**MEJO 652.001**

**DIGITAL MEDIA ECONOMICS AND BEHAVIOR**

**Fall 2019**

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

**Tuesdays and Thursdays**

**Instructor:** Professor Penny Muse Abernathy, 397 Carroll Hall

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 Office Hours: 9:30 to noon, Tuesday and Thursday (and by appointment)

**Teaching Assistant:** Ryan Hayford, 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 historically supported media organizations such as newspapers, television and radio for decades. This course examines the broad economic issues facing the media industry, both digital start-ups, as well as traditional media. We’ll begin by understanding how strategies pursued by media companies flow through their financial statements. Then we’ll consider the changing dynamics of consumer behavior, pricing, market segmentation, economic cycles, management of firms, and global competition. In the second half, we will focus more specifically on the challenges and opportunities for specific industry segments. We’ll discuss the specific economic challenges confronting companies such as The New York Times, Disney, Comcast, Bloomberg Google, Facebook and Amazon. 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 your preferred medium), as well as students pursuing a career in advertising, marketing, digital management, public relations 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 they will work for, 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 and competitors? Are we in an (economic) cycle or (industry) 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 in determining your 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 well-rounded skills. Here’s how the grading is figured:

Class Participation 20%

Homework Assignments 20% (due Sept. 5, 12, 26 and Oct. 3)

Midterm 20% (due by 2 p.m., Tuesday, October 15)

Final Paper (10 pages) 40% (due by 5 p.m. Wednesday, December 4)

**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 who are 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? (where 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? (where 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 the 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 a team of students. 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.*

**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. 5, 12, 26 and Oct. 3.** 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. 6) 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., October 15.**

**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 or Viacome
4. Walt Disney Company
5. Gannett or GateHouse
6. Thomson Reuters
7. McClatchy
8. Lee Enterprises
9. Comcast
10. Discovery
11. Google
12. Gannett
13. Facebook
14. Netflix
15. 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. 27 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, December 4, the last day of classes this semester.**

***Note to Graduate Students:*** *In addition to completing all the assigned work, you**will also be responsible for leading the small group case study sessions and for researching and presenting to the class an overview on the economics of one of the industry segments discussed this semester – such as news outlets, magazine and book publishing, broadcasting and cable networks, advertising agencies, etc.*

**DETERMINATION OF GRADE:**

**Grading scale:**

A: 93-100

A-: 91-92

B+: 89-90

B: 83-88

B-: 80-82

C+: 78-79

C: 72-77

C-: 70-71

D: Below 70

\*Students can achieve up to 500 points depending on the semester which is converted to a percentage of 100 according to this grading scale.

**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 the folders on Sakai, in the Park Library, or in online reserves at <http://webcat.lib.unc.edu/search/>. Click “Reserves” on the left side to access readings for our class.

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:**

*The Strategic Digital Media Entrepreneur.* By Penelope Muse Abernathy and JoAnn Sciarrino. Wiley Blackwell

**Online Reserves (No Charge):**

“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.

*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 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.

*(AVAILABLE ON INTERNET)The State of the News Media.* By The Project for Excellence in Journalism. 2018 report. <http://www.journalism.org/packages/state-of-the-news-media-2019/>

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

**Optional Supplemental Text:** *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.

**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.

**Honor Code:**

I expect that each student will conduct himself or herself within the guidelines of the University honor system ([http://honor.unc.edu](https://outlook.unc.edu/owa/redir.aspx?C=_PwXhu5wkEKfdEIVTpil9KJAr6RORM8IBwmgW7JyZPUuO4or7Dri_9D4gXEkBO0Z0IIreRKEjIQ.&URL=http%3a%2f%2fhonor.unc.edu)). All academic work should be done with the high levels of honesty and integrity that this University demands. You are expected to produce your own work in this class. Using a set-up sound bite is a violation of the honor code. If you have any questions about your responsibility or your instructor’s responsibility as a faculty member under the Honor Code, please see the course instructor or Senior Associate Dean C. A. Tuggle, or you may speak with a representative of the Student Attorney Office or the Office of the Dean of Students.

**Seeking Help:**

If you need individual assistance, it’s your responsibility to meet with the instructor. If you are serious about wanting to improve your performance in the course, the time to seek help is as soon as you are aware of the problem – whether the problem is difficulty with course material, a disability, or an illness.

**Diversity:**

The University’s policy on Prohibiting Harassment and Discrimination is outlined in the 2011-2012 Undergraduate Bulletin [*http://www.unc.edu/ugradbulletin/*](https://outlook.unc.edu/owa/redir.aspx?C=_PwXhu5wkEKfdEIVTpil9KJAr6RORM8IBwmgW7JyZPUuO4or7Dri_9D4gXEkBO0Z0IIreRKEjIQ.&URL=http%3a%2f%2fwww.unc.edu%2fugradbulletin%2f)*.* UNC is committed to providing an inclusive and welcoming environment for all members of our community and does not discriminate in offering access to its educational programs and activities on the basis of age, gender, race, color, national origin, religion, creed, disability, veteran’s status, sexual orientation, gender identity, or gender expression.

**Special Accommodations:**

If you require special accommodations to attend or participate in this course, please let the instructor know as soon as possible. If you need information about disabilities visit the Department of Disability Services website at [*http://disabilityservices.unc.edu/*](https://outlook.unc.edu/owa/redir.aspx?C=_PwXhu5wkEKfdEIVTpil9KJAr6RORM8IBwmgW7JyZPUuO4or7Dri_9D4gXEkBO0Z0IIreRKEjIQ.&URL=http%3a%2f%2fdisabilityservices.unc.edu%2f)

**ACCREDITATION:**

The School of Journalism and Mass Communication’s accrediting body outlines a number of values you should be aware of and competencies you should be able to demonstrate by the time you graduate from our program.  Learn more about them here:

[http://www2.ku.edu/~acejmc/PROGRAM/PRINCIPLES.SHTML#vals&comps](https://outlook.unc.edu/owa/redir.aspx?C=XciXt6cD-UGWmSsiOI50ZzqEMU9vI9AI9RIjk3k3N01dLuvhbfv_0PYGw11_4sIpiXYZSqGOi3A.&URL=http%3a%2f%2fwww2.ku.edu%2f%7eacejmc%2fPROGRAM%2fPRINCIPLES.SHTML%23vals%26comps)

No single course could possibly give you all of these values and competencies; but collectively, our classes are designed to build your abilities in each of these areas.  In this class, we will address a number of the values and competencies, with special emphasis on the last six bullet dots under "Professional values and competencies" in the link above.

**Course Calendar**

***Understanding the Basics of Digital Media Entrepreneurship***

**Week 1 Aug. 20, 22:** *Gutenberg to Zuckerberg: Innovation and Entrepreneurship*. An overview of the media industry and introduction of the strategic and economic framework we will use this semester.

 **Assigned Reading:** Chapter One, Student Comments on Sakai

 **Book Case Study:** Facebook

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

**Week 2 Aug. 27, Aug. 29:** *The Story Behind the Numbers.* A look at the basic finances underpinning media companies.

 **Assigned Reading:** Chapter 2 *The Strategic Digital Media Entrepreneur*

**Book Case Study (Sakai):** News Corp (done in conjunction with the readings)

**Week 3 Sept. 3, 5:** *The Story Behind the Numbers.* A look at the basic finances underpinning media companies. (cont.)

 **Assigned Reading**: Chapter 2 *The Strategic Digital Media Entrepreneur*

**Mini Case Study (Sakai):** The Washington Post (done in conjunction with readings)

**1st Homework Assignment Due: Sept. 5**

**Week 4 Sept 10, 12:** *What’s a Company Worth?* Examines the various types of media investors (from hedge fund managers to venture capitalists) and explores elementary ways to calculate return on investment.

 **Assigned Reading :** Chapter 3, *The Strategic Digital Entrepreneur*

**Book Case Study**: Snap, Facebook (chapter 1)

**2nd Homework Assignment Due: Sept. 12**

**Week 5 Sept. 17, 19:** *What’s a Company Worth?* Examines the various types of media investors (from hedge fund managers to venture capitalists) and explores elementary ways to calculate return on investment. (cont.)

 **Assigned Reading:** Chapter Four

 **Book Case Study:** Snap, Facebook

 **Case Study (Harvard):** The New York Times Co. (in conjunction with The New York Times Homework Assignment)

**Week 6 Sept. 24, 26:** *The Changed Competitive Landscape.*Lays out the typical life cycle of a media enterprise and explores the challenges that confront manager at each stage of development.

 **Assigned Reading:** Chapter Four

 **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

 **Book Case Study:** Viacom, Yahoo!

 **Case Study (Harvard):** Apple Inc. in 2015

 **3rd Homework Assignment Due: Sept. 26**

***Creating Sustainable Strategies and Business Models***

**Week 7 Oct. 1, 3:** *A Strategy for Dealing with the New Business Imperatives*. Provides a framework for assessing the strengths and weaknesses of a media or tech enterprise and lays out the five primary components of a successful digital media strategy.

 **Assigned Reading:** Chapter Five

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

 **Book Case Study:** Bloomberg (On Sakai);

 **Case Studies (Harvard):** Walt Disney Studios, 2016 (Harvard)

 **4th Homework Assignment Due: Oct. 3**

**Week 8 Oct. 8, 10:** *Developing a Unique Value Proposition.* Matching Resources and Audience

 **Assigned Reading:** Chapter Six

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

 **Book Case Study:** Netflix

**Case Study (Harvard):**

 Fox News: Competing to Deliver the News, 2013

 What’s the Deal with Living Social?

***Week 9:* Tuesday, October 15: Midterm, due at the End of Class, no later than 2 p.m.**

***Fall Break: October 16-20***

**Week 10 Oct. 22, 24:** *Understanding Customer Relationships.* Explores types and segment of customers are most promising and profitable.

 **Assigned Reading:** Chapter Seven

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

**Book Case Study:** Sling

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

**Week 11 Oct. 29, Oct. 31:** *Reaching Current and New Customers*. Understanding how to connect with future customers, and when it is best to compete and when to partner.

 **Assigned Reading:** Chapters Eight and Nine

 **Book Case Study:** The NFL

**Case Studies (Harvard):**

 CBS and Online Video

 Paramount Pictures: The Transformers Dilemma, 2012

**Week 12 Nov. 5, 7:** *Investing in Key Assets.* A strategic framework for aligning the wants and needs of your audience with the resources available to your company.

 **Assigned Reading:** Chapters Ten

 **Book Case Study:** The Pilot, Scalawag, The Skimm and The News Record

**Case Studies (Harvard):**

 Netflix: International Expansion, 2016

Amazon.com, 2016

***Leadership in a Time of Change***

**Week 13 Nov. 12, 14:** *Entrepreneurial Leadership and Culture.* The Leadership Characteristics of Successful Entrepreneurs.

 **Assigned Reading:** Chapters Eleven

**Online Reading:** “The State of the News Media 2019”

 **Book Case Study**: Axel Springer

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

**Week 14 Nov. 19,** Review Session

**Week 15 Nov. 26,** *What the Future Holds.*Looking Back, Looking Ahead

**Assigned Reading:** Chapter Twelve

**Case Studies (Harvard):**

Apple, Facebook and Google, 2013

 **In-class Case Study:** *Row, Row, Row Your Boat*: Rating the Media Companies

**Week 16 Dec. 3:** *The Years Ahead: How to Succeed in Business By Really Trying*. Your personal guide to professional accomplishment.

**Final Paper due by 5 p.m., Wednesday, December 4 (Last Day of Classes)**

**Final Exam Period: Noon, Friday, December 6**