

Article

Broadcasting and Telecommunications Industries in the Convergence Age: Toward a Sustainable Public-Centric Public Interest

Hwanho Choi

School of Business, Ajou University, Suwon 16499, Korea; hchoi@ajou.ac.kr

Received: 12 January 2018; Accepted: 14 February 2018; Published: 19 February 2018

Abstract: The emergence of new digital technologies, such as the Internet and new business models such as over-the-top (OTT) operators that utilize them, has transformed the media and broadcasting industries. As advanced technologies and business models are adopted, convergence between the broadcasting and telecommunication (“telecom”) sectors has become a common business practice. Using the South Korean case study of a failed acquisition attempt of CJ HelloVision by SK Telecom, this research identifies the three essential features (economic, sociocultural, and industrial structure issues) related to convergence in the broadcasting and media industries. Further, this study reveals the potential consequences of convergence to the public, industry, and society, and offers critical implications for future policy direction. Finally, this study suggests the need for a change in the policy direction in the age of convergence in the broadcasting and media industries. In addition, it calls for the importance of a public-centric public benefit. Social and consumer welfare, and not profit or industrial growth, should dictate the public interest orientation in the broadcasting and media industries. Therefore, the meaning of public interest in broadcasting and media should not be limited in the industrial context of media; rather, it should consider the access to service by the public, the condition of consumption, and its consequences in the perspective of social and consumer welfare.

Keywords: broadcasting; telecommunications; convergence; sustainability; public interest

1. Introduction

In November 2015, one of South Korea's leading wireless telecommunications operators, SK Telecom, announced its proposed acquisition of a cable television operator, CJ HelloVision. SK offers telephony, Internet, IPTV (Internet protocol television), and mobile communication services. CJ HelloVision is a part of the CJ Group which has established a vertically integrated business system that includes CJ O Shopping (home shopping network), CJ E&M (content provider), and CJ HelloVision (cable TV operator). In the broadcasting market, CJ HelloVision is a market leader in the pay-TV market, with approximately 13% of the market share; SK is in the second position in IPTV, with approximately 13% of the market share, following the market leader, KT, who has about 20% of the market share. In addition, SK is a market leader in the mobile market, with about 50% of the market share; the second largest mobile operator is KT, with about 30% of the market share. With the acquisition, CJ announced that they will stop further diversification and focus on content production. According to SK, the acquisition would enable them to achieve convergence of cable TV and IPTV. SK Telecom, which expected to diversify after the deal, hoped to maintain its market leader position in mobile communications and overtake Korea Telecom (KT) in fixed line communications and cable TV. CJ would not pursue diversification and focus only on content-related businesses to solidify its market dominance [1]. Although the acquisition did not materialize, it led to a serious discussion on the convergence between telecom and broadcasting industries in South Korea. This study examines convergence in the broadcasting and media industries by analyzing an acquisition attempt in South

Korea of a cable television operator by a telecommunications company that offers mobile, IPTV, and Internet services.

The media and broadcasting industries have experienced massive transformation with the emergence of new digital technologies such as the Internet and new business models such as over-the-top (OTT) operators which utilize them. As advanced technologies and business models are adopted, convergence between broadcasting and telecommunication (“telecom”) sectors has become a common business practice. As a result, the transformation has changed the structure of the industries and corporate strategies of media and communication firms [2]. The thinning line between broadcasting and telecom services due to the advancements in digital and information technologies has enabled the convergence of broadcasting and telecom operators, and this scenario has led to the integrated distribution of various forms of informational content such as texts, images, and videos on the networks [3,4]. The media companies have been in a constant mode of business expansion and exploring new opportunities through corporate practices such as mergers, acquisitions (M&As), and business alliances [5]. Traditional players are also moving into new digital territories by acquiring or merging companies with digital capabilities, which allows the firms to enhance their scope by expanding distribution channels for delivery of services and content and thereby achieve economies of scale [4]. The most notable feature of the change caused by the convergence of new digital technologies is that the traditional theories about industrial and operational structures and our perceptions on the forms of media products should undergo a change of definition. Doyle mentions that “globalization and convergence have created additional possibilities and incentives to repackaging or to ‘repurpose’ media content into as many different formats as is technically and commercially feasible and to sell that product through as many distribution channels or windows in as many geographic markets and to as many paying consumers as possible” [4] (p. 35). According to this definition, broadcasting has changed from content which requires watching to that which can be transmitted as a data form, downloaded, and shared [6].

Content delivery and form in broadcasting and media in South Korea have also been undergoing constant changes with the introduction of new technologies and services. In recent years, the commercialization of IPTV and mobile devices has enabled delivery and consumption of content in a novel form. Broadcasting services used to be monopolized by two national service operators, KBS (Korean Broadcasting System) and MBC (Munhwa Broadcasting Corporation) until 1995 when SBS (Seoul Broadcasting System), which was the first privately owned broadcasting company, and cable TV channels were launched. Following this, different services such as satellite services, DMB (digital multimedia broadcasting), and IPTV have been launched, and diversified distribution channels, content forms, and consumption activities of media content have also grown [7]. The paradigm shift in industrial, technological, and consumptive features in the media and broadcasting sectors requires a new definition of broadcasting and media [8]. Evens and Donders argue that “the arrival of the post-television era, marked by extreme fragmentation in distribution, is radically reshaping the way television content is being distributed and consumed, and destroying the current outmoded business models” [8] (p. 661). However, the implication of the changing nature of the distribution system and consumption has not been critically addressed and is often missing in media and communication research [8]. In this study, using the South Korean case of a failed acquisition attempt, I would like to identify the essential features for the convergence of broadcasting and telecom services and explore the debates that are discussed in each identified feature. Therefore, this study would be able to address possible new policy approaches and the role of the broadcasting and media sectors in the convergence era.

2. Literature Review

2.1. The Wave of Convergence

According to Evens and Donders, there were three important steps in the convergence of TV broadcasting and distribution [9]. The first step was the introduction of the Telecommunications Act of 1996. The second was a series of acquisitions in the media and broadcasting industries. As a result, the industry was reorganized with the big four companies: Comcast, Time Warner Cable, Verizon, and AT&T. The final step of the transition was the acquisition of Time Warner Cable by Comcast and the acquisition of DirectTV by AT&T. In a traditional sense, the media and telecommunication industries used to be understood as different industries and regulated with different legal perspectives. The industrial and legal conditions deterred the convergence between them. However, the Telecommunications Act of 1996 removed the barriers, promoted competition, and enabled potential convergence between the industries. Evens and Donders analyze the impact of the Telecommunications Act of 1996 as

"The Telecommunications Act of 1996 represented a seismic change in the American telecommunication landscape, creating a new regulatory environment that lifted cross-media ownership and fostered the convergence of broadcasters, phone companies and cable TV providers. In the wake of the Act, media, telecommunications and cable firms built strategic partnerships (e.g., AOL and Time Warner) helping them in vying for leadership in the dot.com marketplace". [9] (p. 674)

Due to the mild regulation, corporations were able to expand their business in a short period by entering a different market and acquiring customers in the different market segmentation [10,11].

In the case of European markets, various fixed and mobile service providers in the broadcasting industry are competing. The European Commission has pursued industry consolidation from 2011 and has reorganized the industry with a few European and non-European players [9]. According to Capgemini, the wave of consolidation of broadcasting and media sectors will be over soon and there will be a series of mergers and acquisitions in the European countries [12]. Consolidation between fixed line and mobile distribution is actively driving the change of the market landscape due to the dramatic transition of the main platform to mobile communications [9]. In the US market, the second largest mobile operator, AT&T, acquired the leading pay-TV firm, Direct TV. The global mobile service provider, Vodafone in the UK, acquired cable networks in Germany (Kable) and Spain (Ono). The series of consolidation by the large fixed and mobile service providers indicate that the leaders of the industries try to overcome the highly volatile and severe market competition by offering bundled service offers, thus lowering churn and customer acquisition costs [10].

The consolidation and convergence between media, telecommunication, and broadcasting sectors has become a common phenomenon across several countries. According to the report from KPMG in Korea (2015), mergers and acquisitions in the ICT (information and communication technology) sector are driven by service-related advancements such as the Internet, media, and communications. In 2015, the consolidation of service-related businesses increased 20.2% from the previous year and accounted for about 73% of all mergers and acquisitions activities in the ICT industry. The Chinese market witnessed a rapid growth in consolidation and convergence in the ICT industry. The M&A activity in the manufacturing sector decreased 4.5% in 2014 compared with 2013 but the service-related businesses in the ICT industry went up 36.8% in the same period. The report illustrates that although the expansion of M&A in global ICT corporations is vigorous, the local market in South Korea is showing a declining trend. PwC also reports similar trends in the European entertainment and media industry [5]. Due to the shift to digital platform in the entertainment and media industry, M&A agreements have become markedly widespread in the European market, and the total value of the deals in 2013 and 2014 was three times the annual levels from 2010 to 2012. The digitalization in the industry drives the traditional media companies to acquire or develop business partnerships with companies

who have digital capabilities. In addition, digital-based companies and new media firms pursue consolidation and convergence among them to expand their business operations and opportunities. The top M&A deals in the European market (see Table 1) also reveal that convergence and consolidation in telecom, broadcasting, and the Internet sectors are rampant and cause a transformation in the business environment and landscape.

Table 1. Top 10 European Deals, 2014 [5].

Date	Target	Acquirer	Sector	Deal Value (€m)	Country
Nov 14	Ziggo NV	Liber Global plc	Cable & Satellite	8481	Netherlands
Jul 14	Grupo Corporativo ONO SA	Vodafone Holdings Europe SLU	Cable & Satellite	7200	Spain
Nov 14	Sky Deutschland AG	BskyB	Cable & Satellite	5701	Germany
Jul 14	Nemericable Group	Altice SA	Cable & Satellite	4161	France
Nov 14	Sky Italia	BskyB	Cable & Satellite	3098	Italy
Oct 14	Get AS	TDC A/S	Cable & Satellite	1688	Norway
Mar 14	Trader Media Group Holdings Ltd	Apax Partners LLP	Online	1433	United Kingdom
Sep 14	VKontakte Ltd.	Mail.ru Group Limited	Online	1135	Russia
Apr 14	Berliner Morgenpost, Hamburger Abendblatt and others	Funk Mediengruppe GmbH	Publishing	920	Germany
Dec 14	Endemol, CORE Media, Shine Group	Twenty-First Century Fox, Apollo Global Management	Television	786	United Kingdom

2.2. Salient Aspects and Impacts of the Convergence

Existing research suggests that convergence means technological integration or the dissolution of regulatory boundaries between industries and sectors [11]. Emergence of Internet and digital technologies created the twin phenomena of convergence and globalization. Under the changed conditions, broadcasting and media companies face a business environment in which the traditional barriers which divide cable, telecommunications, broadcasting, and Internet are vanishing [4,11]. Convergence and globalization have intensified the emergence of conglomerates in these industries by allowing effective resource allocation among various service offerings and diverse local markets [13].

In general, horizontal integration allows companies to increase their market share, rationalize resource utilization, and achieve economies of scale. However, when companies recover both the opportunity costs and the actual costs of horizontal integration from customers, it will negatively impact social welfare. Particularly, companies with the dominant position in distribution can perform the role of the gatekeeper and delegate the power to the content providers [14]. Previous research reveals a positive relationship between market concentration and price increase, and excessive market concentration and monopoly can cause market asymmetry between operators and customers and harm media pluralism and diversity [9,15]. However, the opposite outcome suggests that the deepening market concentration does not always indicate impairment of social welfare. Firms with growing bargaining power will make service offerings which increase the benefits to consumers [16]. Therefore, corporations in a highly concentrated market are likely to carry on their business in their customers' interests. On the other hand, if the companies pursue their own benefits and revenue maximization, only negative consequences for customers and markets arise.

Vertical integration allows firms to increase operational efficiency and exercise their power in the market. The key advantage of vertical integration is that firms achieve stability and control via integration of the complete value chain from production to consumption [4,9]. Firms pursue vertical integration because content producers need the secure distribution channels, and the distributors require competitive content for the media consumers. Further, vertically integrated corporations are more likely to adapt quickly to the changes in technology and the market. Through the online platform or set-up boxes, they collect data about consumer behavior. By analyzing this data, they gain a competitive advantage through an understanding of consumer needs, and they develop new business models or service offerings [4]. As vertical integration erases the need for business operators upstream and downstream in the value chain, separate margins are eliminated, and the costs for customers can

be reduced [9]. However, firms that follow vertical integration can cause several negative effects in the market. Firstly, vertical integration causes a few companies to monopolize the market. Therefore, it gives little choice to consumers and can be detrimental to their interests. Secondly, it raises the entry barrier of the market, so new entrants may struggle. Thirdly, it forces vertical integration in the new market entrants, so eventually it increases the costs of entering the market. According to [17], when competitors move for vertical integration, others follow the same route to get competitive advantage and superior position in the market.

Media firms these days also pursue complementary cooperation. This trend is called “diagonal” or “cross-media” business cooperation. The diagonal or cross-media activities enable firms to flexibly utilize their expertise in different products and markets. Moreover, firms can realize the economies of scale and scope from the synergistic effects and business efficiency from the authorized sharing of the infrastructure of the businesses. Synergistic cooperation was actively pursued in the 1980s till the mid-1990s. A consumer electronics firm, Sony, entered the recording industry and another consumer electronics firm, General Electronics, moved into the broadcasting industry. With the expansion of the businesses, firms favored cross-promotion. Although it increases the possibility of monopoly in the market and negatively affects competition and diversity in the market, de novo expansion, such as offering new products, can positively affect competition and consumer welfare. It also prevents the dissipation of resources, and therefore, encourages efficient utilization of resources. However, it does not automatically offer positive effects to the corporations, and the cooperation is hardly successful when companies that pursue this practice are ignorant about the industrial and cultural differences in the different markets [17]. According to Hesmondhalgh, the conglomerates were formed differently in the late 1990s and 2000s [17]. Unlike the previous era, the telecommunication companies entered the media and cultural industries. The prime examples were the acquisition of a cable firm, TCI, including Liberty Media Group by AT&T in 1998, and the merger of AOL and Time Warner. However, the outcome of the M&A was uniformly unfavorable due to the decrease in the company’s value as the Viacom-CBS case proved. The M&A strategy was also criticized because it pursued the short-term revenue maximization goal of the firms.

Unlike the analog era in which the firms had a superior position in their relationship with the consumers, the digital platform enables an interactive dialogue between firms and consumers, and the latter’s role has expanded considerably. On the platform, consumers gain rights in terms of choosing the content, and this facilitates the consumption of niche content [18]. The recent major convergence in the media industry is the acquisition of YouTube by Google. The services like YouTube and Netflix became market leaders in the media industry in the digital age. The rise of the new and unique business models is threatening the existing businesses. SK Telecom also announced that the key reason for its acquisition attempt of CJ HelloVision was to protect their sector from the entry of transnational companies in the South Korean market. However, Kim et al. show that the competitive environment between pay-TV and OTT as seen in the US and European markets is absent in South Korea’s market [19]. They reveal that the relationship between pay-TV and OTT in South Korea is complementary rather than substitutive.

In a changing market environment due to the new technological advancements and their usage, M&As and convergence of firms would be an inevitable step for achieving a superior position in the market and maximizing revenue streams [9]. However, M&A does not always result in a favorable outcome as seen earlier. As the cases like the merger of AOL and Time Warner show, several critical issues such as contrasting corporate cultures, wrong decisions of the board, and self-conceit of the company can cause serious failure [20]. Stahl and Voigt also point out that the most critical reasons for the failure of convergence are differences in corporate cultures and company values [21].

2.3. The Move to Mobile

The recent convergence trend in the media and broadcasting industries disassembles the existing industrial structure and forms a new industrial system. The recent trend shows that convergence

between fixed line and mobile networks is increasing. Due to the emerging movement, convergence of media, telecommunication, and information technology (IT) industries facilitates “triple play” (convergence of telephony, Internet, and TV) or “quadruple play” (convergence of telephony, mobile services, Internet, and TV) [9]. Continuous innovation enables the diffusion of technologies, and the technological convergence allows consumers to access media content through various devices through the Internet connection [22]. Not only economic utility but also changing viewing habits of media audiences have reduced the dominance of TV, and increasingly mobile devices are used for viewing which has caused the big transition in the market. Several statistics also reflect the change in South Korea, which implies the weakening usage of traditional networks such as cable networks (see Figure 1) and the rise of mobile usage (see Figure 2).

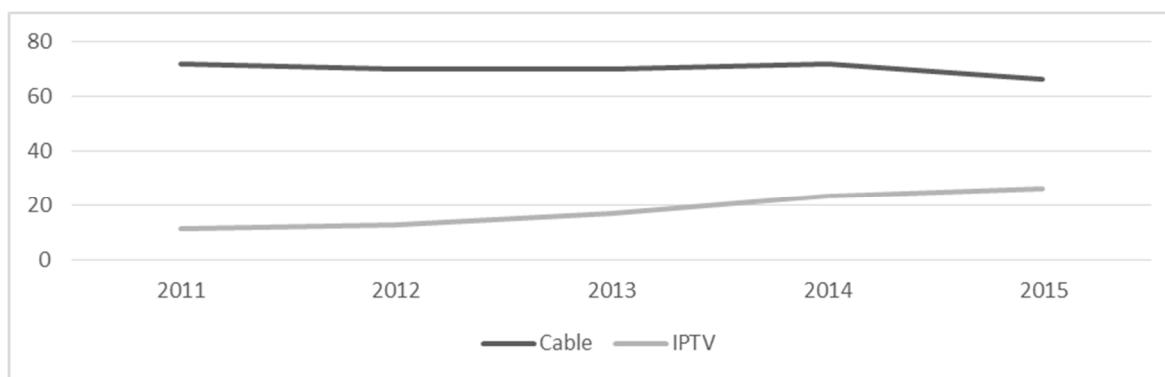


Figure 1. Movement in the number of subscribers for cable networks and IPTV [23].

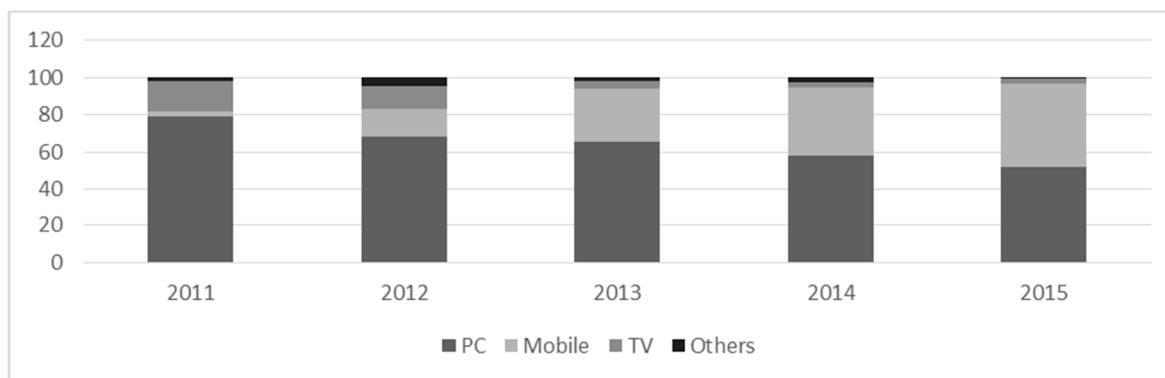


Figure 2. Break-up of devices for watching online video content [23].

Figure 1 suggests that the number of subscribers of cable networks have been steadily decreasing, but those of IPTV have been increasing. According to KISDI, media audiences who use different devices have been increasing in number [23]. In particular, audiences who use TV and smartphones together have reached 44%. As Figure 2 shows, consumers mostly use mobile devices to watch online video content rather than personal computers or TV. Use of mobile devices to watch VOD content has also risen from 4.5% in 2014 to 10.2% in 2015 [23]. In the US market, there has been a steady fall of cable subscribers, and they have joined IPTV or OTT services such as Netflix or Hulu. According to the Pew Research Center, 24% of Americans were not members of any cable network or satellite TV service [24]. The trend of rejecting the traditional networks is strong in the younger generation, which is familiar with the usage of mobile devices and alternative online video services. Due to this trend, the number of cable subscribers in the United States is expected to continuously decrease further.

3. Methodology

In this paper, I focus on the effects and aspects of convergence in the broadcasting and media industries. I have identified the important features of convergence and its potential consequences for the public, industry, and society. Analysis of the critical aspects and its consequences during a hostile acquisition attempt will offer in-depth understanding on the possible outcomes of the convergence and its impacts on personal, business, and societal levels. The understanding will be able to offer a possible new policy approach and the role of broadcasting and media sectors in the convergence era.

To investigate the research problems, I did a document analysis using newspaper articles. According to Bowen [25], “as a research method, document analysis is particularly applicable to qualitative case studies—intensive studies producing rich descriptions of a single phenomenon, event, organisation, or program” (p. 29). Document analysis, which is a systematic analysis of reviewing documents, can use electronic and printed materials. Documents can be of various forms, including diaries, maps, books, press releases, and newspapers. Merriam notes, “documents of all types can help the researcher uncover meaning, develop understanding, and discover insights relevant to the research problem” [26] (p. 118). This research can be effectively examined by other methods, such as doing interviews with stakeholders and experts in the field. However, there is a risk that the stakeholders or experts might offer biased perspectives rather than balanced views when the interview participants have special relationships with specific firms in the media industry, not just with SK Telecom or CJ HelloVision, but also with other competitors in media, telecom, and broadcasting industries. In addition, the newspaper articles published in this period cover the opinions and views from industrial experts, academic researchers, and other competitors, reporting on detailed discussions from public hearings, academic workshops, and media interviews on the topic.

I conducted a historical document analysis by examining newspaper articles from November 2015 to March 2016 when the hostile attempt took place, and public discussion in the media, the industry, and among policy makers was growing. These five months were the pivotal period (See Table S1). On 2 November 2015, the board of SK Telecom announced their decision to acquire CJ HelloVision. March 2016 was originally regarded as the date for the final approval of the acquisition, and at the shareholders’ meeting in February 2016, SK Telecom also announced that they would finalize the acquisition by March. The Fair Trade Commission in Korea also informed that they would finish the reviewing of the final report for the acquisition by March, although it was delayed until July, when the deal was finally rejected. During this period, articles about the acquisition were published in national and online newspapers.

For searching the news articles, Naver, the most popular website which aggregates and delivers news articles from several news media, was used. Selective keywords “SK Telecom, CJ HelloVision acquisition” were used to search the articles. News articles which were published from only the big five national daily newspapers (*Chosun Ilbo*, *Joongang Ilbo*, *Dong-A Ilbo*, *Kyunghyang Shinmun* and *Hankyoreh*) were searched for their generalized public opinion and for confirming reliability and validity.

The five newspapers have the highest readership rates in South Korea (See Figure S1). In addition, three of the newspapers (*Chosun Ilbo*, *Joongang Ilbo*, and *Dong-A Ilbo*) represent the political right wing, while the other two represent the political left wing. Therefore, choosing these five newspapers allowed politically balanced views on the topic to be obtained. Multiple newspapers were selected to achieve corroboration [27]. The research outcome suggests 74 news articles during the five months. Public documents were understood to offer unbiased and truthful accounts, so the analysis of newspaper articles could ensure competence, objectivity, and reliability [28]. There is a potential risk of analyzing newspaper articles as they reflect viewpoints and agendas of the individual journalist or media company. However, it has been accepted as a reliable source to understand prevalent public opinion [28]. Humphrey suggests the positive side of analyzing newspaper articles as “Unlike niche communications, such as blogs, magazines, or legal documents, this kind of mass-media discourse has particular relevance when studying public opinion because it both reflects and influences public perceptions” [28] (p. 6).

I conducted thematic analysis to identify the specific aspects of the issues in the acquisition attempt. While conducting the analysis, common themes emerged and the discussions under the themes were identified. By doing so, specific themes that were frequently discussed in the process of convergence in the broadcasting and media industries were identified, and it provided a detailed understanding about each aspect. It also highlighted the potential consequences of the convergence for public, industry, and society.

4. Results

From the analysis of newspaper articles, this research was able to identify three critical aspects in the process of convergence. These are economic, sociocultural, and industrial structure concerns. The findings show that each aspect is supported and argued by competing agenda and perspectives.

4.1. Economic Issues

On economic issues, price was the main concern. The group which supported the acquisition of CJ HelloVision by SK Telecom argued that post-acquisition, competition between the three big telecommunication companies, namely, SK Telecom, KT (Korea Telecom), and LG U+ could offer quadruple services, and cost to the consumer would likely decrease. With the growing competition, companies would make new bundled service offerings which would decrease the costs further. They criticized KT that its resistance to the convergence is to avoid price competition in the market. They also emphasized that although criticism about a strong possibility of price increase was justified, service providers cannot increase prices without relevant reasons, and it is mostly controlled by the Fair Trade Act. Supporters also asserted that the price of pay-TV in South Korea is regulated by the government, so the service providers do not have the full authority to increase the price.

However, the opposite side suggested several points which could lead to price increase. Firstly, after the acquisition, SK Telecom's market share in pay-TV would exceed 60% in more than 17 districts out of the total of 78 districts where the pay-TV service was available. This would lead to a price increase as the acquisition would result in the dominance of the pay-TV market by SK Telecom, and competition would be limited. Secondly, there was a possibility that SK Telecom would offer lower prices right after the acquisition, but could increase the prices eventually when its market share expanded. Thirdly, rather than increasing prices directly, they could reduce the level of services they offered. Finally, the price increase by exploiting the dominant position in the market could be regulated by law but there was no precedent of a legal remedy for the abuse of market dominance.

4.2. Sociocultural Issues

On sociocultural issues, two focal points, consumer rights and the public service nature and regionality of the media were identified.

On the issue of consumer rights, the advocates suggested that the acquisition could contribute to the development of bundled services between mobile and pay-TV. The development of the bundled services would increase competition in the pay-TV and mobile markets which would benefit the consumers. Further, the competition would also contribute to the improvement of service offerings such as the Internet and mobile. Therefore, convergence would directly influence market competition, and this would positively affect consumers and confer them benefits.

The opposite side criticized that the current digital broadcasting market is very market-oriented and marginal consumers experience difficulties in accessing broadcasting and media content. Therefore, if and when the acquisition materialized, marginalized people would face the higher barrier to access content. The company that acquires will offer bundled services, so the consumers will not have the freedom to choose the services they need. This will impair their right to choose a service offering. Pay-TV's declining market would discourage SK to invest in the service. Therefore, the lower investment would lead to poorer services, and this would negatively affect consumer welfare. Moreover, the company could force the consumers to switch from pay-TV to IPTV service, which

offers two times higher average revenue per household than pay-TV service. The right to choose channels and content could be severely impaired. The current cable service providers operate local channels in different districts, which offer local-level information and content that national channels cannot provide. This allows them to protect the localness and diversity in the content. However, the acquisition could contribute to the dominance of IPTV, which is based on national-level service. Therefore, this would eventually impede diversity and localness in media.

On the issue of public service nature and regionality of media, supporters and opponents had competing views. The supporting side suggested that even after the acquisition of CJ HelloVision, SK Telecom would carry out its duty as a provider of local channels. The competitiveness and role of the local channels is nominal. Therefore, the acquisition could facilitate the improvement of the level of service and competitiveness of local channels. Others suggested that the role of the local channels was very limited, so the harm to the regionality of media would not be high. In addition, the regulative change such as allowing independent program providers to produce local-related content could be an alternative option to protect the regionality of media.

Although the acquisition could offer some benefits for protecting the public service nature and regionality of media, opponents criticized that the acquisition would critically damage these aspects. The acquisition based on the logic of profits harms the principal objective of media, which is public service, and goes against the original function of cable TV which was to offer local-related content and the views from local people. In this regard, the opponents worried about losing the public service nature, regionality, and diversity of media, and the social value of cable TV would be replaced by the economic value. The necessity of accepting prerequisite and postcondition for protecting the influential role of media was required. As the big corporation could obtain the right to perform press reports in local areas, the fairness of the formation of public opinion could be endangered, and the big corporation would be allowed to report and provide information that favors its position. They could exercise their power over the government, relevant departments in the government, and politicians based on their opinion-making position at the local level. Although opponents suggested several important areas of concern for protecting the central role of media, the current legal environment prohibits the operation of local channels by providers of IPTV. Therefore, the acquisition of a cable TV provider by SK Telecom which operates IPTV service breaches the current law.

4.3. Industrial Structure Issues

On industrial structure issues, two critical points were identified. These are the issue of monopoly and oligopoly, and the issue of competitiveness of the broadcasting and media markets.

On monopoly and oligopoly, supporters argued that although there was a possibility of increasing dominance, it could be controlled by ex-post regulations. As the acquisition allows SK Telecom to become the second strongest player in the cable TV market to compete with the market leader, KT, the competitiveness of the market would be strengthened. The academic side argued that there was no previous research which clearly showed the negative effects of market dominance and monopoly and oligopoly. Market dominance has been a common issue after the development of bundled service offerings. Therefore, it was not a completely new issue which should be considered as a key point to reject the consolidation. Moreover, supporters argued that other countries did not regulate based on the expected outcomes. That is, they did not interfere in the process of consolidations based on the potential outcomes.

Several issues which could harm the market and consumers were also identified. The key issue was that the SK Telecom could solidify its market dominance, and this could deprive consumers of the right of choice. The opponents argued that market dominance was one of objects of regulation as it harmed public welfare. One possibility was that SK Telecom would spread its dominance from the mobile market to other markets too. In particular, CJ HelloVision was the market leader as MVNO (mobile virtual network operator) and SK Telecom would be able to become the market leader in both mobile and MVNO services. With the strong position, they would be able to offer discounted

bundle service offerings to expand market share in broadcasting and media industries. To join the bundled offerings, consumers need to sign contracts committing them for long periods (normally two or three years). This condition would favor SK Telecom to lock in the consumers and prevent them from choosing other service providers.

On competitiveness of broadcasting and media industries, the supporting side suggested that the acquisition would be able to offer several benefits to improve market environments. Some argue that the reorganization of the market to improve competitiveness is inevitable to compete with global digital media channels such as Netflix. Firstly, there are expectations about the synergistic benefits between two companies which have their own expertise. CJ has been known for producing quality content, and SK Telecom has managed a strong distribution channel for content. Therefore, the acquisition can offer benefits for both parties and the competitiveness of broadcasting and media industries can be improved. It is expected that synergy effects will be able to improve the competitiveness. Secondly, there is an expectation of the vitalization and expansion of investments in the broadcasting and media industries. Cable TV providers have been suffering from the severe competition in the market and the deterioration of profits for several years. In this environment, cable TV providers including CJ HelloVision have been unable to invest to modernize and improve the infrastructure and service offerings. Particularly, it is expected that the digital transition of cable TV networks will help to build the advanced next-generation distribution networks.

However, some concerns about the negative effects on the industrial structure have been mentioned. Firstly, the existing industrial structural issues have been caused by the dominance of the market by big corporations. In particular, the criticism is that SK Telecom with the dominant status in the mobile market has been selling bundled service offerings including IPTV, mobile services, telephony, and the Internet, and this has caused the significant decline of the cable TV industry. Further, due to the price dumping war with the bundled services, content producers have failed to receive an adequate share of the profits. Therefore, some argue that rather than improvement in service or infrastructure in the cable industry and synergy effects, it will further shrink and the acquisition of the leading company in the cable market will intensify the difficulties. Secondly, the opponents were concerned that contrary to the expectation, the consolidation can negatively affect competitiveness. Particularly, they criticize that there is no direct relationship between the acquisition by big corporations and vitalization of the content industry. Rather, there is a doubt as to whether the operator that is able to expand market share and dominance would consider the continuous investment. In addition, the increase of the market dominance by SK Telecom will undermine the bargaining power of content providers and cause unfair deals between them due to the power asymmetry in the market. In the end, two big corporations, SK and CJ, will dominate the broadcasting and media industries and small and medium content producers will fall behind. Finally, there is a criticism that the only concern for the telecommunication company was expanding market share and profits rather than concerns about the overall market competitiveness and consumer welfare. Critically, it is known that the telecommunication companies such as KT and SK Telecom have not had any interest in the improvement on the network system although it is a key issue to stimulate the cable industry. Therefore, the strategy of SK Telecom to acquire the leading cable provider should be understood as a strategy of buying subscribers rather than attracting subscribers through proper investment.

5. Discussion and Conclusion

5.1. Call for A New Policy Paradigm in the Transition of the Broadcasting and Media Industries

Pursuing consolidation is a key approach for companies making acquisitions to expand the market share in the short term. The most critical concerns of the recent attempt of the consolidation between SK Telecom and CJ HelloVision are with the market dominance and its effects on consumer and social welfare. Due to technological advancements and diversified media usage, the center of the broadcasting and media industries has moved to the Internet and mobile markets. This transition

threatens the conventional role and position of the cable service providers. It is expected that the cable industry, which is unable to keep their competitiveness, will be replaced by new and emerging services like IPTV, OTT, or mobile services.

Traditionally, the domination of distribution channels in the media and culture industries has enabled firms to dominate the market and increase profits. This circumstance is also applied to the current market condition in which the Internet becomes the key channel for content distribution and access [6,17]. In particular, in the South Korea market where three telecommunication companies dominate the telecommunications and media markets, there is a strong possibility that the three big corporations can dominate media distribution and consumption. Therefore, it is expected that the increasing influence of the companies is inevitable regardless of the acquisition. In this market condition, stakeholders in the market, such as policy makers, need to understand the changing nature of the market and prepare proper policy approaches in a way that secures consumer and social welfare in the market condition. For instance, for future consolidations, imposing not only the ex-post regulations, such as charging penalty for unfair corporate practices, but also ex-ante regulations, such as enforcing whether or not to conduct specific corporate practices, is required to secure market order [9,29]. Therefore, to eliminate the doubts about the convergence, as it is discussed in the case of the acquisition between SK Telecom and CJ HelloVision, and to protect consumer and social welfare beforehand, detailed considerations of ex-ante regulations in the economic, sociocultural, and industrial structure issues are required.

Unlike the past, the broadcasting and media industries no longer have limited participants and rigid boundaries. The boundary of broadcasting and media is blurring due to convergence. Therefore, the competition in the broadcasting and media industries occurs not only in the traditional sense of the industry border but also in the extended industry boundary. In this regard, the traditional rules and regulations in the broadcasting and media industries require changes, as they cannot properly regulate the diversified and complex market. Due to the acquisition attempt, the National Assembly Research Service in South Korea reveals the lack of preparation regarding policy in the era of convergence between broadcasting and media, and the lack of fundamental policy direction caused controversies in the discussion on the consolidation between SK Telecom and CJ HelloVison [30].

Apart from understanding the industry structure based on the traditional distribution channel, the era of convergence requires an understanding of the industry based on the perspective of the value chain. This means that it requires identical regulation of service providers on the same level of the value chain regardless of the technical infrastructure [9]. According to Evens and Donders, the lack of regulation based on the perspective of convergence fails to offer a level playing field; overseas telecommunication companies have specifically experienced a stronger regulation than cable or OTT service providers [9]. In the case of South Korea, the convergence technically materialized when the telecommunication system was utilized for the transmission of IPTV about ten years ago. However, different government departments and laws have regulated the broadcasting and telecommunication industries. For instance, the Korea Communications Commission deals with broadcasting and the Ministry of Science, ICT and Future Planning deals with telecommunications. In addition, the similar service offerings like cable TV, satellite TV, and IPTV have been regulated by different laws. Although the Integrated Broadcasting Act, which suggests regulating identical services with the same regulations, was passed in the cabinet and is about to be implemented, there is a still critical concern that the separated organizational structure, which is divided into the Korea Communications Commission and the Ministry of Science, ICT and Future Planning, makes it hard to achieve consistency and effectiveness of policy [31].

5.2. Public-Centric Public Interest of the Broadcasting and Media Industries

The controversial issue in the presented consolidation attempt is about the public interest of broadcasting and media. In particular, the public interest of broadcasting and media has continuously been a key concern when new media environments have been implemented. For instance, when cable

TV networks were introduced in the South Korean market, there was a criticism that the industrial logic would dominate the broadcasting and media environments. Therefore, securing public interest should be the first step in the process of the new media installation [32]. From the previous case, the transition of the industrial conditions is strongly related with not only the existing industrial structure, but also the social and cultural aspects in a society.

The term of public interest in broadcasting and media environment means to offer common social, cultural, political, and informational benefits. The public interest of mass media is to offer social, cultural, and political pluralism and diversity, and to secure the right of access and choice [33]. According to Iosifidis, the meaning of public interest has been constantly changing so the term is hard to define and different countries have different perspectives on the term [33]. Typically, there is an interventionist and non-interventionist approach. America, which favors free market principles, individual freedom of speech, and consumer choice, has shown the preference for a non-interventionist approach with minimum regulations. However, European countries have preferred an interventionist approach while focusing on the active role of citizens in a collective society. Nonetheless, with the rise of convergence between broadcasting, telecommunication, and media, the term “public interest” requires new definition [34]. Civil rights include a civil element, which refers to individual liberties such as freedom of speech; a political aspect, which refers to the rights to participate in political activities such as elections; and a social aspect, which refers to the rights of access to service [35]. According to Varney, the civil aspect has been improved, but the political and social aspects have been weakened [35]. Iosifidis indicates that this trend occurs in the terms used in regulatory languages and the particular case is that it uses terms like “consumers” or “customers” rather than “public” [11]. Therefore, at a policy level, the role of the public in social and political participation and rights is no longer a critical element. Rather, only the role of consumers exists.

Based on this understanding, the discussion concerning the market domination and market competitiveness due to the acquisition is still a producer-centric approach in the discussion of the production and distribution of media content and its public reception. A serious discussion about social and consumer welfare is needed, as well as a discussion about the changing competition condition of broadcasting and media industries. Therefore, it requires the awareness that every consumer does not have identical purchasing power [11] and the existing pay-TV pricing plan is not consumer-centric [6]. According to a survey from consumers in the United States, viewers only watch 9% of subscribed channels, and if they had the right to subscribe to a service with only channels they need, they can gain a 13% economic benefit compared to the current system, which requires them to subscribe to categorically pre-selected bundled TV channels by service providers [6]. In the process of the acquisition attempt, the critical understanding about consumer welfare and the right of access was required as the increasing dominance of IPTV in the broadcasting distribution and the possibility of selling bundled products with IPTV were expected as the outcome of acquisition. Therefore, it requires an examination of whether there is a violation of consumer rights in terms of the universal access to media. Although we live in an era of infinite access to information, economically, socially, or culturally marginalized people still experience difficulty in enjoying the advanced technological environment. The difference can cause not only the violation of the right of access to media, but also the issue of a digital divide and the access to culture.

SK Telecom announced that if the acquisition is approved, they will try to upgrade and reform the infrastructure and service to improve consumer welfare. However, it is doubtful that the suggestion can be a premise for such acquisition because the offering of better service to improve consumer satisfaction is an essential business practice as a business which has immense service subscribers. Therefore, such a premise should not be used to acquire new subscribers; rather, the company should regard it as a mandatory business practice for existing subscribers who pay service fees. In addition, the service improvement does not guarantee the public-centric public benefits. Notably, SK Telecom mentioned the utilization of big data analytics in the service offerings. However, it needs further scrutiny as to whether such services can offer autonomy, the right of choice, and diversity in media consumption.

There is a strong possibility that utilizing consumer data only allows the exploitation of consumer behaviors in various ways in favor of businesses and their profit enhancement, rather than improving consumer welfare and benefits [36]. It allows the commercialization of consumer participation and behaviors in the name of consumer-centric and participatory services [37,38]. Although consumers can feel that their autonomy and the right of choice is improved in the data-driven service offerings, there is a strong possibility that their choice and behavior will be largely managed in the logic of commerce, which favors the business operators who have authority in data collection, analysis, and utilization. The broadcasting and media industries have been representative businesses, which have worked hard to control consumer tastes in favor of advertisers and their organizations [6]. If companies exploit consumer data in every way to maximize revenues, the autonomy and diversity of media consumers would hardly be achieved. Therefore, the meaning of public interest in broadcasting and media should not be limited in the industrial context of media; rather, it should consider the access to service by the public, the condition of consumption, and its consequences in the perspective of social and consumer welfare. Lastly, I would like to emphasize that the research findings are based on document analysis. This research method can be beneficial to offering a generalized public perspective on specific topics, events, and issues. However, other methods, such as interviews, can also be an effective approach to understand the convergence in media industries. Therefore, I encourage further research on this topic using different research approaches and methods.

Supplementary Materials: The following are available online at <http://www.mdpi.com/2071-1050/10/2/544/s1>. Figure S1: The readership rate in South Korea (2017), Table S1: Pivotal time schedule for the convergence.

Acknowledgments: This research was partially supported by Barun ICT Research Center, Yonsei University, South Korea.

Conflicts of Interest: The author declares no conflict of interest.

References

1. Noh, S.R.; Kim, Y.H.; Choi, J. A Study on the Structural Changes of Media Industry: Focused on Cases of SK's Diversification and CJ's De-diversification. *J. Korean Serv. Manag. Soc.* **2015**, *16*, 183–206. (In Korean)
2. Küng, L.; Picard, R.G.; Towse, R. *The Internet and the Mass Media*; SAGE: London, UK, 2008.
3. Choi, J.K.; Ko, S.-M.; Ji, Y.G.; Hoontae, K. A Study on Value Grid for the Convergence of Broadcasting and Telecommunications in U-city. In Proceedings of the 2011 Society for e-Business Studies Autumn Conference, Seoul, Korea, 29 April 2011.
4. Doyle, G. *Understanding Media Economics*; SAGE: London, UK, 2013.
5. PwC. Reshaping Europe's Media Landscape: Pinpointing the Drivers of Media M&A. 2007. PwC. Available online: <https://www.pwc.de/de/technologie-medien-und-telekommunikation/assets/reshaping-europes-media-landscape-pinpointing-the-drivers-of-media-manda.pdf> (accessed on 20 December 2017).
6. Strangelove, M. *Post-TV: Piracy, Cord-Cutting, and the Future of Television*; University of Toronto Press: Toronto, ON, Canada, 2015.
7. Lee, M.-H. Characteristics of Korean TV Program Market. *J. Korea Contents Assoc.* **2010**, *10*, 146–154. (In Korean) [\[CrossRef\]](#)
8. Evens, T.; Donders, K. Television Distribution: Economic Dimensions, Emerging Policies. *Telemat. Inform.* **2016**, *33*, 661–664. [\[CrossRef\]](#)
9. Evens, T.; Donders, K. Mergers and Acquisitions in TV Broadcasting and Distirbution: Challenges for Competition, Industrial and Media Policy. *Telemat. Inform.* **2016**, *33*, 674–682. [\[CrossRef\]](#)
10. Chan-Olmsted, S.; Guo, M. Strategic Bundling of Telecommunications Services: Triple-Play Strategies in The Cable TV and Telephone Industries. *J. Media Bus. Stud.* **2011**, *8*, 63–81. [\[CrossRef\]](#)
11. Chon, B.S.; Choi, J.; Barnett, G.; Danowski, J.A.; Joo, S.-H. A Structural Analysis of Media Convergence: Cross-Industry Mergers and Acquisitions in the Information Industries. *J. Media Econ.* **2003**, *16*, 141–157. [\[CrossRef\]](#)

12. Capgemini. Communications Industry: On the Verge of Massive Consolidation. Available online: <https://www.capgemini.com/resources/communications-industry-on-the-verge-of-massive-consolidation/> (accessed on 15 February 2018).
13. Hoskins, C.; McFadyen, S.; Finn, A. *Global Television and Film: An Introduction to the Economics of the Business*; Oxford University Press: Oxford, UK, 1997.
14. Adilov, N.; Alexander, P. Post-TV: Piracy, Cord-Cutting, and the Future of Television. *Econ. Lett.* **2006**, *91*, 307–311. [[CrossRef](#)]
15. Iosifidis, P. Pluralism, media mergers and European merger control. In *The Palgrave Handbook of European Media Policy*; Donders, K., Pauwels, C., Loisen, J., Eds.; Palgrave Macmillan: Basingstoke, UK, 2014; pp. 461–475.
16. Adilov, N.; Alexander, P.; Cunningham, B.M. Smaller Pie, Larger Slice: How Bargaining Power Affects the Decision to Bundle. *J. Econ. Anal. Policy* **2012**, *12*. [[CrossRef](#)]
17. Aris, A.; Bughin, J. *Managing Media Companies: Harnessing Creative Value*, 2nd ed.; Wiley: Chichester, UK, 2009.
18. Anderson, C. *The Long Tail*; Random House Business: London, UK, 2006.
19. Kim, S.; Kin, J.; Nam, C. Competitive dynamics in the Korean video platform market: Traditional pay TV platforms vs. OTT platforms. *Telemat. Inform.* **2016**, *33*, 711–721. [[CrossRef](#)]
20. Klein, A. *Stealing Time*; Simon & Schuster: New York, NY, USA, 2003.
21. Stahl, G.; Voigt, A. Impact of Cultural Differences On Merger And Acquisition Performance: A Critical Research Review And An Integrative Model. *Adv. Merg. Acquisit.* **2005**, *4*, 51–82.
22. Lee, S.; Lee, S.; Brown, J. Growth of Global Over-the-Top and Korean Media Market: Competition and Regulatory Policy Issues. In Proceedings of the 14th International Telecommunications Society (ITS) Asia-Pacific Regional Conference, Kyoto, Japan, 24–27 June 2017.
23. KISDI. Media Retention and Usage Change. KISDI Stat Report 15–17. 2015. Available online: <https://www.kisdi.re.kr/kisdi/fp/kr/publication/selectResearch.do?cmd=fpSelectResearch&curPage=2&sMenuType=3&controlNoSer=43&controlNo=13750&langdiv=1&searchKey=TITLE&searchValue=%B9%CC%B5%F0%BE%EE&sSDate=&sEDate=> (accessed on 15 December 2017).
24. Pew Research Center. Home Broadband 2015. Available online: <http://www.pewinternet.org/files/2015/12/Broadband-adoption-full.pdf> (accessed on 15 February 2018).
25. Bowen, G. Document Analysis as a Qualitative Research Method. *Qual. Res. J.* **2009**, *9*, 27–40. [[CrossRef](#)]
26. Merriam, S. *Case Study Research In Education: A Qualitative Approach*; Jossey-Bass: San Francisco, CA, USA, 1988.
27. Golder, P. Historical Method in Marketing Research with New Evidence on Long-Term Market Share Stability. *J. Market. Res.* **2000**, *37*, 156–172. [[CrossRef](#)]
28. Humphreys, A. Megamarketing: The Creation of Markets as a Social Process. *J. Market.* **2010**, *74*, 1–19. [[CrossRef](#)]
29. Kim, H.-S. Characteristics of the Telecommunication Market and Ex Post Regulation of Anticompetitive Conducts in the Telecommunications Business Act. *J. Law Econ. Regul.* **2010**, *3*, 55–71. (In Korean)
30. National Assembly Research Service. The Issues and Future Tasks of SK Telecom-CJ HelloVision's M&A. Issue and Point 1143. Available online: http://www.nars.go.kr/brdView.do?cmsCd=CM0018&brd_Seq=18325 (accessed on 13 November 2017). (In Korean)
31. Park, H.-J. The Era of Convergence in Broadcasting and Telecommunication but the Divided Regulations. *News 1 Korea*. 31 December 2015. Available online: <http://news1.kr/articles/?2530696> (accessed on 15 February 2018). (In Korean)
32. Lee, S.Y. Korean Cable TV as the Public Sphere—Evaluating Cable TV Performance through Conceptualizing the Concept of the Public Sphere. *KJJCS* **1997**, *42*, 360–390. (In Korean)
33. Iosifidis, P. *Mapping Digital Media: Digital Television, The Public Interest, and European Regulation*; Open Society Media Program Reference Series; Open Society Foundations: New York, NY, USA, 2012.
34. Joo, C.-M. The Change of Industrial Structure and Public Interest as to the Convergence of Broadcasting and Telecommunications. *Korean J. Commun. Inf.* **2006**, *36*, 109–132. (In Korean)
35. Varney, E. Regulating the Digital Television Infrastructure in the EU. Room for Citizenship Interests? *SCRIPT-ed* **2006**, *3*, 22–242. [[CrossRef](#)]

36. Mayer-Schonberger, V.; Cukier, K. *Big Data: A Revolution That Will Transform How We Live, Work and Think*; John Murray: London, UK, 2013.
37. Allen, M. Web 2.0: An Argument against Convergence. *First Monday*. 2008. Available online: <http://firstmonday.org/htbin/cgiwrap/bin/ojs/index.php/fm/article/view/2139/1946> (accessed on 15 February 2018).
38. Fuchs, C. Information and Communication Technologies and Society: A Contribution to the Critique of the Political Economy of the Internet. *Eur. J. Commun.* **2009**, *24*, 69–87. [[CrossRef](#)]



© 2018 by the author. Licensee MDPI, Basel, Switzerland. This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (<http://creativecommons.org/licenses/by/4.0/>).