Reading:** Ch.12: “Bad Mogul: Media Mergers and Acquisitions” *The Curse of the Mogul: What’s Wrong with the World’s Leading Media Companies* by Jonathan A. Knee, Bruce C. Greenwald, and Ava Seave.

**Case Studies:** Bloomberg (On Sakai);

The Walt Disney and Pixar: To Acquire or Not Acquire, 2010 (Harvard)

**Week 8 Oct. 7, 9:** The International Market: the World is Flat

**Online Readings:**

* Lionsgate Reports Results for First Quarter 2015 <http://www.lionsgate.com/corporate/press-releases/1599/>
* Lionsgate Relocates International Sales Operations to London <http://www.lionsgate.com/corporate/press-releases/1600/>
* Lionsgate and Alibaba Group Form Strategic Collaboration to Offer Lionsgate Entertainment World Service in China

<http://www.lionsgate.com/corporate/press-releases/1591/>​

**Case Study (Harvard):** Rupert Murdoch: The Last Tycoon, 2012.

**October 14: Midterm, due at the End of Class, no later than 2 p.m.**

No class

***Week 9: Fall Break: October 15-20***

***The News Industry***

**Week 10 Oct. 21, 23:** Traditional Publishing

Chapters 1-3, *Saving Community Journalism: The Path to Profitability* by Penelope Muse Abernathy.

**Online Reading:** “The State of the News Media 2014”

* Overview, <http://www.journalism.org/2014/03/26/state-of-the-news-media-2014-overview/>;
* *Key Indicators in Media & News*, by Pew Research Center’s Journalism Project Staff, <http://www.journalism.org/2014/03/26/state-of-the-news-media-2014-key-indicators-in-media-and-news/>;
* *The Revenue Picture for American Journalism and How It Is Changing*, by Jesse Holcomb and Amy Mitchell, <http://www.journalism.org/2014/03/26/the-revenue-picture-for-american-journalism-and-how-it-is-changing/>

**Case Study (Columbia):** Chasing the Community Newspaper Rainbow: *The Whiteville News Reporter* and the Digital Age.

**Week 11 Oct. 28, 30:** Broadcast and Cable News

**Online Reading:**

“The State of the News Media 2014”:

* *A Boom in Acquisitions and Content Sharing Shapes Local TV News in 2013*, by Deborah Potter of Newslab and Katerina Eva Matsa, <http://www.journalism.org/2014/03/26/a-boom-in-acquisitions-and-content-sharing-shapes-local-tv-news-in-2013/>
* *News Video on the Web, A Growing, If Uncertain, Part of News,* by Kenneth Olmstead, Amy Mitchell, Jesse Holcomb and Nancy Vogt, <http://www.journalism.org/2014/03/26/news-video-on-the-web/>

**Case Study (Harvard):**

Fox News: Competing to Deliver the News, 2013

**The Entertainment Industry**

**Week 12 Nov. 4, 6:**  Broadcast and Cable Networks, the Movie Industry, Video Games

**Case Study (Harvard):**

CBS and Online Video

Paramount Pictures: The Transformers Dilemma, 2012

**Week 13 Nov. 11, 13:** Cable Providers and Telecoms

**(Park Library Reserves):** Ch. 13, “Government Intervention” *Media Economics: Applying Economics to New and Traditional Media,* by Colin Hoskins, Stuart McFadyen, Adam Finn.

**Case Study (Harvard):**

Netflix: Streaming Away from DVDs, 2012

Time Warner vs. the Walt Disney Company: Pulling the Plug, A and B, 2001

**Week 14 Nov. 18, 20:** The Digital Future

**Case Studies (Harvard):** Amazon, Apple, Facebook and Google, 2013

***Week 15: Thanksgiving Break: November 26 – 30***

**Week 16 Dec. 2:** Review of Semester

**In-class Case Study:**

*Row, Row, Row Your Boat*: Rating the Media Companies

**Final Paper due by 5 pm., Wednesday, Dec. 3 (Last Day of Classes)**

**Core competencies this class covers, via the ACEJMC (Accrediting Council on Education in Journalism and Mass Communications):**

* Demonstrate an understanding of the history and role of professionals and institutions in shaping communications;
* Think critically, creatively and independently;
* Conduct research and evaluate information by methods appropriate to the communications professions in which they work;
* Write correctly and clearly in forms and styles appropriate for the communications professions, audiences and purposes they serve;
* Critically evaluate their own work and that of others for accuracy and fairness, clarity, appropriate style and grammatical correctness;
* Apply basic numerical and statistical concepts;
* Apply tools and technologies appropriate for the communications professions in which they work.
* (For  graduate students) Contribute to knowledge appropriate to the communications professions in which they work.