

Vivendi's Woes Show No Quick Fix for New Media Conglomerates

Charles Abrams, Anne-Marie Roussel

Vivendi International and other media conglomerates need new production architectures and more business integration before they can become profitable. This will take years to achieve.

NEWS ANALYSIS

Event

On 2 July 2002, Jean-Marie Messier resigned after six years as chairman and CEO of Vivendi, following a 60 percent fall in stock price this year. He leaves Vivendi with 17 billion euros (\$17.3 billion) of debt. The new CEO is Jean-Rene Fourtou, who was appointed on 3 July 2002.

Analysis

Under Messier, Vivendi was transformed from a French water utility into a media conglomerate by a series of multibillion-dollar acquisitions, most notably of Seagram and its Universal film, music and other media units. Vivendi's present problems indicate the difficulties companies face as they diversify into new media content types and distribution channels. The problems stem from:

- Too rapid growth — It paid too much for media assets; the slowing economy led to falling advertising and content revenue, and mounting debt. Also, recent financial scandals caused Vivendi's stock price to fall further on hints of financial irregularities.
- Benefits from integrating content producers (particularly, MCA/Universal) with Internet distribution have not yet materialized (also a problem at AOL Time Warner and others). We believe that synergies between traditional and new media will take at least four years to materialize, since it will take time to change business processes often developed over decades. Consumer demand for high-tech content delivery will also be slow to develop.
- Vivendi has not yet effectively consolidated merged units and developed a worldwide business culture that can adapt rapidly. In addition, it did not have a full grasp of traditional production and distribution processes for broadcast and entertainment content.

We believe it will be at least early 2004 before the new media sector has profitable business models for new media content development and distribution. Traditional and new media convergence is not just about technology development and interactive penetration. It also requires new content-production processes built around network-based production architectures and multichannel content delivery.

All content providers should consider moving to digital, repository-based production architectures that enable cross-platform multichannel content delivery and more cost-effective means of production. They should also provide incentives for people and business units to cooperate on process integration for critical production functions. This combination of asset management and business integration should be part of all media companies' business strategies for the next five years.

Analytical Source: Charles Abrams and Anne-Marie Roussel, Gartner Research

Reference Material and Recommended Reading

- "Convergence: Understanding a Transformation Imperative " (SPA-14-0750). Long-term strategic planning will be hindered unless differing aspects of convergence (industry consolidation, technology convergence, market and content convergence) are addressed and understood. **By Charles Abrams**

- "Commercial Content: Burning Questions for Managers" (SPA-13-6395). Businesses that answer these key content-management questions will be at a significant competitive advantage over those that do not. **By Charles Abrams**

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REGIONAL HEADQUARTERS

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters
Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters
Level 7, 40 Miller Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Latin America Headquarters
Av. das Nações Unidas 12.551
9 andar—WTC
04578-903 São Paulo SP
BRAZIL
+55 11 3443 1509