

JOMC 551.02
DIGITAL MEDIA ECONOMICS AND BEHAVIOR
Spring 2014
11 a.m. to 12:15 p.m., Tuesdays and Thursdays
Carroll Hall “Halls of Fame” Room

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Office Hours: 9:30-11 a.m., M-Th. (and by appointment)

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.

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 must regularly read *The Wall Street Journal* – 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 research your company 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 Jan. 21, Feb. 4, Feb. 25)
Midterm	20% (due by 8 a.m., March 17)
Final Paper (10 pages)	40% (due by 3 p.m., April 29)

Class Participation (20%): The secret to a good participation grade is AAA – Attend. Add. Ask.

Attend. Show up on time and have the readings done. Our classes will be conversations much more than lectures and a good semester depends on how much each student attends and how well each student has read all of the assigned reading prior to class.

Add. Like the real world, this is a collaborative effort in which your peers will depend on you for their success. Each class begins with a simple and broad question – “So, what’s new?” This is an invitation for you to steer the semester in a direction that most interests you, as well as an expectation that you keep us apprised on the latest news related to a particular company you are tracking. For students who are shy or prolific, you will also have the opportunity to post to the class discussion forum on Sakai.

Starting on Feb. 4, one pair of students will present on Tuesday an “Ignite”-style summary of what we learned the previous week. The pair will also produce written lecture notes that I will post to Sakai for the benefit of all the students.

Ask. After each class, you will also be required to post one anonymous question about the readings or lecture. This is a chance for you to clarify a fact or concept, to challenge me or another student, or to dream about the world of “what ifs” by applying concepts we cover to situations we don’t.

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.

Homework (20%): Because it is essential that you understand business basics and how the digital revolution affects the bottom line, there will be three homework assignments **due Jan. 21, Feb. 4 & Feb. 25**. 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 Jan. 21) 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 essay will be a written essay(s) in which you'll analyze and assess topics discussed during the first half of the course. 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 **8 a.m., Monday, March 17**.

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

Choose one of the following publicly owned media companies:

1. Google
2. Amazon
3. Netflix
4. Disney
5. Comcast
6. **News Corp/21st Century Fox**
7. The New York Times Company
8. **Time Warner/Time Inc.**
9. Verizon
10. Gannett
11. Facebook
12. **Twitter**
13. Time Warner Cable
14. DirecTV
15. Scripps Networks Interactive

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

- Its competitive and current strategic position;
- The impact of disruptive technology on its business model;
- Its ability to “build” on its core business;
- Its recent flexibility in “transforming” its business model;
- Its level of future strategic risk (Where will the company be in three years, five years, 10 years?);

You will need to choose your firm by Jan. 21 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 three 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.
- 3) A feature-length news story on your company that might be suitable for publishing in the Wall Street Journal, The New York Times or a consumer business magazine.

The paper should be turned in by 3 p.m., Tuesday, April 29.

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 can be purchased online.

In the Park Library:

All the News That's Fit to Sell. Chapter 6 "The Changing Nature of the Network Evening News" and Chapter 7 "News on the Net" By James T. Hamilton. Princeton University Press.

Media Economics: Applying Economics to New and Traditional Media. Chapter 10 "Pricing and Marketing Segmentation" and Chapter 13 "Government Intervention" and by Colin Hoskins, Stuart McFadyen, Adam Finn. Sage Publications, 2004.

Online Reserves:

"The Computer Revolution" (Chapter 8) and "The Written Word" (Chapter 15) from *The New York Times Presents: Smarter by Sunday (52 Weekends of Essential Knowledge for the Curious Mind)*. St. Martin's Press. Available through UNC 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

“How Newspapers Make Money” (Chapter 2) from *The Vanishing Newspaper*. By Philip Meyer. University of Missouri Press. 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) by Colin Hoskins, Stuart McFadyen, Adam Finn. Sage Publications, 2004.

(AVAILABLE ON INTERNET) *The State of the News Media*. By The Project for Excellence in Journalism. 2013 report. <http://stateofthedia.org/>

(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.

You may purchase the Case Studies at <https://cb.hbsp.harvard.edu/cbmp/access/23182127>

Course Calendar

Week 1 Jan. 9: 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)

Digital Reserves: “The Computer Revolution” *The New York Times Presents: Smarter by Sunday*.

Unit 1: The Firm (Who Are We?)

Week 2 Jan. 14, 16: 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 Jan. 21, 23: Reading Financial Statements

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.

Homework #1 Due Jan. 21: N.Y Times Financials

Week 4 Jan. 28, 30: How Will We Grow? Mergers and Acquisitions vs. Organic Growth

Digital Reserves: 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 Study (Harvard): News Corporation and Dow Jones & Company, Inc.

Case Study (Harvard): Marvel Enterprises, Inc. (Abridged)

Unit 2: The Marketplace (Who Are Our Customers and Competitors?)

Week 5 Feb. 4, 6: Ownership and Government Oversight: An overview of the differences among various forms of ownership and how government regulation affects markets

Park Library Reserves: Chapter 7, “News on the Net”, *All the News That’s Fit to Sell*, by James Hamilton

Case Study (Harvard): Time Warner Vs. Disney: Pulling the Plug (A and B)

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

Homework #2 Due Feb. 4: Your Company: Who Are We?

Week 6 Feb. 11, 13: Advertising, Pricing and Market Segmentation: How pricing determines audience, and how advertising affects consumer behavior

Digital Reserves: 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 7 Feb. 18, 20: Advertising, Pricing and Market Segmentation (cont.): How this affects the competitive landscape.

Sakai Resources: “The One Number You Need to Grow” by Fred Reichheld.

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

Unit 3: The Environment (Are We in a Cycle or a Cyclone?)

Week 8 Feb. 25, 27: Economic Cycles vs. “Creative Destruction” of Business Models

Digital Reserves: 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;

Sakai Resources: “Moving Upward in a Downturn” by Darrell Rigby

Case Study (Harvard): Demand Media

Case Study (Harvard): Netflix Inc.: Streaming Away from DVDs

Homework #3 Due Feb. 25: Your Company: Customers & Competitors_

Week 9 March 4, 6 Newspaper Industry

Digital Reserves: “How Newspapers Make Money” from *The Vanishing Newspaper* by Philip Meyer

Online Reading: “The State of the News Media – Overview and Newspaper Reports”, <http://stateofthedia.org/2013/newspapers-stabilizing-but-still-threatened/>

Case Study (Harvard): New York Times Paywall; Buffett's Bid for Media General's Newspapers

Spring Break: March 8-16

March 17: Midterm Due at 8 a.m.

Unit 4: Media Sectors

Week 10 March 18, 20: Magazine and Book Publishing

Digital Reserves: “The Written Word” *The New York Times Presents: Smarter by Sunday*.

“The State of the News Media –Magazine Report”, *The Project for Excellence in Journalism*, 2013 report, <http://stateofthedia.org/2013/news-magazines-embracing-their-digital-future/>

Case Studies (Harvard): The National Geographic Society; The Huffington Post

Week 11 March 25, 27: Broadcasting, Cable Networks and Movies

Online Reading: “The State of the News Media –Television, Network and Local Reports”, *The Project for Excellence in Journalism*, 2013 report, <http://stateofthedia.org/2013/network-news-a-year-of-change-and-challenge-at-nbc/>

Park Library Reserves: Chapter 6, “The Changing Nature of Network Evening News” from *All the News That’s*

Fit to Sell by James Hamilton

Case Studies (Harvard):

CBS and Online Video

Week 12 April 1, 3: Cable Providers and Telecoms

Online Reading: “The State of the News Media –Cable Report”, *The Project for Excellence in Journalism*, 2013 report, <http://stateofthemediamedia.org/2013/cable-a-growing-medium-reaching-its-ceiling/>

Case Study: ESPN, 2013 (On Sakai);

Case Studies (Harvard): The NFL’s Digital Media Strategy; AT&T: Partnering to Lead the Broadband Revolution

Week 13 April 8, 10: Search, Social & Mobile

Online Reading: “The State of the News Media – Online Report”, *The Project for Excellence in Journalism*, <http://stateofthemediamedia.org/2013/digital-as-mobile-grows-rapidly-the-pressures-on-news-intensify/>

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

Week 14 April 15, 17: Search, Social & Mobile (Con’t)

Week 15 April 22, 24: Review of Semester

Wrap-Up – We take a look back at all the media companies we discussed during the semester to try and determine what their futures look like.

Final Paper due by 3 pm., Tuesday, April 29.