CME AND BROADCASTING IN THE FORMER COMMUNIST COUNTRIES

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Abstract

The development of commercial television in the former communist countires was closely associated with the activities of Central European Media Enterprises (CME) and particularly its successful Czech station, TV Nova. This article looks at the overall strategy of CME, and shows that while it had some important successes, its primary strength was its political connections rather than its grasp of the television business. As the market developed, so its weak business model became more and more apparent. Its failure to win national licenses in Poland and Hungary, and the failure of its attempts to force an entry into those markets, meant that its prospects for commercial success were very small indeed. Its share price collapsed, its operating losses mounted, and by early 1999 it was entirely dependent upon the bounty of its rich founder, Ronald Lauder. It faced a choice of collapse or take-over. In the event, it was taken over by SBS, a US-owned niche broadcaster active in peripheral western European markets. The overall lesson of this experience is that broadcasting in central and eastern European countries depends on “political capital.” In order successfully to enter the market, political connections are essential. Where these are absent, it is very difficult to develop a competitive position. On the other hand, once a company is broadcasting commercially, then the small size of the advertising market means that there is a bitter competitive struggle. Just as in western capitalism, those who cannot survive the competition are forced out of the business. CME was a casualty of the very logic that it introduced to the region.

Introduction

The changes to broadcasting in Central and Eastern Europe over the last decade have integrated it much more closely in to the world television market (Jakubowicz 1996). One of the most striking developments has been the growth of foreign-owned companies, notably the chain of stations controlled by Central European Media Enterprises (CME). Starting in the former East Germany, this company was the most persistent and aggressive of western entrants into the market. In March 1999, it was announced that the company was to be taken over by another broadcaster, SBS, whose main strengths lie in western Europe, and who valued their new acquisition at around $615 million (Collins 1999). In this article, I want to examine some aspects of the history of CME and its various strategies, and in particular the reasons for its rise and decline. Undertaking such a study will, I believe, not only gather together valuable information about the changes in ownership and control in the region but also dispel some of the many myths about the company itself.

My focus in this paper is on CME as a whole. While I will inevitably discuss examples of particular operations in different national contexts, it is not my main purpose to provide detailed analyses of each case. This is partly because I lack the expertise to provide the kinds of analysis that others have furnished for particular countries. The other reason, however, is that it is precisely the overall picture of CME's operations on which I wish to concentrate, since it is this that illuminates my theoretical concerns.

The collapse of communism marked the end of a major experiment in economic, political and social autarchy. Since 1989, the economies of the post-communist societies have struggled to integrate themselves into the world market, with varying degrees of success. Politically, these countries have wrestled with the problems of the transition to the forms of capitalist democracy and many have attempted to integrate themselves more closely into international organisations like the Council of Europe, NATO and the EU. Aspects of CME's operations in different countries provide a good case study of how local and international business groups relate to each other in the course of this process.

CME, and in particularly its very successful Czech operation, have attracted a considerable amount interest. There has been some admiring, not to say hagiographic, commentary, balanced by bitter personal attacks, on the personality of its main Czech agent, Vladimir Zelezny (for an example of the hagiography, see: Madden 1997; for a relatively moderate example of criticism, see Druker 1997). A concentration on this example, has, I think, led to the attribution of certain mythic qualities to CME. It is often seen, for good or ill, as a more or less irresistible force that swept through the region carrying all before it (Amdur and Johnson 1996). An examination of the wider picture can help dispel these myths and illuminate CME as an organisation with the kinds of strengths and weaknesses that one would expect to find in any business.

In order to address these two areas of interest, I first look at the overall structure and ownership of CME, and consider the nature of its business. The succession of new initiatives is considered in historical sequence, and the general features of the strategies employed are analysed. I then move on to consider the strengths and weaknesses of the CME project, the reasons for its successes and the causes of its failures. Finally, I try to sum up the general lessons of the experience from a theoretical point of view.

A Short History of CME

Central European Media Enterprises began to trade on the US NASDQ stock exchange under the label "CETV" in June 1994. Its history, however, goes back at least as far as the foundation in 1991 of the Central European Development Corporation, which shared much of the same capital base and personnel, notably the future Chairman and major shareholder of CME, Ronald S. Lauder. A company with its registered office in Hamilton in Bermuda, whose Chairman resides in New York, which located its head office in London and had, by March 1999, 41 subsidiaries in 13 different countries including the Netherlands Antilles, does rather sound as though its main business involves drugs, arms or money laundering, but this complex web of interlocking interests is in fact a commonplace for even moderately-sized and completely legitimate businesses. While the company was traded on a US stock market, and most of its key holding companies were based in the west, the vast majority of its broadcasting operations were conducted in European countries that had once been communist.

The history of its operations in Europe is outlined in Figure One, although such a simplification necessarily misses the detail of the bizarre relationships that were so characteristic of much of the period. In particular, the exact nature of the holdings in different joint-venture companies has altered over time, sometimes quite substantially, and here only the most important of the percentages are given, for the sake of simplicity.

Contrary to what is often claimed, CME's first venture into broadcasting was not TV Nova in the Czech Republic. In February 1993 the company, while it was still officially known as the "media arm of the Central European Development Corporation," in alliance with a number of German partners, gained four licenses to broadcast local television programming. These licenses were: in Berlin-Charlottenberg (1A TV), in the operating company of which CME had an initial 43.25 per cent share and Nurnberg (Franken Funk and Fernsehen — FFF), of whose operating company it owned 50 per cent. It was at that time pursuing, unsuccessfully as it turned out, further licences in Stuttgart and Mecklenberg-Vorpommern. It was later to acquire an interest in Leipzig and Dresden (Sachsen Funk and Fernsehen — SFF), of whose operating company it owned 49 per cent. In November 1993, 1A TV began broadcasting to the six million inhabitants of Germany's largest city (CME Prospectus 1994). The other stations were slower off the mark, and SFF was never to broadcast at all before the CME withdrew from its engagement on 31 December 1997.

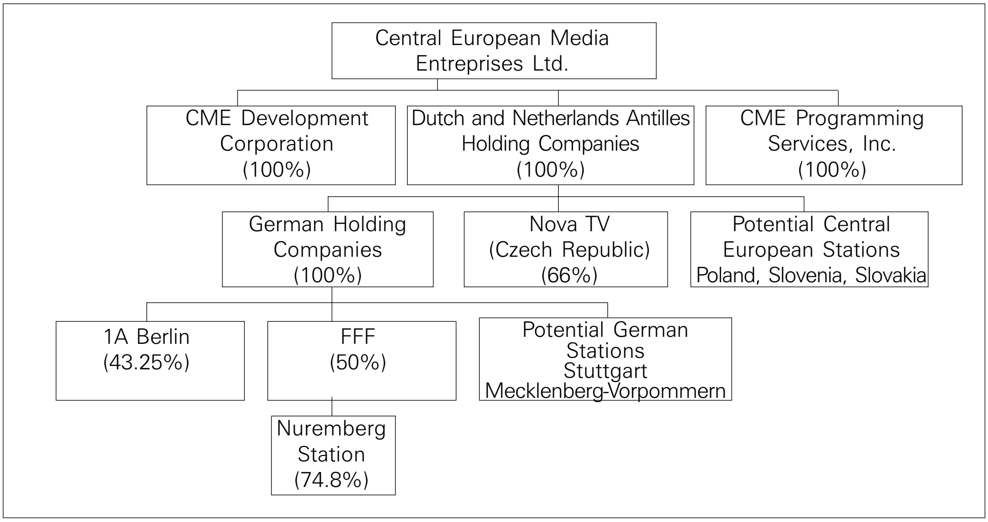
The next venture was the much-better known Czech operation. In January 1993 a group of six Czech intellectuals, including Vladimir Zelezny, won a licence to broadcast on a national channel in the new Czech Republic. Their company was called Central Europe Television for the 21st Century (CET-21). It won the licence, which included a series of tight restrictions on the kinds of programming to be broadcast, in alliance with a company in which CME had an initial 66 per cent share and the Czech bank Česka Sporitlena had 22 per cent; CET-21 controlled the remaining 12 per cent. The licence holders contracted with the company to provide a broadcast service called TV Nova, which began broadcasting in February 1994. The station, as is well-known, was an immediate success and by the end of its first year of operations had consolidated a 70 per cent share of the audience, the majority of advertising revenue, and was showing an operating profit well ahead of schedule. Still, today, it regularly gains

Figure 1: Central European Media Enterprises in Europe 1993-1999

	Operations by Country	Main Features of Station Ownership	Audience Reach and Share	Notes
November 1993	Germany PULS (1A TV).. FFF, SFF	CME held PULS 50% (to 55.9%) FFF 50% SFF 49%	PULS 1% FFF unknown SFF unknown	Loss-making stations closed in 1997
February 1994	Czech Republic TV Nova Radio Alfa	CME holds 99% stake after CS Bank buyout and CET-21 take-over	99% reach 70+% at first 50+% now	Great success story accounting for most of group operating profits
December 1995	Romania Pro TV	CME holds 66% stake Sarbu 15% Tiriac 19% since 1997	77% reach 38% in area	Aggresive management with ambitions for regional production
December 1995	Slovenia Pop TV Gajba TV	CME holds 78% MMTV 1% Tele 59 21%	84% reach Pop 38% in area Gravis 2.1%	Considerable success, has second channel
August 1996	Slovakia TV Markiza	CME holds 49% Markiza-Slovakia holds 51%	92% reach 32 % share	Local partners have fallen out badly
October 1996	Ukraine Studio 1+1 Gravis	CME holds 60% (Up from 50% Dec. 1998) Gravis 30%	95% reach 32% share	Local partner Vadim Rabinovich alleged big-time crook
October 1997	Poland TVN	CME held 50% to Dec. 98 ITI bought remainder and now has 100%	45% reach 8.5% share	CME lost struggle with partner ITI over station profile, withdrew Dec. 98
October 1997	Hungary TV3 Videovox	CME holds 99% (Up from 89% Dec. 1998)	41% reach 3% share	Cable venture launched after national licence bid failure

more than 50 per cent of the Czech audience, and is a serious competitor with another CME company, TV Markiza, in parts of the Slovak market. The history of Nova has been thoroughly covered by other writers, and I will not repeat what is already common knowledge here (Dziadul 1999a). The company's image of itself is well-presented in the corporate map it presented to potential shareholders in October 1994, reproduced as Figure Two.

Figure 2: CME's View of Itself in October 1993



In December 1995, CME launched two new ventures. In Romania it launched Pro TV, in alliance with a well-known Romanian film-maker, and minister in the first post-communist government, Adrian Sarbu, and a sports star turned banker, Ion Tiriac. This station is available to most of the population of Romania. The structure of the company has changed a little over time, but in March 1999, CME owned 66 per cent of the company, down from an initial 77 per cent, Tiriac owned 19 per cent and Sarbu 15 per cent. Pro TV, like Nova before it, adopted an aggressive local management style, headed by Sarbu, and gained a 45 per cent audience share in its operational area and, in February 1998 it launched a second channel, A Casa TV. The company operates closely with Sarbu's production interests and other media ventures, and has its main local overdraft with Tiriac's bank ("USA: Pro TV call for a united CME," 1997).

The second December 1995 launch was in Slovenia, where Pop TV was assembled out of a number of fragmented companies operating with regional and local licenses (Dawtrey 1996). The operating company is ProPlus, in which CME held a 78 per cent stake in March 1999, alongside Slovene companies Tele 59, which owns 21 per cent and MMTV, which has the remaining 1 per cent. Again, the record is one of considerable success. Despite an initial legal wrangle with SBS (of all people) over the ownership of a cable operator, Kanal A, Pop TV has established a 45 per cent audience share and the company launched, in October 1997, a second channel, Gajba TV (Guider 1997).

In August 1996, CME entered a partnership with the Slovak company Markiza-Slovakia (Ad Age World Wire 1996). The latter holds 51 per cent of the stock in Slovak Television Company, the operating company for TV Markiza, and is the possessor of a broadcasting licence that currently allows it to reach the bulk of the country's population. Again, in audience terms, this company has been a success, establishing an audience share of around 40 per cent. In other respects, however, the venture has a less happy history. The original owners of Markiza-Slovakia were the partners Pavel Rusko and Sylvia Volzova, and Rusko became the General Director of the new station. In complex and obscure financial dealings a couple of years before, however, he had allegedly secured a loan against the company and its assets. In 1998, he defaulted on this loan and the company which had acquired the rights, Gamatex, bought Markiza-Slovakia in a court-organised auction. Gamatex, and its owners, Marian Kocner and Stefan Agh, moved to take over the station in August 1998, sending armed security men to occupy the studios. Opposition politicians saw the take-over as an attempt to impose pro-government influence on the news coverage of the pending election and helped Rusko organise a public protest against the seizure. CME took an abstentionist position while the two sides fought it out, and backed a compromise deal that saw Rusko re-instated as Director General (Meils 1998a; 1998b).

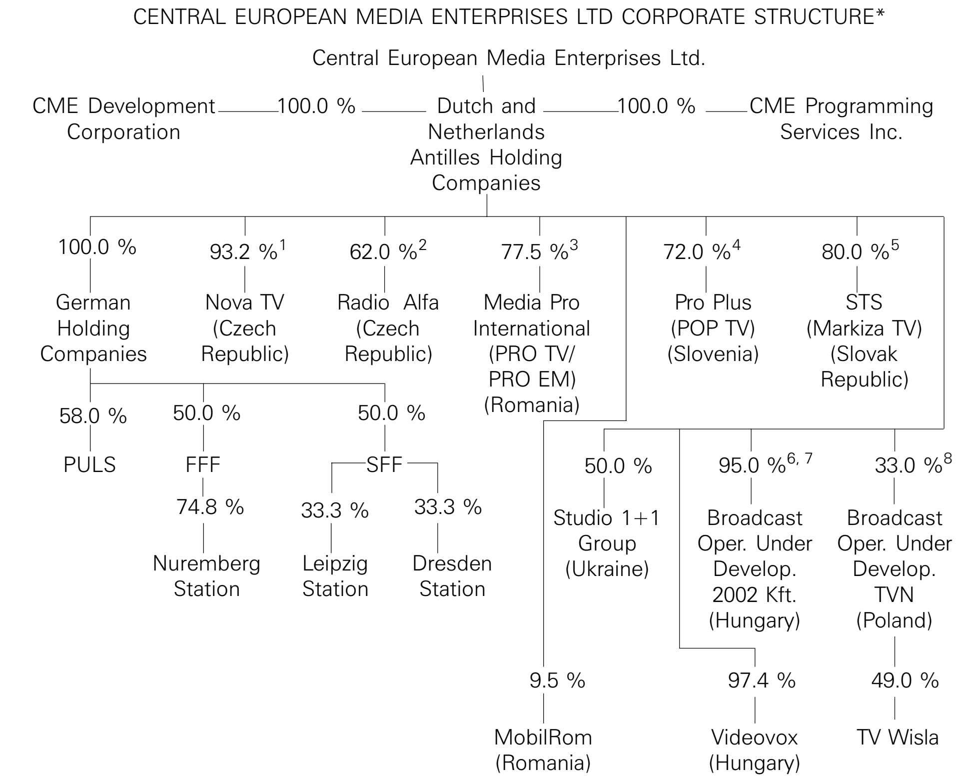
The second launch in 1996 was a deal to set up Studio 1+1 in the Ukraine. CME initially held 50 per cent of the Studio 1+1 Group, in partnership with Ukrainian film-maker Olexander Rodnyansky and the more shadowy participation of one Vladimir Rabinovich. Shortly after its launch, Studio 1+1 was able to gain a licence to broadcast on the main national channel, and the award of this licence led to court actions by aggrieved competitors claiming that political pressure had been applied to produce this result. Despite the inconclusive wrangling, the channel has achieved around 33 per cent of the audience in its distribution area. Partly in order to distance itself from some of the criticisms of its local partners, CME acquired a further 10 per cent stake in the Group (Dziadul 1998).

1997 also saw two launches, one in Poland and the other in Hungary. Neither of these was for national frequencies. In Poland, CME had lost out to the Polish-controlled Polsat for the first national commercial licence and had been forced to try to build up from a number of local licences (Done 1996). In October 1997 it launched TVN in association with the Polish-owned, Luxembourg-registered media company ITI . The structure of the deal was extremely complex, but essentially CME held a 50 per cent share in the operating company, with ITI holding the other half, although CME also held a small share in ITI itself. The station was a grouping of local licences in the main population centres that was intended to act as if it were another national channel. In the event, it was an abject failure, never gaining more than about 8 per cent of the audience in its distribution area (MacMillan and Simpson 1998).

The Hungarian operation was also a "second-best" venture. CME had bid for a national terrestrial licence and, in preparation for its expected victory, purchased the Hungarian rights to 10,000 hours of programming and acquired a dubbing company, Videovox. It also launched a local cable channel in Budapest. In the event, the licences went elsewhere, notably to an SBS-backed operation. The response of CME was, in partnership with Alliance Hungary, to try to build its Budapest-based operation in to a quasi-national satellite channel called TV3, through alliances with local cable operators (Lieven 1997). This strategy proved unsuccessful, and TV3 has not managed to gain more than about a 7 per cent audience share in its distribution area.

Early 1997 was the high point for CME. Up until then, its successes, notably that in the Czech Republic, had been seen to outweigh its failures, for example in Germany, and were certainly much better publicised. Its view of itself at that point in time is well illustrated by the corporate map that appeared in the *Annual Report* for 1996 published early in 1997 and reproduced as Figure Three. The picture presented is one of a coherent and well-organised company, with successful and well-established products across a range of markets, and new ventures undergoing vigorous development. It was only a matter of time before the commercial success of the Czech operation was duplicated throughout the group and the elusive goal of profitability, and thus dividends for the shareholders, would be realised.

Figure 3: CME at Its Highpoint in 1997



1. The Company is in the process of registering its recent acquisitions of additional interests of Nova TV under Czech law, raising its economic interest in Nova TV from 66.0% to 93.2%.
2. The Company has outstanding loans to Radio Alfa which are convertible into an additional equity interest which, when combined with its current 62.0% interest, would give the Company an 84.0% interest in Radio Alfa.
3. The Company's partners in Romania hold options to purchase equity from the Company which, if exercised, would reduce the Company's equity interest to not less than 66%.
4. The Company owns 58.0% of the equity in Pro Plus, but has an effective 72.0% economic interest, as a result of its rights to 33.0% of the profits of MMTV and 33.0% of the profits of Tele 59.
5. The Company has an 80.0% economic interest and a 49.0% voting interest in STS.
6. The Company or its local partners have acquired television broadcast licenses (or are applying for television broadcast licenses) and are developing broadcast operations in these countries.
7. As a condition to bidding on a national broadcast license, the Company will be required to reduce its interest in 2002 Kft. to below 25.0%.
8. TVN, the Company's Polish subsidiary, in which it has a 33.0% equity interest has been awarded television broadcast licenses in northern Poland and the cities of Warsaw and Lodz. TVN currently owns 49.0% of TV Wisla and has an option which could increase TVN's equity interest in TV Wisla and has an option which could increase TVN's equity interest in TV Wisla to approximately 76.0%.

* All interests indicated are economic interests; equity and/or voting interests may vary. (Source: *Annual Report*, 1996)

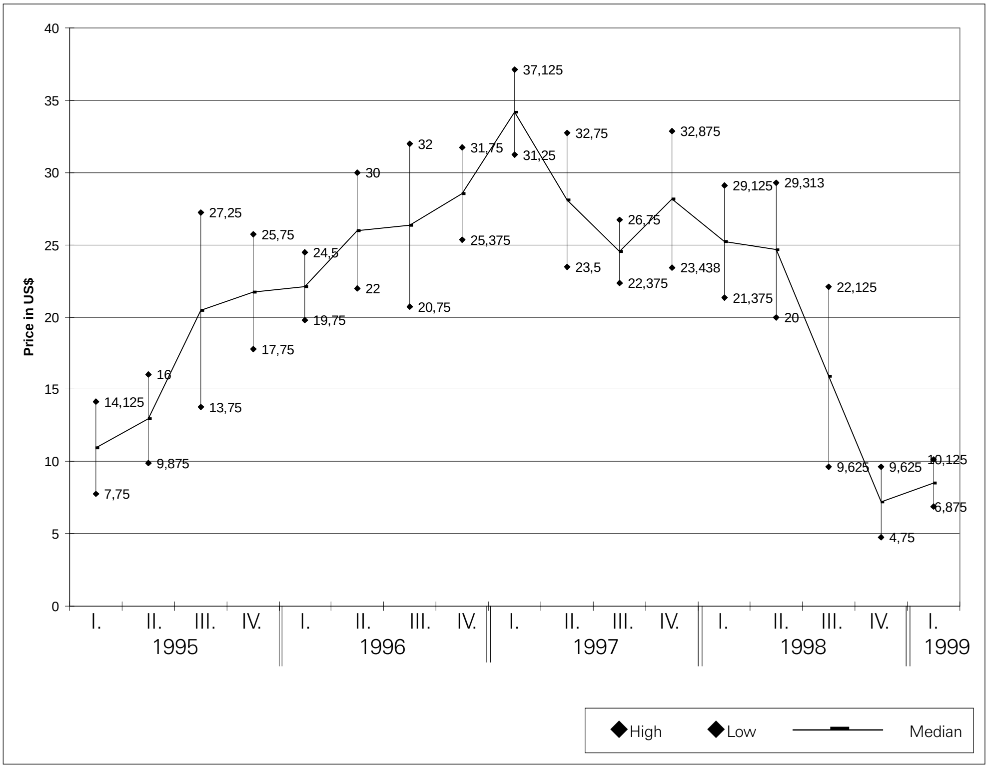
The high point was also the turning point. In May 1997, the long-running crisis in Germany came to head. 1A TV had not managed to get more than around a 1 per cent audience share and had been re-launched as PULS TV, without materially altering its success. For 18 months, the other major shareholders, who included George Soros, had been refusing additional capital inputs, and as a consequence CME had been increasing its equity in return for operating capital. On 13 May 1997, it announced that it would make no further funds available and PULS TV filed for bankruptcy. The ownership of the other two German stations was transferred to their local management and CME withdrew from the Federal Republic on 31 December 1997 (CME 10K 1998, 24).

The crisis continued in 1998. Neither the Polish nor the Hungarian ventures showed any signs of growth, and the strategy of rapid expansion that had been adopted for the past five years was obviously at a turning point. On 25 March 1998, Leonard Fertig, who had been President and CEO throughout the period of rapid expansion, left the company (for a generous reward). He was replaced by Michel Delloye, formerly of CLT Multimedia, who announced a new strategy of consolidation and shareholder value (CME 10Q 1998). In accordance with this perspective, much of the Hungarian stock was "written down," and in December 1998 CME sold its share of TVN to its Polish partner.

The extent of the crisis, and the market's loss of confidence in the company, is dramatically illustrated by the movements of the share price illustrated in Figure Four. The quarterly spread of prices was usually quite wide, illustrating the fact that market views of the company varied considerably even over the short term throughout the period, but the trend of the median price is quite clear. Immediately after the IPO, and early in the life of the company, the share price reflected the fact that it could tell a coherent and convincing story to prospective investors. While CME always said that it was not paying a dividend, and had no intention of doing so in the foreseeable future, it could argue that it was establishing a strong market position that meant the certainty of future profitability. The operating capital needed to sustain a company that had yet to show a net profit could come from share issues. Investors would buy the stock confident that they would see profits in the short term from the rising price of stock, and in the long term from future earnings. The fact that Nova had shown an operating profit from the first year was convincing evidence of the story, so long as there were no other setbacks to complicate things. But there were, increasingly, setbacks. As the story became less convincing and less coherent in the course of 1997, the share price started to tumble, and the company was forced to raise operating capital by means of a $200 million bond issue. This, however, imposed further strains on the balance sheet since it entailed substantial interest payments, and as the extent of the Polish disaster became clear in the course of 1998, the share price fell further.

Despite the fact that it was a traded company, it was immune to hostile take-over since Ronald Lauder continued to own a majority of the voting shares. Clearly, however, he could see little prospect of ever turning his previous investments to a profit, and following the replacement of Delloye as CEO by Fred Klinkenhammer in March 1999, the company agreed to merge with SBS. Although Lauder remained as co-chair of the new company, it was clearly as a junior partner, since the CME component of the new company was valued at only 33 per cent of the total. The six-year roller coaster of CME was finally at an end.

Figure 4 : CME Quarterly Share Price 1995-1999

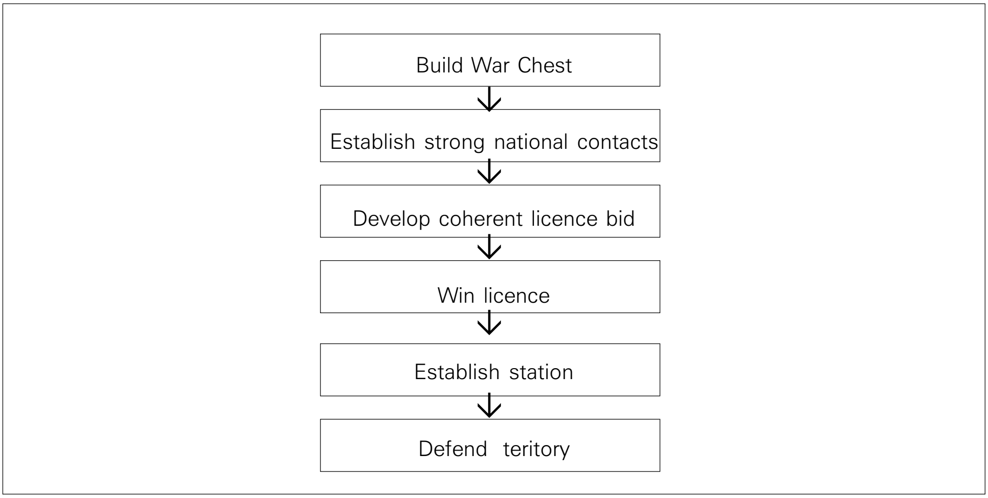


Source: Annual Reports, 1996-1998

The CME Model

Looked at in historical perspective, a different picture of CME emerges than was present in some of the journalistic accounts of its operations, notably the gushing effusions of Normandy Madden (Madden, 1996). There is no doubt that TV Nova was, and is, an enormous success. The claims that it was the most successful launch in the history of world television may be true or not, but in terms of audience, of advertising revenue share and operating profit, it does very well indeed. That does not mean that CME was blessed from the start with a special insight into the nature of broadcasting. On the contrary, the evidence is that, in the early days, CME had no very clear view of its strategy. The German stations were acquired with quite a different broadcasting model in mind. The intention with these stations was to tap a market for local programming and advertising, and to syndicate the stations together into a mini-chain. This German effort was given equal prominence in the public statements of the then-CEO and, as we have seen, in the corporate self-presentations illustrated above in Figures Two and Three. Nova, a national station operating through a complex structure of local political relations, represented a quite different organisational and programming model. However they stumbled in to it, however, the launch of Nova and its early success convinced many people, the management of CME included, that they had found the magic key to the money machine in the former communist countries. They studied the launch and replicated its main features in a series of other markets. It is worthwhile looking at the common features of other launches in order to understand just what it was that CME was engaged in, and to dispel some of the more glamorous myths that have been woven around the experience.

Figure 5: The Stages in Implementing the CME Model



The central core of the CME "model" of a new television station is not difficult to isolate. Lauder and his advisers came to understand that setting up a new broadcaster in post-communist countries had a series of six stages that are outlined in Figure Five. The first, and obvious, step was to establish a war chest of the necessary size in order not only to assemble a credible bid, acquire programming rights and campaign for a licence but also to run the station through the initial period of developing audiences and advertising revenue. Lauder's initial source of capital was his own considerable fortune, inherited from his successfully entrepreneurial mother, who had built up an enormous cosmetics business. As the station developed, and particularly during the phase when it looked as though the Nova success would be duplicated across the region, it was also possible to attract other equity investors from the US and Europe. Later, as the losses mounted and the prospect of a return on investment faded into the future, the company issued bonds as a means of raising capital. Near the end, in late 1998, Lauder was once again the main paymaster.

The second step was establishing a local partnership. In the case of Nova, this was with the group of former dissident intellectuals, some of whom like Zelezny were in the aftermath of 1989 extremely influential, who set up CET-21. The local partnership was important for two reasons. Lauder and his advisers, notably Mark Palmer, understood that in the initial phase at least, broadcasting in the former communist countries would be an intensely political phenomenon. In some countries, although not in the Czech Republic, there are legal limits to who can own and operate a TV license, and there was, everywhere, a sense of recovered national autonomy after years of dependence on Moscow. In political terms, then, it was always likely that it was a local figure or group with good political connections who were going to win the initial broadcasting licences. The second reason is that Lauder, or more probably his advisers like CEO Leonard Fertig, understood that a viable programming strategy would depend upon a degree of local content, and for that committed local collaborators were needed.

The third stage was developing the bid, establishing a credible business structure and acquiring the rights to the kinds of content that could convincingly be said to constitute a reasonable programming strategy. Here, the experience of the Czech Republic is perhaps slightly misleading. At least one member of the original group has claimed publicly that the original plan, which won the bid, was for a more cerebral, European, station that would develop the supposed spirit of 1989 (Done 1997). Whether CME ever believed this project remains unknown, although given the expertise of its leading figures and the kinds of programming it managed very soon to introduce it seems extremely unlikely that they did. However that may be, the later bids, inevitably coloured by the Nova experience, were based around a professional offer of popular programming.

The next stage was to win the licence. Again, the Czech example may be a little misleading, since according to most accounts it was a fairly conducted competition, with CME putting forward the best package. Elsewhere, it was a much more fraught political and economic struggle. Even in the Czech Republic, a change of government meant that the decision of the Broadcasting Council was challenged by the new majority party and Nova came very close to losing its licence before it had even transmitted a second's worth of programming. In some countries, notably Poland and Hungary, the company lost its bid for a licence. Certainly, in the Hungarian case, it was widely believed that this was a political decision, based on the Broadcasting Council's fear that the populist programming that marked Nova would be replicated there. In the Ukraine, on the other hand, Studio 1+1 got its licence to broadcast on the main national channel in obscure circumstances. The company that was forced out to make way for CME, Perekhin, felt sufficiently aggrieved as to take them to court in New York and later London, alleging improper political pressure and threats. Legal struggles also accompanied failed bids: in its dying days, CME won a court judgement in Hungary saying that the Broadcasting Council had broken its own rules in denying them a licence for Irisz TV, their proposed national operation.

Armed with a licence, the next step was to establish a station. In many cases, including the Czech Republic, the licence was actually awarded to an entity in which CME had a limited stake. This licensee, however, then contracted with a CME controlled company to run the station and provide the programming. There was little original about the programming offer that was used to build the stations. The failed German stations apart, which had attempted to develop a version of the "City TV" model, the company was open and direct about its strategy. The statement of its programming policy for the Ukraine from the 1997 Annual Report is identical with that of operations in other countries, with the exception of some differences in the programmes for which they had been able to secure rights:

The Studio 1+1 Group's programming strategy is to appeal to a mass market audience. The Studio 1+1 Group has secured exclusive territorial or local language broadcast rights in Ukraine to a large number of successful American and Western European programs and films (e.g. "Dynasty," "Melrose Place," "Hercules," "LA Heat," "Basic Instinct," "Robocop," "Cliffhanger") from many of the major studios, including Paramount, Universal and Warner Bros. All foreign-language programs and films (other than those in the Russian language) are dubbed into the Ukrainian language. (CME 10K 1998, 17)

At the same time, the company understood that the general European experience is, over time, to prefer local programming, and it took steps to generate some of that kind of material. This was mostly at the cheaper end of the spectrum like game shows, although there are also some local soaps. The local programmes were often subject to criticism for the quality and originality, especially from writers familiar with their US model. In common with the experience elsewhere in Europe, however, they tended to outperform the imported material in audience terms. As a result, the more competitive the situation a particular CME run station faced, the greater the pressure to produce more and higher-quality local programming.

This mix of programming was and is enormously successful in the Czech Republic, and very successful in Romania, Slovenia and Slovakia. In all of these countries, the CME station has established itself as the market leader. Elsewhere, in Poland and Hungary, it proved a very unsuccessful strategy. In either case, however, the final stage of the process is to defend the station's patch against any or all of four possible threats. The first of these is political. The award of licences was in every case a highly politicised process, and changes of political fortunes can affect the conditions under which the licence is exercised. CME itself has not been visibly engaged in political manoeuvres to defend itself, but its local cohorts certainly have. Zelezny in the Czech Republic made a point of establishing better relations with the Klaus government and leading politicians after the launch of Nova. In Hungary, it is generally claimed that the recent favourable judgement was the result of political pressure from the new government keen to review the situation in television. Success in these political struggles has enabled the company to defend itself in other areas, too.

The second kind of threat comes from the regulators. In most of the countries in which CME operates there is a "European" tradition of broadcasting regulation which, for example, seeks to limit the nature, amount and intrusiveness of advertising. The culture of CME has generally been opposed to this kind of quasi-legal interference. In the Czech Republic, Nova fought a series of battles against the Broadcasting Council, over the degree to which it was abiding by the local content terms of its licence, its ownership of Radio Alfa, and the nature of its advertising. Despite adverse judgements, the company in the end was able to intimidate the regulators through a combination of political influence and the threats of US-based legal action. In Hungary, where CME was relatively very much weaker, the Broadcasting Council suspended its licence for one hour in early 1999, as a result of 508 offences involving excessive advertising during feature films (Vrannai 1999, 4).

The third kind of defence of the patch involves trying to make sure that there is no competition. CME was the kind of free market company that believed devoutly in Rupert Murdoch's famous maxim that: "Monopoly is a terrible thing, until you have it." In both the Czech Republic and Romania, its politically-influential local allies made public statements that the market was too small and too poor to sustain competition between commercial channels, and that as a consequence no more should be licensed. In the case of the Czech Republic, it has also been alleged that Zelezny secretly acquired a controlling interest in one putative competitor, Prima, in order to prevent it falling in to the hands of a more seriously threatening owner, like for example SBS.

The first three of these threats involved political or quasi-political action, and meant that CME had to rely very heavily on its local allies to defend it. The final kind of threat came from those local allies themselves. In some cases, the local allies had unsavoury reputations. Rabinovitch in the Ukraine, for example, had good political connections but was declared *persona non grata* by the US embassy due to persistent rumours of his involvement in, amongst other things, money laundering, drug trafficking and selling nuclear weapons ("The Observer Station" 1997). Rabinovich allegedly fell out with the other main Ukrainian partner, Olexander Rodnyansky, and their quarrel threatened the operation of the station. To settle the matter, CME bought him out by raising its stake in the joint company from 50 to 60 per cent (Birchenough 1999, 73). The other notorious case is the struggle for control of Markiza TV, outlined above. In this dramatic story, CME appear to have maintained a neutral position, talking to both sides and concerned only to ensure that their station could broadcast without any interference. The most sensational example of the dangers posed by local allies, that we will discuss below, occurs the events surrounding Nova itself in the spring of 1999.

Overall, then, we can summarise the CME model as having reasonably deep pockets, a clear understanding of what works in US TV, and the formation of political alliances with prominent local figures in their target markets. In addition, the company possessed a ruthless and instrumental attitude towards the legal, regulatory and political system.

It is important to recognise that this strategy was at least as much a political as a business strategy. The standard model for a CME operation, as developed in the Czech Republic, was that there was a local company that held the TV licence. This entity contracted with a TV Services company to provide the programming and technical expertise needed to give the licence a substantial form in the shape of a functioning broadcaster. As Figure Six shows, there was a striking difference in the extent to which CME exercised direct voting control over the two elements of each package through its shareholdings. Only in the case of Romania did CME have any significant shareholding in any of the licence-holding companies, but it invariably had a controlling, or near controlling, interest in the services company.

Table 1: The Structure of CME National Alliances in 1998

Country	*Licence Expiry*	*TV Licence Company*		*TV Services Company*	
		Name	*CME Voting Interest*	*Name*	*CME Voting Interest*
Czech Republic	2005	CET	1.25%	CNTS	99%
Romania	2002-2006	Pro TV S.R.L.	49%	MPI	66%
		Media Pro R.S.L.	0%		
Slovenia	2003-2007	Tele 59	10%	Pro Plus	78%
		MMTV	10%		
Slovak Republic	2007	Markiza-Slovakia s.r.o.	0%	STS	49%
Ukraine	2007	Studio 1+1	15%	Innova, IMS	60%
				UAH, Prioritet	50%

In this context, the personal attributes of Ronald S. Lauder are a matter of more than biographical importance. During the palmy days of CME, various business journalists attempted to represent him as some sort of Andrew Undershaft (Reguly 1996; Gubernik 1997). Despite the amateur hagiographers, however, Lauder is almost a stereotypical rendering of the wealthy dilettante enjoying himself with an unearned fortune. He combines interests in charitable works, the arts, education and politics with some modest business dealings. Almost a stereotype, however, is not entirely a stereotype. Lauder had one important qualification that made him uniquely well-placed to lead CME. This was not that he has, for family reasons, a considerable interest in the middle of Europe, or that he is a wealthy man. The crucial factor was that, through his association with right-wing activism in the US, he had developed important political contacts both in the US and in the region. He strengthened those contacts by his early alliance with Mark Palmer. Lauder was not just a rich American who wanted to take over businesses in former communist countries. He was a rich American who had experience of making political deals with Europeans, particularly Europeans living in countries with a communist past. The fact that Lauder understands at least something about the politics of the region meant that he could both make the sorts of alliances and provide the sort of money that permitted the broadcasting skills of Fertig, Zelezny and the others to flourish. CME was a textbook illustration of the interpenetration of money and politics that are so evident in the former communist countries.

Why Did It Only Work Some of the Time?

The model that CME developed out of the Czech experience had considerable success in audience terms in four of the six markets to which it was applied (the Czech Republic, Romania, Slovenia and Slovakia). It had pretty good success in the Ukraine. It failed dismally in Poland and Hungary. The strategy and the key external personnel were more or less the same in each case, and one would expect the benefit of experience to add confidence to the team and refinement to their operational decisions. This was not the pattern: it was the later cases that proved much less successful. If we look for an explanation for these different outcomes, we can identify two, closely linked, reasons.

In both of the cases of failure, CME failed to win a large, preferably national, licence in the initial round. For whatever reasons, it chose allies who were insufficiently influential in the local political scene to secure a successful outcome. In the cases of success, its allies turned out to be strong enough to ensure a good result. It is important to stress, contrary to the views expressed by some writers, that the “right” political allies had little to do with a record of political opposition to the former communist regimes. It is true that the founders of CET-21 were former dissidents, although some writers have challenged the extent of at least Zelezny’s opposition to the regime. Given the relatively sharp nature of the transition in the Czech Republic, dissident credentials were important in establishing local credibility. Rabinovich in the Ukraine, on the other hand, does appear to have served a long prison sentence during Soviet times, but this was for “criminal” rather than political reasons. In the Romanian case, Sarbu was certainly involved in the uprising against Ceaucescu, but was also an advisor to the successor government, which was barely repainted in composition, let alone reconstructed. The sad fact is that, in general, it was not the principled opponents of communist tyranny who came to have influence in the new world of private capitalism. Many of the people with good connections under the new order had been at least junior members of the old system, and CME, whatever private reservations the founders might claim to have had, was happy to ally with them if they looked as though they could deliver the goods. Apart from simple misjudgements by CME in the nature of their offering, or the choice of their partners, the very success of the earlier ventures, and the prominent public role assumed by Zelezny as a result, led regulators and politicians elsewhere to take a very sceptical view of new proposals.

The second problem was that, as a direct consequence of this primary political failure, CME lost its greatest economic asset, its "first mover advantage." The possession of a large western bank account and a detailed knowledge of what makes US television work are not unique, and in both of the cases of failure the successful first licensees were at least adequately equipped with both necessities for success. When CME was first to a particular market, it could control programme costs since the market in question was relatively untried, and it faced as competition the demoralised state broadcasting institutions that, for historical, political and cultural reasons, were resistant to western programming ideas. It was well-placed to gain a large audience relatively quickly. When another commercial operator was first to a particular market, it, of course, enjoyed these advantages. CME, on the other hand, was forced to try to enter an already established market place. Its costs for programmes and marketing were relatively higher, and winning an audience against more sophisticated competitors was relatively more difficult. Indeed, it may be that the CME model was a handicap in such situations, if the modest ratings success enjoyed by TV3 in Poland after CME pulled out are anything to go by. The Polish owners were free to develop an alternative, slightly more upmarket programming strategy, which CME had resisted while it had an interest in the station, but which subsequently improved audience size (Dziadul 1999b, 8) The plain fact is that CME possessed no magic ingredient that could overcome these harsh economic disadvantages.

Why Did the Collapse Come When It Did?

Since at least its strategic re-assessment in early 1998, CME had been looking with increasing desperation for an alternative strategy that could improve its operating position. As we have seen, its share price was collapsing, making it more and more difficult to go to the stock market to raise operating capital. At the same time, increasing the debt burden would only exacerbate the negative balance sheet and postpone still further the goal of profitable operations. Given that its chief shareholder, Ronald Lauder, is a very rich man, it was of course possible for him to continue to bail out the operation, as he did to the tune of $20 million at the end of 1998. So at one level, it might be the case that the dilettante finally showed through. Lauder got bored with losing the sort of money that it took to pretend to be a media baron, and decided to pull out. He has, after all, other business interests and a very high charitable profile to occupy his time and energies.

There is, however, a more commercial, and thus more intellectually satisfying, explanation. The company was forced to realise in the course of 1998 that it was under two pressures that it was extremely unlikely to be able to resist. As we have seen, the strategy was always a long term one, in which current losses were tolerated in order to build a market position that could guarantee future profitability and thus, eventually, a generous return on capital. But for this to be a credible strategy, CME management needed to be able to show that they were operating successfully in the kinds of markets that would eventually show an adequate profit. That profit was, of course, destined to come from the sale of advertising slots to service the growing market economy of the region. When we come to look at the scale of the markets involved, however, the nature of the problem becomes clear. Figure Seven shows the company's own estimates of the size of television advertising expenditure in the different countries in which it operated. A glance at those figures makes it clear just how great the defeats in Hungary and in Poland were for CME. Poland is by far the richest market in the region, and will remain so for the foreseeable future. Even a modest share of that market would equal the income of a good share of the revenue available in the Czech republic and dwarf the totals for all of the other countries. Without Polish and Hungarian operations delivering rich streams of revenue, only Nova, with around 60 per cent of the total of Czech TV advertising spend, looked capable of producing significant amounts of money. Even if all of the established stations managed the same percentage, then the total annual Net Revenue would only rise to around from $198 million to $270 million, i.e. by $72 million. Since the losses in the continuing operations (i.e. excluding the start up operations in Poland and Hungary) were $81 million for 1998, the prospect of substantial future profitability was remote. The long-term strategy now looked increasingly unrealistic.

Table 2: CME Estimates of Size of TV Advertising Expenditure

Country	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
	US dollars (millions)					
Czech Republic	67	96	135	165	163	188
Romania	N/A	9	25	44	74	87
Slovenia	15	23	30	35	39	51
Slovak Republic	15	18	26	39	47	56
Ukraine	N/A	N/A	9	21	53	65
Hungary	N/A	158	150	158	167	183
Poland	148	268	334	385	510	(580)

Source: Annual Report, 1998, except for Poland 1998, which is my own projection of company estimates. N/A = estimates not available.

At the same time, the ability of the continuing stations to generate the kinds of incomes that their dominant market position had produced in the past was under obvious threat. The experience of Nova, the most established and mature of the stations, was that it became increasingly difficult to maintain the exceptional early audience success, even against the competition of the local state broadcaster. Increasingly, there were other commercial operators, notably SBS, that were also trying to force their way in to the market, and who would certainly represent much more sophisticated and well-funded competition. Political manoeuvring aside, the only way to respond to these new threats was to try to hang on to audience share. This implied two things, both of which would cost more money. The first was continuing to acquire the rights to the most desirable international properties, even those these would inevitably rise as the producers took advantage of the new competitive situation in territories where they had been in the past forced to offer deep discounts in order to gain entry. The second was improving the scope, quality and variety of local productions, moving away from the "cheap and cheerful" world of the launch period, and devoting serious resources to raising standards. In other words, the price of continuing success in terms of ratings and advertising revenue was continuously rising operating costs. These realities facing the company were well expressed in its *Annual Report* for 1998:

> *Total station operating costs and expenses (including amortization of program rights and depreciation of fixed assets and other intangibles) increased by $47,624,000, to $146,275,000 for 1998 from $98,651,000 for 1997. The increase is primarily attributable to increases in 1998 station operating costs and expenses of TV3 of $28,028,000, of which $21,289,000 reflects the write-down of the carrying value of TV3's capitalized costs of rights to program material to its estimated net realizable value. The increase in total station operating costs and expenses is also attributable to increases in operating costs and expenses at PRO TV of $13,137,000, POP TV of $5,012,000 and Nova TV of $2,757,000.*
>
> *PRO TV's station operating costs and expenses rose primarily as a result of expansion of network affiliates, higher prices of acquired programming and increased hours of self- production. In addition, programming amortization increased due to the second channel Acasa and depreciation increased due to the increase in network and broadcast equipment needed to expand the signal reach. Both Nova TV and POP TV's operating costs and expenses increases were primarily attributable to higher production costs as a result of increased local production in response to audience demand and, in the case of POP TV, higher acquired programming costs due to an increase in programming prices* (CME 10K 1999, 35).

In other words, while the failure in Poland made a large hole in the balance sheet, the bill for competition in the markets that CME dominated rose as a result of factors that would intensify in the future. The consequence of these pressures was that even the best performing stations found their margins under pressure. As Figure Eight demonstrates, the operating position of the company was deteriorating even if the exceptional items were discounted. The "Established Stations," all of them market leaders in their own countries, were struggling to break even on their direct broadcasting operations, let alone cover their total costs. The revenue for Nova, by far the most viable of the stations, was more or less flat, and rising costs meant that its cash-flow from broadcasting operations was not improving. The entry of a serious competitor would worsen that position. The other smaller stations struggled to turn their audience success in to financial success, with only Markiza showing positive figures.

Table 3: CME Net Revenue, Operating Expenses, Profits and Losses 1994-1998 (in thousand $)

	1994	1995	1996	1997	1998
Net revenue	53566	98919	135985	150265	182367
Operating expenses	52609	76611	125989	161916	217112
Losses from continuing operations	20505	18736	30003	68106	81158
Total losses	20505	18736	30003	85092	125252

Source: Annual Reports, 1996, 1997, 1998

In strategic terms, the evidence was that by early 1999 CME was beginning to exhaust its first-mover advantages in its established markets and had failed to establish itself in new markets offering the potential of substantial growth. The company share price was falling and it was saddled with more than $200 million in debts. There were only two possibilities: either, Lauder would continue to throw good money after bad in the increasingly unrealistic hope that eventually the figures would add up, or the company would seek a partner that had the resources and the will to try to make it pay. In the event, it was the latter that occurred.

Conclusions

CME failed the only test that really mattered in own its conception of the world. Set up as a commercial broadcasting operation, it failed commercially. The men who set out to bring the harsh competitive world of cultural capitalism to the benighted east have demonstrated one of that system's key evolutionary laws: those that cannot adapt efficiently to prevailing market conditions have no future. Either they will go bust or they will be taken over by a competitor that has the resources, and perhaps the ability, to survive.

Curiously enough, CME was best not at what it claimed to know about — running a commercial broadcasting station — but at the special features of local capitalism, namely making political deals in order to gain economic advantage. It played the game of "political capitalism" very well indeed in most cases, as the web of alliances detailed above demonstrates very clearly indeed. When it won the game, it certainly had the money and the expertise to set up and run stations that were a success in audience terms, if not always in financial ones. When it lost the game, though, its commercial expertise was not enough to rescue it from financial catastrophe. It was certainly not able to use its multiple stations to create a genuine network and thus gain the economies of scale and scope that are such marked features of that form of broadcasting organisation. On the contrary, as its affiliates faced tougher competition, they sought to improve their competitive positions by increasing the amount and quality of their own programming, we have seen that their costs rose as a result.

All of this illustrates a very important point about commercial broadcasting. It is often claimed that the main strength of this as a cultural form is that it gives the audience what it wants. CME's enormous success in the Czech Republic, and its very substantial successes elsewhere, seem to be good evidence in support of this argument. But it is not possible for a commercial broadcaster to give an audience anything at all, let alone what it wants, unless that broadcaster can make money from it. In the end, the audience will get what it is profitable to provide, irrespective of what it wants. It is possible to lose money even with the most ruthlessly focused commercial programming strategy. CME was certainly ruthlessly commercial, and it lost millions of dollars. In the end, it could not make popularity pay.

Whether anyone else can make money out of this sort of operation is another matter. SBS is not a dominant, or even a significant, broadcaster in any of the small, rich, markets in which it currently operates. Immediately after acquiring CME, it signalled its interest in re-entering the Polish market at the national level, and was immediately informed that it was most unlikely that there would be any opportunity in the foreseeable future. So the initial evidence suggests that SBS lacks the precious experience that CME paid so much to get in the Czech Republic and elsewhere, and lacks much of its political finesse as well. On the other hand, SBS has deep pockets, so perhaps it can bear the financial losses until the advertising market expands enough to sustain an operation of this kind. perhaps Lauder's continued association will be intense enough to ensure that the new company does not suffer political setbacks that prevent it taking advantage of new conditions.

Finishing up an article such as this is extraordinarily difficult. The first draft noted that the CME business model did not work, and that the company was ripe for collapse or take-over. Events overtook that draft. The second version, presented at a Euricom colloquium in early April 1999, noted that, despite the general disaster, the fact remained that Nova was still a roaring success, and had an experienced and self-confident management team. The logic of its programming strategy pointed it towards more Czech production, which it was certainly in a position to finance, and it was difficult to see what sorts of advantages it gained from its association with SBS in terms of buying programmes on the open market. While SBS controlled 99 per cent of the equity in CNTS, the TV services company, it had only a 1.25 per cent stake in CET, which holds the licence. I concluded that: "SBS needs Nova's revenue stream and its regional experience more than Zelezny needs SBS. My personal view is that Zelezny is in a strong position to start thinking about an MBO."

Events immediately convicted me of the vulgar error of fetishising bourgeois legality. It rapidly became apparent that Zelezny, the political entrepreneur, has much less respect than does Colin Sparks, the long time Marxist, for the norms of western business practices. According to CME and SBS, he had been manoeuvring to replace CNTS as Nova's programme supplier with his own company AQS. In other words, he planned to turn the CME model against its parent and cut it off from its broadcasting outlet. This bold stroke led CME to fire him for "actions that exceeded his authority and were against the interests of the company" (Meils 1999, 1). A politico-legal power struggle immediately ensued over the ownership of the licence and the nature of the service contracts. At the time of writing, it seemed very much as though CME/SBS would win, but events have overtaken this article too often for me to offer any confident view of the outcome. The most that I will say is that, if the Czech republic wishes to enter the EU smoothly, and continue to attract foreign capital investment, it had better make sure that its political and legal system is seen to defend the interests of big western capitalists against little local operators trying to work scams like this one.

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