



Sumner M. Redstone, chairman and CEO, Viacom

The king of content

You don't need to dominate distribution to make it big in the media and entertainment industry, according to this chief executive. What you must have is content—and the creativity to ensure that it's the best.

Sumner Redstone's schedule would exhaust most people half his age. At 81, he still spends much of his time globetrotting on behalf of Viacom, the company he acquired in 1987. Since then, he has built Viacom into one of the largest diversified media and entertainment concerns in the world, a behemoth with a market capitalization of \$70 billion and 2003 revenues in excess of \$26 billion.

When *Outlook* Contributing Editor Wendy Cooper caught up with Redstone in Barcelona, he had just flown in from Mexico to deliver the keynote address at an industry conference; soon he would be off to China, Bangkok and Hong Kong, via the Middle East. The China trip would be his second this year.

On a weeklong visit to Beijing and Shanghai in March, Redstone clinched several key deals—among them a joint venture with Shanghai Media Group that marks the first investment by a global player in a Chinese content production company. He also

Redstone: "Whether what the consumer wants is provided by Viacom or some other company, whether it is provided by 10 companies or four companies, the fact of the matter is that the consumer determines the success of your product and your company."

Sumner M. Redstone

Chairman of the board and chief executive officer, Viacom

Born: 1923, in Boston

Education:

A.B., Harvard College, 1944

LL.B., Harvard Law School, 1947

Professional highlights:

1947: Law secretary, US Court of Appeals, 9th Circuit, San Francisco

1948: Special assistant to US Attorney General in Washington, D.C.

1951: Named partner in Washington, D.C., law firm Ford, Bergson, Adams, Borkland and Redstone

1954: Joined family business, National Amusements, Dedham, Massachusetts-based chain of movie theaters

1987: National Amusements, headed by Redstone, purchased Viacom

1994: Viacom purchased Paramount Communications and Blockbuster

2000: Viacom purchased CBS Corporation

During World War II, served as a member of an elite US Army team charged with breaking Japanese military and diplomatic codes. Received two commendations.

extended MTV Networks International's existing relationship with China Central Television, the country's biggest TV broadcaster, to include three new programming initiatives.

This energetic pursuit of content-driven synergies characterizes Viacom's strategic approach. Redstone's passionate belief in the primacy of content has been proven right—and will ultimately put the company in a powerful position in an all-Internet protocol world, where every form of media and communication will be carried over a standard IP connection available virtually anywhere. There are only a handful of global media companies capable of successfully competing in this new environment; fewer still have the content clout of a Viacom.

The Viacom properties span movies, TV, radio and the Internet. The company owns CBS, one of the four primary US television broadcast networks, as well as Paramount Pictures, UPN, MTV Networks, Showtime Networks, Black Entertainment Television and Comedy Central. It produces and syndicates TV shows through Paramount Television and CBS Enterprises, and it owns 39 TV stations, book publisher Simon & Schuster, a majority stake in video rental concern Blockbuster and in Infinity Broadcasting (which operates some 185 radio stations in the United States), Viacom Outdoor (which carries advertising on billboards, bus shelters and benches around the world), and dozens of Internet holdings.

In 2000, Viacom merged with CBS Corporation, creating what was hoped would be an advertising sales powerhouse. By combining the old Viacom's cable TV assets with CBS Television and Infinity Broadcasting's radio stations, Viacom could sell

ads across a vast swath of popular media properties in the United States. But the economic downturn and advertising slump that began in 2001 put a temporary damper on the company's plans.

So Viacom refocused its resources on proven ad markets, weathering the advertising decline better than most. Indeed, it has the distinction of being one of the only media companies that maintained a healthy share price and a good reputation on Wall Street over the past three years. Now that ad sales are beginning to rebound, Redstone is convinced that 2004 will be the best year in Viacom's history.

In fact, after the planned sale later this year of Blockbuster, Viacom will derive about 60 percent of its revenues from advertising. From his 36th-floor suite in Hotel Arts Barcelona, overlooking the Catalan capital's breathtaking waterfront, Redstone reckons that the breadth and variety of advertising exposure Viacom offers will give the company a distinct competitive advantage as marketers embrace more integrated, multimedia ad campaigns.

For Redstone, branded content is the name of the game, and MTV, the global youth culture channel, is the "mother lode of Viacom brands." His faith in MTV is virtually limitless—and hard to fault. Last March, for example, in a groundbreaking transaction that has put it ahead of the competition, MTV International announced a three-year, \$75 million agreement with Motorola that leverages new media to create a state-of-the-art mobile music environment. The thinking behind it? Says the King of Content, "We want to drive our content to every place and every platform on the planet."

That kind of ambition and creativity is what drives the industry, according to Redstone. It's also what the consumer demands—and satisfying consumer demand, he says, will determine the winners in the media and entertainment company industry.

Outlook: We seem to be moving increasingly into an environment where content providers can establish direct relationships with their customers. How is that reality changing the business model for the industry?

Redstone: Content is king and will remain king. As I point out to my friends, people watch what's *on* CBS—they don't care what *channel* it is on. We don't denigrate distribution. We have a tremendous number of top radio stations; we have a large number of important television stations. It's not that we don't believe in distribution—it's that we do believe in content.

Most of the rest of the industry doesn't seem to have embraced that model. Well, I think the rest of the industry does recognize the enormous importance of content. There are some companies with more distribution than we have in terms of cable systems and satellite. But we have always believed that you create wealth through free cash flow. If you get involved with cable and satellite, your ratio of capital expenditure rises to 38 percent or 40 percent from the 11 percent or so we invest now. For the foreseeable future, we intend to spend whatever funds we have on content.

You've said you expect 2004 to be the best year for Viacom since you acquired the company 17 years ago. Why?

The resurgence of advertising has

a lot to do with it. GDP will keep growing, and advertising always grows more than GDP. We are at the beginning of maybe the best year in advertising in recent history. We are an advertising juggernaut. We have the best broadcasting and narrowcasting [the focus on a single demographic, exemplified by MTV] channels in the world. An advertiser doesn't have to go anywhere else except to us. Also, what advertisers buy are platforms and programming, and we have the best programs and all the platforms. So advertising is the main element.

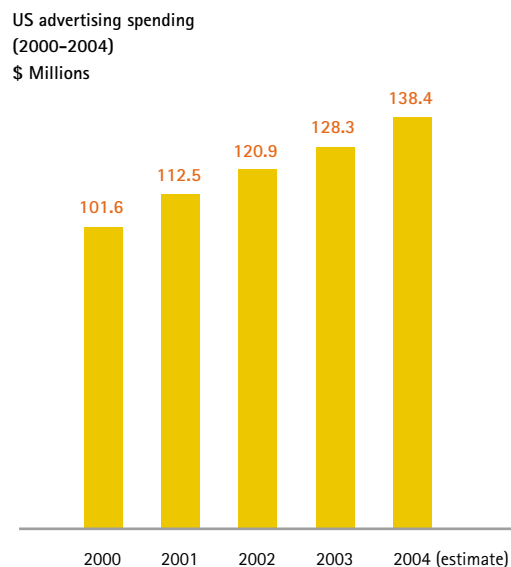
How about the more purely creative aspects of the business?

Of course, we are also pouring more money into the creative parts of our business. I think you will see a strong turnaround at Paramount.

You have also invested huge sums internationally.

The international agenda has probably been No. 1 on my personal agenda. I spend a lot of my life

Advertising spending is expected to grow strongly in the United States in 2004, with a projected 7.8 percent increase over spending in 2003.



SOURCE: TNS MEDIA INTELLIGENCE; CMR

"Success is not about money—it's about winning."

traveling the world on behalf of MTV International and therefore Viacom. I just returned from a very successful trip to Beijing and Shanghai. We struck enormously important deals, and doors were opened to us more than ever.

What kinds of deals?

We will be creating educational and children's programming in our joint venture with Shanghai Media Group. We will also receive our share of advertising, Chinese and international. We think we are at the beginning of a new chapter for Viacom in China. I have been going there for six years, and I think we have built relationships of friendship and trust. What we found this time was that ministers were suggesting to us ways in which we could enhance our presence in China.

Are you looking to do other deals globally that are similar to what you've done in China?

We bought a music business in the Netherlands recently, and a game

company in France. But there are very few assets for sale and very little for sale in Europe that would fit with and enhance MTV International.

What about the US market? Are you still looking for acquisitions there?

Our strategy in the US continues to be focused primarily on cable programming assets. I would say that is our No. 1 target. It is the fastest growing product in the industry and one in which we are preeminent. We will also be looking at major radio stations, but only in big market segments.

You've said in the past that just because you own CBS, that shouldn't preclude you from owning another US television network as well—ABC, for example.

What I think I said is that it is not absolutely clear why some company, not necessarily Viacom, shouldn't be allowed to own more than one network in a world where there are so many voices, compared with the world that existed when we were first established. Don't for one moment conclude from that that we are interested in a part of ABC.

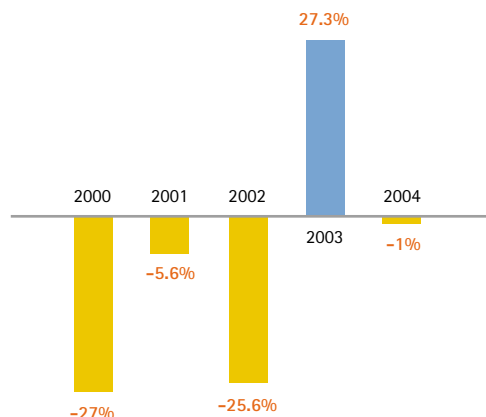
But what is your view of the concentration of power within the industry, particularly in the United States?

I know that the industry is criticized for concentration, and there isn't an easy answer to that—unless, perhaps, the answer is the consumer. Whether what the consumer wants is provided by Viacom or some other company, whether it is provided by 10 companies or four companies, the fact of the matter is that the consumer determines the success of your product and your company.

And consumers are rapidly achieving control over a convergent set of technologies that give them access to just about everything they want.

Stock prices in the entertainment industry rebounded strongly in 2003.

Average stock price return in the entertainment industry¹ (2000 through April 2004)



¹ Based on stock price for Disney, Fox Entertainment, News Corp., Time Warner, Viacom

SOURCE: MORGAN STANLEY

Looking at the industry as a whole, what's it going to take to satisfy them?

I have one answer—creativity. Take MTV. They do an enormous amount of research and have to be ready for each new generation. Each generation produces change. So far, they've been very successful in creating the kind of programming that each generation wants. They know they have to stay on the creative edge. They have, and that is the reason for their success.

Looking back, and not just to the recent past but over the whole 17 years you've spent building Viacom, there must be some things you would have done differently?

Well, I must have done a few good things to end up with what we think is the best media company in the world. There are many qualities that lead to success. What it takes is a fair degree of intellectual capacity and a tremendous amount of commitment, an obsessive drive to be No. 1. I also think character is very important. Viacom's reputation, our integrity, is preeminent. We are transparent: No one has to lie about anything that is hidden. And success is not about money—it's about winning. I would suggest that the people who have been most successful are people who are motivated primarily by the desire to be the best that they can be.

What about specific deals? There must be a few you regret—Blockbuster, for instance?

No. In the first place, Blockbuster played a big part in our ability to acquire Paramount. On the whole, I think Blockbuster turned out to be a great acquisition. It gave us enormous cash flow, hundreds of millions of dollars. The reason we are parting with it is because we think they can do better separately.

Blockbuster is essentially in the retail business today, and we are not a retail outlet. We think it's in the best interests of both companies to separate. But that doesn't denigrate Blockbuster. It played a prominent role in the success of Viacom.

Looking ahead, what changes do you anticipate for the industry? What new paradigms might emerge?

There is not likely to be a technology revolution, but technologies are always changing. And we will adjust, as we have in the past, to every new technology. The fundamentals will remain the same, though. What drives our industry is content and creativity. Technology will not overcome these fundamentals. In fact, it's these fundamentals that will allow us to adjust. We will adhere to the principle that content is king. ■