Mixing Genres

You have probably noticed that soft-sell advertising sometimes shows up as part of entertainment-oriented TV shows. When the CBS television show *Survivor* displayed the Target Stores emblem as part of the action, that was a clear case of mixing genres. Clearly, Target executives believed that audiences would get a favorable feeling for their stores if they saw it pop up within a popular entertainment program. For reasons that we will explore in Chapter 15, hybridity involving advertising and entertainment is becoming increasingly common. It is not, however, the only blending of advertising with other genres. Think of a political commercial that runs in a report on the evening news; an informational ad that becomes part of a database for consumers trying to find out about a product; and an elementary school math text that teaches students addition and subtraction by using the names of real products whose companies paid for the inclusion. (Some math textbooks *are* including real products in the name of realism, though to date no advertiser seems to have paid for inclusion.) A media literate who understands the mixing of genres and the reasons for it will be alert to the practice and know to ask whether it is happening and why.

Of course, advertising is not the only genre that mixes with other genres. Media practitioners who work in the fields of entertainment, information, and education explore the value of hybridity in order to attract and hold audiences. Media practitioners involved in education and advertisements often borrow comedic, dramatic, festival, and gaming elements to attract and hold audiences. Writers for *Sesame Street*, for example, often deliver their educational messages in segments that resemble situation comedies, game shows, and musical variety programs. Entertainment elements are difficult to find in the work of the producers of information, who wish to maintain an air of careful competence. Think, too, of programs such as *The Daily Show* and *The Colbert Report* on the Comedy Central cable channel, which use the setting and even the character types of news interview programs to create humorous imitations of the styles of those news shows—that is, to create **parodies**—that intend to entertain as well as make serious political points amid the laughter.

parody a work that imitates another work for laughs in a way that comments on the original work in one way or another; a subgenre of *entertainment*

The primary genres of entertainment, news, information, advertising, and education are the fuel that drives the mass media business. Media practitioners take them and their subgenres quite seriously. If you talk to a person who writes family situation comedies, auto advertisements, or history textbooks, he or she is likely to be quite aware of the history of that form and to have strong notions of what was good and bad about past materials. As in the examples of horror movies given earlier, media practitioners often even adapt popular ideas from the past in the hope that these ideas can be converted into today's successes.

The Business of Mass Media

Knowing how to use genres and their formulas to create materials that are popular with audiences is a highly valued skill in mass media industries. But there's a lot more to trying to get a work valued by audiences than just thinking it up. As we mentioned earlier, all kinds of media organizations must produce, distribute, exhibit, and finance their content in ways that maximize its chances of success with audiences.

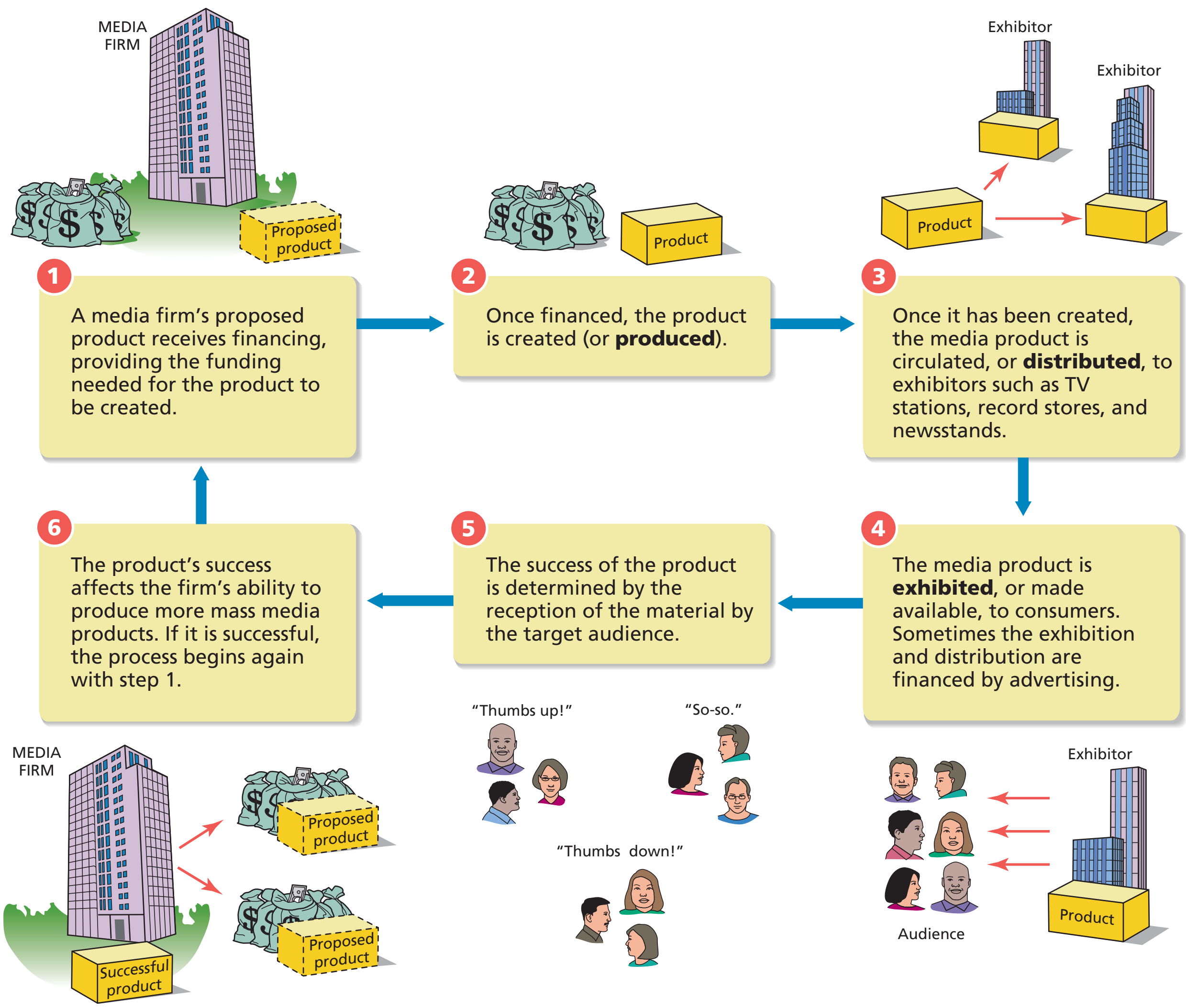

Figure 2.6

The Business of Mass Media

Production, distribution, and exhibition, central to the functions of all media organizations, must first secure financing before they can proceed.

As Figure 2.6 shows, production involves creating the content. Distribution involves circulating the material to exhibitors (e.g. music stores, TV stations). The exhibitors, in turn, make it available to consumers. All of this activity requires money up front (financing) and involves government regulation of one sort or another. Let's examine these steps, which lie at the heart of what goes on in mass media industries, one at a time.

Production of Mass Media Content

production the creation of mass media materials for distribution through one or more mass media vehicles

Production is the beginning of the chain of events that brings mass media content to audiences. **Production** for the mass media means the creation of materials for distribution through one or more mass media vehicles.

Silicon Freelancers

CULTURE TODAY

Tales of Hollywood agents busily wheeling and dealing with powerful movie studios for celebrity freelancers such as actors and directors are nothing new to anyone who has even a cursory knowledge of the entertainment industry. But did you know that such power brokers also exist in the computer software industry?

It's common knowledge in high-tech circles that a programmer with the talent to write concise, elegant code quickly and dependably is hard to find. With the proliferation of the Internet, software development cycles have quickened so drastically that talented programmers can make a lot more money moving among firms that desperately need their services than by staying in one place.

Many of the industry's most famous products such as Acrobat and the original Apple Macintosh operating system were designed by freelance programmers. They hire agents who act as high-tech power brokers, getting huge rewards for them while bringing the freelancers nearly triple their previous full-time salaries and supplying the companies with top temporary talent.

Software talent brokers act much like Hollywood talent agents for their freelance clients by building relationships over long periods of time with the production companies and code writers. Agents often fill a vital middle role in a fast-paced industry, where lean and mean firms want immediate results and software writers are famously shy of the nasty haggling that sometimes goes with bagging a six-figure salary.

Media Production Firms

A **mass media production firm** is a company that creates materials for distribution through one or more mass media vehicles. The Washington Post Company, which publishes the *Washington Post*, is a production company. So is Routledge, the publisher of this book, and its parent company, Informa. So are Time Inc. magazine company (a division of Time Warner), which creates *Time* magazine; General Electric's NBC Universal, which produces *NBC Nightly News*; and http://www.myspace.com (a division of News Corporation), a web platform for sharing all sorts of print, audio, and audiovisual materials.

mass media production firm a company that creates materials for distribution through one or more mass media vehicles

Who Does the Work? The making of all these media products requires both administrative personnel and creative personnel. **Administrative personnel** make sure the business side of the media organization is humming along. They must thoroughly understand the media business they are in, and their daily jobs—in, for example, accounting, law, marketing—have much to do with the success of the organizations for which they work.

administrative personnel workers who oversee the business side of the media organization

Their work does not, however, relate directly to the creation of their firm's media materials. **Creative personnel** do that. They are the individuals who get initial ideas for the material or use their artistic talent to put the material together.

creative personnel individuals who get the initial ideas for the material or use their artistic talents to put the material together

In all media industries, working on the creative side of a production firm can be done in two ways, on-staff or freelance. An **on-staff worker** is a worker who has secured a full-time position at a production firm. For example, most, though not all, art directors in advertising agencies are on-staff workers. They work for the same agency all the time; the projects they work on may change, but the company that issues their paycheck remains the same. **Freelancers**, on the other hand, are workers who make a living by accepting and completing assignments for a number of different companies—sometimes several at one time. Most movie actors

on-staff workers workers who have secured a full-time position at a production firm

freelancers workers who make a living by accepting and completing creative assignments for a number of different companies—sometimes several at one time

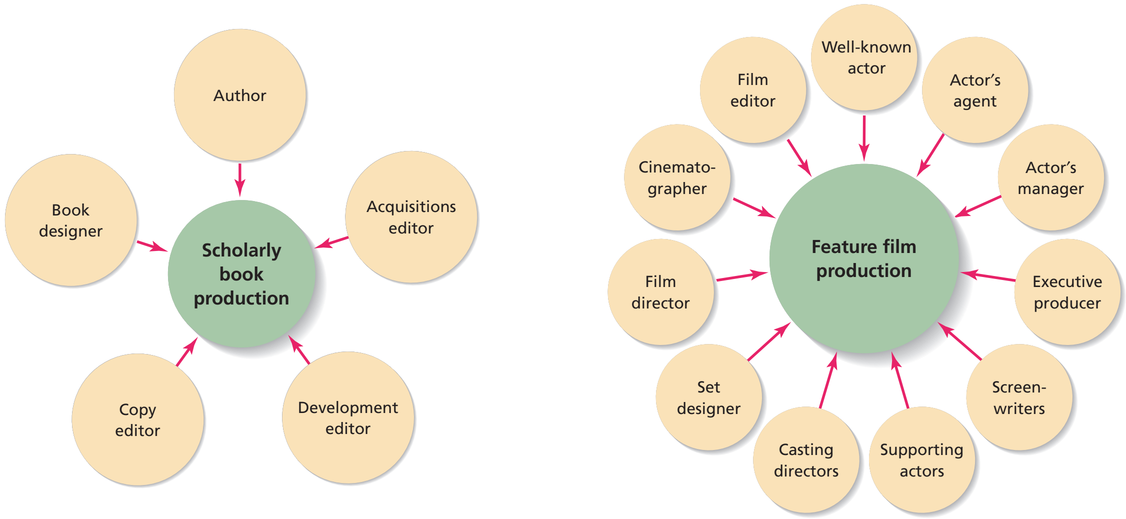

Figure 2.7

Individuals Involved in Two Types of Media Production

The mass media production process is almost exclusively a collaborative process.

work as freelancers, for example; when they finish one film, they look for work on another film, which may be made by a different company.

Although freelancing can be highly lucrative for some (we are familiar with the names of well-paid freelance creatives such as the novelist John Grisham or the film actor Tom Cruise), historically freelancing has been a difficult road for many creatives. Even when salaries are high (and they frequently are not), many freelance creatives do not work as often as they would like because of the heavy competition for desirable assignments. Historically, this competition has given tremendous power to the production companies that hire these freelance creatives. Freelancers, from actors, to book editors, to ghost writers, to cinematographers, have reported that production companies have used this power to "borrow" innovative ideas discussed in job interviews, force them to work unusually long hours, and withhold their due credits when the assignment is completed.

talent guild a union formed by people who work in similar crafts to help negotiate rules with major production firms in their industries regarding the ways in which freelance creatives will be treated and paid

In order to establish a power of their own, many freelance creatives have banded together to create talent guilds. A **talent guild** is a union formed by people who work in a particular craft, such as the Writers Guild of America, Screen Actors Guild, and Directors Guild of America. These guilds negotiate rules with major production firms in their industries regarding the ways in which freelance creatives will be treated and paid.

The administrative and creative personnel of mass media production firms recognize that the previous successes of individual freelance creators—their positive track records—can help reduce the risk that a project will fail. In an effort to manage their risks, movie companies typically will not allow high-budget movies to be made unless a high-profile actor (such as Matt Damon or Will Ferrell) signs on.

Similarly, book-publishing firms have been known to pay popular writers hundreds of thousands of dollars for the rights to their next work. In 2006, various firms agreed to pay $7 million for books to Warren Buffett's ghostwriter, more than $8 million to former U.S. Federal Reserve head Alan Greenspan, over $10 million to evangelist Joel Osteen; and a measly (relative to the above) $2 million for two books from fiction writer and Pulitzer Prize-winner Jhumpa Lahiri.[7]

Magazine firms also have dangled grand salaries in front of editors who have boosted the visibility and sales of competitors' periodicals. These deals make news.

Increasing Pressures on Special Effects Shops

TECH & INFRASTRUCTURE

Titanic, *The Lord of the Rings: The Return of the King*, *Pirates of the Caribbean: Dead Man's Chest*, *Harry Potter and the Sorcerer's Stone*, and *Star Wars: Episode I—The Phantom Menace* are the five highest-grossing films of all time.* And as anyone familiar with these films is aware, they all feature mind-blowing visual and audio effects.

Today, special effects are seen as critical to the success of blockbuster films. As such, producers are willing to spend between 25 and 40 percent of their budgets on effects, according to Eric Hanson, a visual effects designer. Even non-effects based genres, such as romantic comedies and dramas, feature hundreds of effects shots.

While this may sound like good news to those in the visual effects industry, they are expected to complete their work in less and less time. Many attribute these timing demands to 2005's *War of the Worlds*, a film whose special effects were completed in an unprecedented three months. Soon thereafter, film producers began to request the "War of the Worlds schedule," which is nearly impossible under normal circumstances.

Variety editor David Cohen notes that not only are studios placing scheduling demands on effects houses, but they are also pressured to produce "more products at a higher quality." In fact, the number of special effects shots today is triple what it was only a decade ago.

Some effects specialists have grown so frustrated with the studios that they have left their careers, and more may be on the way. Addressing the difficulties workers had with the third *Pirates of the Caribbean* film, Cohen quipped, "If the visual effects industry had its way, the [film] might have been named, '*Pirates of the Caribbean: At Wit's End*'."

*From the Internet Movie Database's listing of the "All-Time Worldwide Box Office." http://www.imdb.com/

Sources: David Cohen, "Blockbusters Take Tool on F/X Shops," *Variety*, accessed 6/14/07, www.variety.com; Rachel Rosmarin, "Hollywood Goes High Tech," *Forbes*, accessed 6/17/07, www.forbes.com

When Elizabeth Tilberis, the influential editor of *Harper's Bazaar* magazine, died in 1999, it was reported that her salary had been $1 million a year.[8] When she was editor of *Talk* magazine in the 1990s, Tina Brown was rumored to make more than that, and to have hired an assistant at a yearly salary of about $500,000.[9]

How Does Production Take Place? The personal vision of an actor, novelist, or scholar can sometimes make it to the screen or the page. Inserting such a personal vision into a work is called *authorship*. Generally, however, production in media industries is a **collaborative activity**, in which many people work together to initiate, create, and polish the end material. The collaborative nature of production holds true for every mass media product, from movies to scholarly books. Some types of production require more creative hands than others. When there are many creators, the "author" of the work may not be a person, but rather a group or company.

collaborative activity an activity in which many people work together to initiate, create, and polish the end material

Compare the production of a scholarly book with that of a typical commercial movie starring a well-known actor (see Figure 2.7). In addition to the writer, a scholarly book requires an acquisitions editor, who finds the author and might help with the initial plan for the work; a few readers (usually other scholars) who suggest ways in which the writer can improve the book; a copy-editor, who helps with the manuscript's style; and design personnel, who craft the look of the book and perhaps its jacket.

Now consider the film. The well-known actor is chosen by an executive producer or studio head, with the assistance of the actor's business representatives. In addition, the film will need screenwriters to write and rewrite the script; other actors to work with the star; a casting director with assistants to choose the other actors; a set designer and assistants to plan the backdrops; a director and assistants to organize the filming; a cinematographer and assistants to photograph the scenes; an editor and assistants to put the scenes together into a finished movie; and many more. Although individual authorship of the scholarly book may be fairly clear, the same cannot be said of the movie. Because so many people are involved on the creative side, it is often very difficult to argue that the final version of a Hollywood film is one person's vision.

We commonly regard the results of production in terms of individual items—a particular movie, book, magazine, TV show. Actually, though, it is possible to find many cases in which what is produced is not an individual item, but rather a stitching together of already-existing products that, taken together, comprise a whole. Take ABC television as an example. ABC creates many, but not all, of the programs that it airs. It leases some programs from other production companies, which grant the network the right to sell time between parts of the shows to advertisers. ABC then sends these shows to TV stations in cities and towns via satellite, and they, in turn, broadcast the shows to the public.

schedule the pattern in which media programs are arranged and presented to the audience

But if you look at ABC's work another way, you will realize that the company could be considered to be heavily involved in TV production even if it didn't actually produce any of its shows. That conclusion comes from seeing production not in terms of individual programs but in terms of the **schedule**, or the pattern in which the programs are arranged. ABC employs programmers who create regular schedules for different parts of the day. The goal of these schedules is to attract viewers to ABC and to keep them watching ABC's shows and commercials for a number of hours. During the mid-2000s, for example, ABC fielded a successful Thursday evening schedule (*Ugly Betty*, *Grey's Anatomy*, *Men in Trees*) from 8 to 11 p.m. Clearly, the product that ABC programmers were creating was not an individual show but a flow of shows, put together with a particular audience-attracting goal in mind.

format the rules that guide the flow of products that are put together with a particular audience-attracting goal in mind; a formula that describes a particular media product

In mass media industries, **format** is the term commonly used to describe the rules that guide this flow. A format is the patterned choice and arrangement of elements that make up specific media material. The material may be a flow of programs, such as ABC's schedule, or it may be an arrangement of video, audio or text presentations that people upload to a website, such as on http://www.myspace.com, http://www.joost.com, and http://www.heavy.com. Most radio stations use formats that convey their personalities by combining certain types of songs, disc jockeys' sounds, and jingles that identify the station. The concept of format applies to magazines, too. *Time*'s creative personnel are involved not only in the production of individual articles that appear in the periodical, but also in choosing the topics of the articles to begin with and arranging the articles in a flow that is designed to convey an image and entice readers through the magazine.

Distribution of Mass Media Content

Most of us tend to think of production when we think of mass media industries. After all, it is the output of this production—the newspapers we read, the cable

TV shows we watch—that grabs our attention, that makes us happy or angry, interested or bored. Moreover, most public discussion about mass communication tends to center around production. The latest gossip about which actor will be in which film, the angry comments a mayor makes about the violence on local TV news, the newest CD by an up-and-coming music group—these are the kinds of topics that are most often the focus of our attention when we discuss media.

However, media executives and media literate citizens know that production is only one step in the arduous and risky process of getting a mass media idea to an audience, and that distribution is just as important as production. **Distribution** is the delivery of the produced material to the point where it will be shown to its intended audience; it is an activity which takes place out of public view.

distribution the delivery of the produced material to the point where it will be shown to its intended audience

We have already mentioned that ABC acts as a distributor when it disseminates television programming to TV stations via satellite. When Philadelphia Media Holdings delivers its *Philadelphia Inquirer* to city newsstands, when Twentieth Century Fox moves its movies to the Regal Cinema Theaters, and when Sony Music sends its newest releases to http://www.apple.com to be sold over the iTunes website, they are each involved in distribution to exhibitors.

Note that these firms—Philadelphia Media Holdings, Twentieth Century Fox, and Sony Music—use their own distribution divisions rather than rely on other independent distribution firms to do the job. This background ought to underscore for you the importance of successful distribution in the world of media business. Some executives argue that while "content is king," distribution ought to share the crown. The reason is simple: without a distributor, a production firm's media product would literally go nowhere. It would stack up in the warehouse or a computer, eventually to be destroyed. To get a feel for the power in distribution, consider that you could "publish" a book quite easily. That is, you could take any work of art you've created—some doodles, a love poem, notes to this book—and get it photocopied and bound at the nearest photocopy store, like Kinko's. Say you splurge and print five hundred copies. For a bit more money than you'd spend in the copy shop, you could put a fancy binding on the product, so that it would look like a "real" book.

Of course, now that you have printed the book, the trick is to sell it. You might try to get the university bookstore to carry it, but chances are the store won't. Borders or Barnes & Noble Booksellers probably won't touch your book with a ten-foot pole. It's likely, in fact, that no legitimate bookstore will carry it. This is not necessarily because your writing is bad; your book might actually be a true work of art. The real reason that your chances of getting your book into a bookstore are so poor is that your book does not have a powerful book distributor behind it. If, however, you could persuade a major publishing company to allow its distribution sales force to pitch your book to bookstores, especially large chain bookstores, you might have a pretty good chance to get your book on to bookstore shelves.

Production, then, is useless without distribution. Without a powerful distributor, the material that a production firm's executives believe could be tremendously successful will have much less chance of achieving its potential. Some people believe that the Internet reduces the importance of distribution, because just about anyone can post—that is, distribute—just about anything online for very little cost. But putting something on a personal website or even on a backwater page of a popular exhibition site such as MySpace or YouTube does not ensure that anyone but your friends will go to it. Perhaps you will get lucky, and the clip you posted

The Disappearance of the Record Store

CULTURE TODAY

For decades, the Tower Records store on the corner of Broadway and 4th Street was a staple of New York's Greenwich Village district. Locals would scan their collection of indie albums and underground magazines; tourists would marvel at the store's massive inventory; and up-and-coming bands would get exposure while performing live in-store.

But in 2006, the flagship store, along with the rest of Tower's 89 chains nationwide, went out of business after filing for Chapter 11 bankruptcy protection. A representative from Tower remarked, "The brick-and-mortar specialty music retail industry has suffered substantial deterioration recently."

Indeed, CD sales had been declining since 2000, but the closing of Tower and more than 700 other U.S. music retailers made 2006 a particularly difficult year for the recorded music industry. By 2007, CD sales had slipped another 20 percent.

The plunge was no doubt a response to what *Wall Street Journal* reporter Ethan Smith described as "a seismic shift in the way consumers acquire music." Many people abandoned music stores in favor of online retailers such as Apple's iTunes, which offers low-cost downloads from its extensive digital library. Piracy remains another threat to the music industry, despite increasing efforts to eliminate illegal file-sharing.

The fact that retail behemoths like Wal-Mart and Best Buy sell CDs at a fraction of the price is another factor in the disappearance of specialty music retailers. According to one estimate, these chains represent about 65 percent of the retail music market.

CD sales have been declining since 2000, as many consumers have turned to downloading to get new music.

Smith explained that these changes have rendered the recorded music industry "powerless." He continued, "Its struggles are hardly unique in the media world…Though consumers are exposed to more media in more ways than ever before, the challenge for media companies is finding a way to make money from all that exposure."

Sources: "Fans Mourn Tower Records Liquidation," MSNBC, accessed 6/15/07, http://www.msnbc.msn.com/id/15251144/; Ethan Smith, "Sales of Music, Long in Decline, Plunge Sharply," *Wall Street Journal,* March 21, 2007 page A1; "Tower Records Will Auction its Assets," *New York Times*, accessed 6/15/07, www.nytimes.com

to YouTube will become a popular "viral video" viewed by millions. In most cases, however, the key is to have the clout to place the content in a position where many people have a good chance of seeing it. That means getting the attention of a powerful distributor.

the power of a distributor the firm's ability to ensure that the media products it carries will end up in the best locations at the best exhibitors to the best audience

What makes a **powerful distributor**? Simply put, a distributor's power is measured in terms of the firm's ability to ensure that the media products it carries will end up in the best locations of the best exhibitors to the best audience. To understand what that means, we have to look at exhibition.

Exhibition of Mass Media Content

The exhibition of mass media material is closely linked to the distribution in the sense that both are steps in bringing the content to the audience. Sometimes the same company carries out both activities. Because exhibition is quite a different business from distribution, though, it often involves different firms.

Exhibition is the activity of presenting mass media materials to audiences for viewing or purchase. When media executives speak about the importance of exhibition, they often mention **shelf space**. Shelf space is the amount of area or time available for presenting products to consumers. Think of video stores with their long rows of shelves and racks. As large as typical chain stores are today, production firms want to rent and sell more types of DVDs than will fit in the racks of even the biggest stores. As a result, store executives must decide which categories of products, and which company's products within those categories, are carried and which get more room than others.

exhibition the activity of presenting mass media materials to audiences for viewing or purchase

shelf space the amount of area or time available for presenting products to consumers

Consequently, video distributor firms that rely on stores to present their products to consumers must compete furiously for shelf space. The distributors that wield the most power are those with products that the stores need to have because consumers demand them. These distributors will have more ability to negotiate shelf space for new products than will distributors of goods that are not so important to the stores.

The same is true elsewhere in the media business. Magazine and book producers must compete for shelf space in bookstores, on newsstands, and in supermarket aisles. Moreover, some spots in stores and on newsstands are more valuable than others. The area toward the front of a bookstore is most valuable because all customers pass through it. Racks on a newsstand that are at eye level are more valuable than those at floor level because consumers are likely to look at the racks at eye level first.

For cable TV, movies, broadcast TV, radio, the Web, mobile phones and other media, the concept of shelf space has to be stretched just a bit, but it applies just the same. Executives think of the limited number of channels of a cable system as its shelves. Similarly, some broadcast television executives see the twenty-four hours in a day as their stations' shelves, because time limits what they can air. In cable, radio, and broadcast TV, certain time slots and channels (or stations) are more valuable than others. The same goes for high-traffic pages on websites such as http://www.auto.com and space on the starting areas (the "decks") of cellphones that provide a limited selection of links to areas of the Web. These are the more prominent positions in the electronic "store."

Now imagine a particular case: feel the tension that Marisol Durán, a salesperson for a newly formed independent book distribution firm, experiences as she waits to speak to a purchasing executive at a large bookstore chain such as Barnes & Noble. Marisol represents small publishing firms specializing in science fiction. Because of their small size, these firms don't have the money to hire their own salespeople. She knows that Barnes & Noble's shelves hold many books, but she also knows that the number of books published each year alone would take up far more space than those shelves can hold. She has been successful in placing many of the titles she carries in bookstores that specialize in the science fiction genre. She has ambitions beyond these small stores, however. A chance to catch the eyes of science fiction readers who shop at Barnes & Noble or at Borders would, she believes, surely result in a strong increase in sales.

She knows, however, that she would get a better hearing at Barnes & Noble—and would place more books there—if she worked for the distribution arm of a publishing house such as Random House or Simon & Schuster, two giants of the book business. One reason is that such publishing giants can afford to advertise and promote their titles to the public better than her struggling publishers can, and such publicity can strongly affect sales.

trade incentives payments in cash, discounts, or publicity activities that provide a special reason for an exhibitor to highlight a product

The large publishers may also be better able than smaller ones to offer **trade incentives**—payments in cash, discounts, or publicity activities that provide a special reason for an exhibitor to highlight a product—that could influence large stores like Barnes & Noble to carry their books. To make sure that a bookstore chain exhibits key titles at the entrances to its stores, for example, a publisher might have to offer—through its distributor—to pay the bookstore chain a sum of money for taking up that space. Bringing the author in for special book readings and book signings and helping to pay for ads in newspapers (a practice called **cooperative advertising**) might also be part of the deal.

cooperative advertising advertising paid for in part by media production firms or their distributors in order to help the exhibitor promote the product

As this hypothetical experience suggests, linking up with a powerful distributor is of great benefit to producers in every mass media industry. Not surprisingly, the major production companies either own or are otherwise strategically linked to the major distribution organizations. In these cases, it is important to keep in mind that power over production and distribution is self-reinforcing: creative personnel with strong track records are attracted to the production firm in part because it has powerful distribution. In turn, the company has powerful distribution in part because its production arm attracts creative personnel with strong track records.

In some industries, major firms consolidate their strength by owning not only the distribution organizations, but the major exhibition firms as well. Television networks like NBC, CBS, and ABC, for example, have production divisions that create fiction, sports, and news programs. They also own broadcast TV networks that distribute their programs and broadcast stations in key cities that exhibit them. This control of the entire process from production through distribution to exhibition is called **vertical integration**, and it represents yet another way in which media companies try to reduce the risk that their target audiences won't even have an opportunity to choose the material competitors create (see Figure 2.8).

vertical integration an organization's control over a media product from production through distribution to exhibition

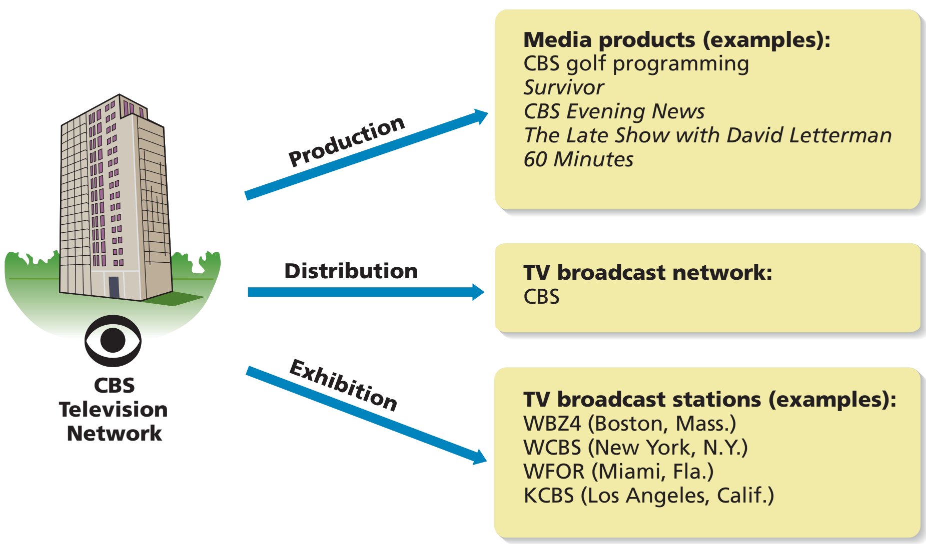

Figure 2.8
Vertical Integration
CBS—which owns production divisions, distribution channels, and exhibition venues-—is a successful example of vertical integration.

Financing Mass Media Content

As you read the previous pages on the production, distribution, and exhibition of mass media materials, it may have occurred to you that each activity must require a lot of money. Starting a publishing company, even a very small one, costs hundreds of thousands of dollars. Creating a one-hour television program costs more than a million dollars. Starting a new magazine can also cost even more. Want to buy a radio station? Despite the recent slowdown of growth in radio advertising, stations still go for tens, even hundreds, of millions of dollars.

The cash coming into a mass media firm can be divided into two categories:

- Money to fund new production
- Money to pay for already completed products

We'll explore each in detail.

Funding New Production

Executives in mass media enterprises may need to raise funds to expand into new areas, or they may want to build up areas in which they are already operating. A movie exhibition chain may want to expand by building new theaters in Europe. A publishing firm might want to start a new unit to create oversized coffee-table books. A company might want to buy an AM radio station. In such cases, executives may not want or be able to use the company's current revenues to cover the costs of the new venture.

A company generally has two ways to get money in anticipation of production: it can take out loans, and/or it can encourage investments in the company.

Taking Out Loans A **loan** is money that is borrowed from an organization, usually a bank, for a certain price (a percentage of the loan called an interest rate). To get a loan, executives must persuade the lending organization that their plans will realistically bring in the cash they expect so that the firm will be able to repay the amount of the loan (its principal) plus the interest in a timely way. The lender will also want to be sure that it has a claim on some of the current value (assets) of the firm—for example, the real estate of an exhibition chain or the current holdings of a radio station owner—in case the firm does not pay back the loan.

loan money borrowed from a company, usually a bank, for a certain price (a percentage of the loan called an interest rate)

Investment banks are companies that arrange to lend millions, even tens and hundreds of millions, of dollars to companies, and also arrange stock offerings. Some investment banks specialize in particular industries, and the executives of these investment banks feel they understand quite well the risks involved. Large investment banks hire experts in particular industries to guide the banks' lending activities in their areas of expertise. These investment bankers assess the firms that want loans and put together the terms of agreement. When very large amounts of money are involved, the investment banker will organize a **syndicate**, a group of banks that agree to share the risks and rewards of the lending deal. Because it takes on more responsibility, the lead bank (the bank that organizes the syndicate) makes more money on the deal than the others.

investment banks companies that arrange to lend millions, even tens and hundreds of millions, of dollars to companies, and also arrange stock offerings

syndicate a group of banks that agree to share the risks and rewards of a lending deal, organized by investment banks when very large amounts of money are required

Encouraging Investments While bankers worry that firms will not be able to pay back the money they have borrowed, executives of those firms worry about how much money the loans are costing them. That is, paying the interest on the

stock offering selling units of ownership in the company, or shares of stock, to organizations and individuals

loans requires cash that the company could use for other purposes. Consequently, executives may prefer to raise money through **stock offerings**. A share of stock is a unit of ownership in a company. All corporations, whether they are owned by only a few people or millions of people, issue stock. When a company engages in a stock offering, it sells these units of ownership to organizations and individuals.

For example, let's say that DigitalDynamics, a media organization that creates specialized sites on the Internet, wants to expand. One of its computer engineers has just created a device that executives believe will revolutionize the industry and make the firm a leader.

The three founders of the company still own all the stock; since there is no public market for the stock, the value of each of their holdings equals the assets of the firm divided by three. The founders (who also run the firm) are concerned that taking out loans in addition to the loans they already have would make the interest payments too high for the firm to afford, since they don't expect the new device to be profitable for at least a year. They decide to open up ownership of the company to people other than themselves.

Working with the company's accountants and with outside specialists, the company's founders determine the value of the company. That amount includes the worth of its equipment and also its goodwill—that is, the value of its reputation among its clients and potential clients in the online world. The founders decide that the company should issue six million shares; each of the founders will keep one million of those shares, and DigitalDynamics will offer the other three million at $2 each. Consequently, if the company is able to sell all of the nonpartners' shares, it will receive $6 million, which will be enough to expand the venture.

venture capitalists individuals or companies that invest in startup or nonpublic firms in the hope that the firms' value will increase over time

In view of its small size, DigitalDynamics will probably sell its stock to **venture capitalists**. Venture capitalists are individuals or companies that invest in startup or nonpublic firms in the hope that the firms' value will increase over time. These people and firms are in the business of assuming the high risks of investing in such firms in the hope of receiving high rewards. In the case of DigitalDynamics, they are assuming that the company's earnings will increase because its new device will bring in more business. That increase in earnings would make the company more valuable, and so each share will be worth more than the amount the venture capitalists paid for it. If the company were then sold, the venture capitalists would get substantially more money than they invested.

initial public offering (IPO) the offering for sale to the general public of a predetermined number of shares of stock of a company that previously was owned by a limited number of individuals and the listing of the company's shares on a stock exchange

There are other ways in which DigitalDynamics can raise more money. Assume, for example, that after the sale of stock to the venture capitalists, DigitalDynamics' board of directors (which now includes some of the venture capitalists) decides upon an **initial public offering (IPO)** of the company's stock. The board needs to convince an investment banker that the company's future is so great that investment companies and individual investors would buy five million new shares of the company's stock at $10 a share. The investment bank agrees to manage (or underwrite) the offering for a fee. Because five million new shares will be created, the shares that already exist will represent a smaller percentage of the ownership than they did before the IPO. Still, the market value of the early stockholders' shares has gone from $2 to $10 a share. DigitalDynamics, meanwhile, has $50 million more to chew on.

Funding When Production is Already Complete

profits the amount of money brought in by the completed products minus expenses

A primary indicator of the health of any company is its **profits**—the amount of money brought in by the completed products minus expenses. Even if a company is run efficiently and its expenses are low, it still needs to bring in ever-increasing amounts of revenue in order to increase its profits and satisfy its investors and lenders. In mass media firms, there are several ways to bring in revenues:

- **Direct sales**
  The purchaser pays the producer, distributor or exhibitor for the item and can use it in any way she or he sees fit—keep it forever, throw it away, give it to someone else, or even resell it. In college textbook publishing, for example, most of the money comes from sales to consumers (the students).

direct sales a strategy to gain revenue in which the consumer pays the producer, distributor, or exhibitor for the item and can use it in any way she or he sees fit

- **License fees**
  A person or organization pays the producer for the use of a product, but the producer has ultimate control over the way it is used. For example, a toy company may pay Warner Brothers for the right to use the image of Bugs Bunny on toy banks for five years. Similarly, if you have Microsoft Word on your computer, what you have actually bought is a license to use it. (Remember the package telling you that if you unwrap the disk, you are accepting the "license agreement"? One consequence is that according to the agreement, you are prohibited from reselling the software to someone else.)

license fees a strategy to gain revenue in which a person or organization pays the producer for the use of a product but the producer has ultimate control over the way it is used

- **Rentals**
  A producer, distributor, or exhibitor charges for the right to employ (read, view, or hear) a mass media product for a certain period of time, and then gets the product back. (For example, movie rentals—the store typically buys the video from the production firm and tries to make a profit by renting it to you and many others.)

rentals a strategy to gain revenue in which a producer, distributor, or exhibitor charges for employing (reading, viewing, or hearing) a mass media product for a certain period of time, and then gets it back

- **Usage fees**
  The amount the producer, distributor or exhibitor charges for a mass media product is based on the number of times the product is employed. (For example, an Internet database of articles may charge you for the number of articles or "page views" you print.)

usage fees a strategy to gain revenue in which the producer, distributor, or exhibitor charges for a mass media product based on the number of times it is employed

- **Subscriptions**
  The producer, distributor or exhibitor charges for regularly providing a media product or service. (Think of a magazine subscription, a subscription to a cable system, and a subscription to a company that provides you with Internet service.)

subscriptions a strategy to gain revenue in which the producer, distributor, or exhibitor charges for continually providing a media product or service

- **Advertising**
  A company buys space or time on a mass medium (a page in a magazine, thirty seconds on a radio station) in which it is allowed to display a persuasive message (an advertisement) for a product or service. We will have a good deal to say about the workings of the advertising industry in Chapter 15. What is important to remember here is that the advertising industry is the dominant support system for the mass media. If advertising did not exist, the amount you pay for magazines, newspapers, Internet content, and cable television, not to mention broadcast television and radio, would skyrocket. Reliable estimates suggest, for example, that because of advertising, people on average pay half of what they would otherwise pay for magazines, and substantially less than half for newspapers.

advertising a strategy to gain revenue in which a company buys space or time on a mass medium (a page in a magazine, thirty seconds on a radio station) in exchange for being allowed to display a persuasive message (an advertisement) for a product or service