After the ship's deck-chairs are rearranged, it must still become an airplane to fly

High profile bankruptcy filings in media and communications have been on the rise (Charter Communications, Young Broadcasting, Tribune Co.), and so too has talk of pending and almost restructurings (New York Times, Sirius XM). In an industry that has long depended on financial leverage to enhance equity returns, and is now facing a deteriorating economy and defunct credit markets, these financial troubles are not surprising. What may be lost, however, within the noise and chatter surrounding these and other financial maneuvers in the media sector, is the likelihood that financial reorganization is only the most immediate and superficial change that will take place. While it is true that the underlying business models had even before the economic meltdown been under pressure to become more efficient, and in the case of newspapers change outright, the current financial pressures may expedite and perhaps even magnify the transformation. If so, more important for the long term of the sector and its variety of participants than any balance sheet give-and-take on the right-hand capitalization side, will be the changes taking places on the left, the asset base and its operating business, and the associated strategy and directional shifts that go along. Here are some article-size brushstrokes while we wait for the finer outlines and complex details to emerge. The themes: hyper-localization and community building, redirection of content towards its most efficient distribution channel, and repurposing of infrastructure for optimized value. The result: a landscape that may soon and for a long time to come be vastly different from what we have gotten used to, even after the last few years of frantic change.

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- *Print Media:* Where to even begin. The variety of news sources – all of which online, ranging from extensive blogs to 140-character tweets, available instantly and ubiquitously in text, audio, or video formats – have made the newsstand visit a rapidly fading habit, and perennial newspaper titles such as the Christian Science Monitor and the Seattle Post-Intelligencer are actually terminating paper circulation completely. Despite such transformations, which are really not a new development as news sources like The New York Times and The Wall Street Journal have had prominent online presences for years, industry observers remain skeptical about prospects. How, after all, can any single news source, even online, compete with the breadth of Google Reader or other RSS feeds that collect content on a customized basis from any variety of sources that a consumer desires? And how can even such RSS feeds compete with the immediacy of news tweets that instantly track their followers to any mobile device? In this narrow context, traditional newspapers, even online editions, could very well be done… but breadth and speed alone are not the only ways to measure the value of news. There is, on another level, a local community and social content aspect to a newspaper franchise, which can translate to a sustainable long term business model, especially if this is redesigned to embrace rather than compete with emerging web-based applications. We look for print media companies to increasingly work with blogs and advertisers at the local level, and to use social networking applications to build local communities and brand value, much like emerging outlets such as Huffington Post have done to build communities centered on areas of shared subject interest.

… hyper-localization and community building…

- *Cable & Broadcast:* We speak to the prospects of traditional satellite television in a subsequent tab below, but cable operators should not be resting on their laurels (and many indeed have not been). Traditional distribution mechanisms that have brought video content to television sets are increasingly challenged by the likes of YouTube, Hulu, and now also the Netflix instant-play digital product, in an environment in which the TV set can be easily replaced by a computer monitor or connected to the Internet in a flexible and highly customizable home network. Cable MSOs have largely adapted to this evolution by transforming themselves into broadband connections, (and telcos are making progress towards the same). The bigger question, however, is regarding the future of broadcast and other programming networks. As consumers increasingly gain control over scheduling and content delivery, broadcast television and the likes of HBO, A&E, etc., may prove to have little scope outside of proprietary content that these outlets produce. As this occurs, we may see these networks become more like production studios, which will in turn test the mettle of television broadcast stations that have for a long time relied on network affiliation and cable must-carry rules for their content and distribution strategies. These operators may

… redirection of content towards its most efficient distribution channel …

soon enough feel pressured to redefine, much in the way that newspaper companies (see above) or radio operators (see below) are likely to… which is to say, by implementing a hyper-local multi-media strategy focused on video content, to leverage their core market presence and remaining competitive edge.

…repurposing of infrastructure for optimized value…

- *Radio:* The competitive threats to the traditional radio model, not only from satellite radio but more dangerously from free-of-charge and customizable Internet platforms, are now well documented. For a long time we have heard about radio's response via HD roll-outs, but very few of us are still holding our breath for news on that front. Nevertheless, there is value in local content and all that communities signify – local news, local talk, even local music – and this is an aspect of radio that will be difficult for either satellite (limited bandwidth) or Internet (diluted global reach) alternatives to adequately replicate. After the financial difficulties of highly leveraged radio operators are resolved, and perhaps even before then, we expect radio strategies to increasingly focus on unique high-quality programming, with emphasis on local subjects and local personalities. Like newspapers and other traditional media, these operators have already begun to roll out multi-media platforms, which will no doubt expand. We would also not be surprised to see radio station owners – especially as the emphasis on quality and proprietary content escalates – to de-emphasize the ownership of non-core assets, such as towers, while seeking to monetize valuable spectrum in creative ways. These infrastructure holdings have for a long time been underutilized by the sector, and it could make sense to segregate the valuable content from the commoditized infrastructure sides of the business. (More on this subject in the Satellite Entertainment paragraph below.)

While [traditional media] is being pushed by market forces to become increasingly dynamic and nimble and "new", [new media] is being pushed to become, for lack of a better term, "traditional".

- *Satellite Entertainment:* A consumer *subscription* service for radio content – in light of so much that is free of charge in the segment, and especially in the current economically challenged environment, with consumer economic prospects that don't point towards a boom anytime soon, and automotive industry issues to which Sirius XM is inevitably linked – seems like an increasingly dubious proposition. We won't speculate on Liberty Media's intention for its long term investment in the satellite radio operator, although this is undoubtedly related to Liberty's satellite television business, DirecTV. While satellite television at least through the medium term maintains a competitive edge in HD video capabilities, it isn't clear that its long-term growth prospects are substantial, and in the case of satellite radio even near-term prospects may be less than compelling. In light of wired and wireless broadband proliferation in most geographies, it may be that the mobile nature of the Sirius XM platform is in fact where the long-term opportunity for both it and DirecTV lies. Brought to the consumer in one central hub, there may be real value in the ubiquity and reliability of satellite distribution for a variety of mobile applications. Such services could include navigation services, telematics, automated weather and traffic information and many other practical applications. For that matter, there may even be third-party entertainment content that would be enhanced by ubiquitous and mobile digital reach. A case can probably be made, in fact, for satellite radio to become like the cable company or the phone company and open up its pipe to content providers that could be better and more innovative in their niche, allowing Sirius XM to extract optimal value from its core asset base – a satellite fleet, infrastructure, and spectrum that would cost billions to replicate.

As the two sides of media thus migrate towards one another, the resulting environment will be a completely new ocean…

By way of conclusion, a few words on the Internet and the "new media" segment that has been the driving force behind nearly all of the past and prospective changes described. By no means immune to economic evolution and the need to transform, the path of "new media" is in a sense directly contrary to that of traditional media. While the latter is being pushed by market forces to become increasingly dynamic and nimble and "new", the former is being pushed to become, for lack of a better term, "traditional". In other words, applications such as Twitter that have thrived on audience and booming popularity, are being pushed for a revenue model, which in the world of media – whether new or old – primarily means advertising (or advertising related): think Madison Avenue rather than Silicon Valley. As the two sides of media – the traditional and the new – thus migrate towards one another, the resulting environment will be a completely new ocean, from the surface of which the boats that have transformed to airplanes will either fly swiftly up and away… or sink.

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