WEEKLY INSIGHT

Kirch group files for insolvency
After weeks of teetering on the brink, Kirch Media, the core rights trading and free TV business of the German media group Kirch, filed for bankruptcy protection, paving the way for the banks that hold the bulk of Kirch's debt to reorganize its many activities. The rescue attempts from investors such as Rupert Murdoch, AOL Time Warner, and Silvio Berlusconi's Mediaset against 6,500 million in debts, largely amassed in an aggressive push into pay television have done little to help. It remains unclear if other units of the Kirch group will file for bankruptcy, but all eyes turn to KirchPayTV, also insolvent.

The German banking supervisory body is auditing Kirch's creditor banks, which include Bayerische Landesbank, Bayerische Hypo- und Vereinsbank, Commmerzbank and DZ Bank, in order to measure the risks of large-scale loans for Kirch. From Financial Times. [Special Report]

Highlights
- Leo Kirch began in 1956, borrowing money from his wife to buy the rights to La Strada, Federico Fellini's film, and reselling them to TV stations. He soon perceived that, with TV development, film rights would represent a great business. Thus he started to acquire the biggest film fund in Europe. In the mid-eighties, he started creating a huge audiovisual empire with Sat 1, the first German private TV channel.
- Nowadays, Kirch Group is formed by Kirch Media, Kirch Pay TV and an investing company. Through KirchMedia, it owns five German television channels, a huge film library and the rights to numerous sports events including the World Cup.
- One of Kirch's biggest mistakes was to put too much trust into the pay TV business, in which he invested 3,200 in 2000. The acquisition of film and sport events rights added 3,000 million euros to that sum.

Press Review
From The Economist
"This could be the beginning of a more widespread break-up of Mr Kirch's complex and privately-held empire. How this takes place will have huge ramifications in Germany. During his career Mr Kirch forged links to many of Germany's biggest banks and lots of powerful people. This includes close connections to Bavaria's ruling party, the Christian Social Union. Mr Kirch has also had the ear of Bavaria's prime minister, Edmund Stoiber, who will stand against Gerhard Schröder in the election for the German chancellorship in September. Mr Stoiber now faces a political backlash for helping chivvy Bavarian banks into financing Mr Kirch's expansion.
The collapse of the Kirch group may mark the unravelling of Germany’s cosy system of capitalism and change the landscape for foreign investors. There are already signs that Germany's banks are becoming more open to foreign shareholders taking stakes in companies. Albrecht Schmidt, the chief executive of HVB Group, one of Kirch's creditor banks, said on April 9th: 'It would be silly in a globalised world to stop things at the German border'."

[Full Story]
**From Business Week**

"What went wrong? Everything, say industry execs and ex-Kirch employees. The set-top decoder cost $500, and Kirch stubbornly tried to pass the cost onto subscribers. He had little expertise dealing directly with subscribers or developing technology, yet he drove away partners who could have provided such know how. "He wanted it all to himself. This was his big mistake," says Michael Dornemann, Bertelsmann's former entertainment chief, which eventually bailed out of a partnership with Kirch.

The crisis became acute in January, when AxelSpringer Verlag moved to exercise a put option worth $670 million—an agreement obliging Kirch to buy back Springer's stake in a joint venture. That's only the first of the ominous deadlines Kirch faces this year: Murdoch wants to exercise a similar option his British pay-TV company BSkyB has with Kirch between now and October.

If Kirch is forced to leave the scene, even old adversaries will feel a twinge of regret. ‘In terms of understanding Hollywood and the importance of content, he was 20 years ahead of everyone in Germany,’ says ex-Bertelsmann exec Dornemann. What Kirch didn't understand was Germany's need to change the way it does business."

[Full Story]

**From The New York Times**

"Kirch is the third major bankruptcy to rattle Germany in recent weeks, after the Philipp Holzmann construction company and Fairchild Dornier, a builder of regional and business jets. And it could have significant political fallout, with jobs lost and doors opened to foreign investors in the formerly closed world of German television."

"Today’s filing represents an end for Leo Kirch, 75, the entrepreneur who built the group with a keen eye for the value of media properties and strong help from conservative politicians like Helmut Kohl, the former chancellor, and Edmund Stoiber, the governor of Bavaria and the conservative standard-bearer in German elections in September."

[Full Story]

**From Europe Media.net**

"Kirch collapsed because of poor management, said Daniel Gross, a senior analyst with the Centre for European Policy Studies, and should be a wakeup call to other media in the country. 'It will have a deep impact on the media landscape in Germany', he told Radio Free Europe, "because it makes very clear that they cannot neglect commercial considerations and, in the end, can go bankrupt."

[Full Story]

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**Commentary by...**

Andrés Font, Analysis and Prospective Director at Fundación Relevision-Auna

**Kirch case, a paradigm of our time**

Kirch group bankruptcy constitutes one of the most paradigmatic examples of the turbulences and contradictions that characterize the economic order transition that emerged from the industrial revolution. We are facing a clear example of a schumpeterian process of destructive creation in which three dialectical tensions, distinctive of this millennium converge and overlap.

First of all, there is tension between what is global and local. The Kirch group is an evident exponent of the new global capitalism. But this doesn't prevent the reactions that triggered its crisis reflect local interests (with Stoiber, the Chancellor candidate playing the Bavarian card).

Secondly, there is the tension between the past and the future. There is an obvious break with the so-called
"Germany Inc.", a Japanese style corporativist of capitalism, which, at least until today, seemed to be innate to Germany. This model is now wearing away because of the limited interest among German taxpayers in saving national companies at the expense of their taxes. Even when one of these companies is The Kirch group. Finally, there is tension between nationalism and globalisation. The fact that the potential candidates to take over the remains of the communication holding are an Australian with US nationality, Murdoch and an Italian, Silvio Berlusconi, who at the same time is the Prime Minister of that country, makes it difficult for German pride to digest. To these contradictions we must add two aspects that condition the current media sector. On the one hand, the media have become strategic in the new Information Society. On the other hand, its changing role doesn’t excuse them, but rather forces them to have financially viable business models.

**EBCENTER ARTICLE**

**Online advertising is becoming a redoubt of technology companies**

*By Berta Dolader, Research Assistant EBCenter*

The only Spanish companies that invest continuously in online advertising are the technology companies, which have huge resources available, and the dotcoms. [Full Story]

**REPORTS**

**Only 34% of companies reported cyber crime**

*Title:* Computer Crime & Security Survey  
*Source:* CSI/FBI  
*Date:* April 2002  
*Abstract:* Ninety per cent of respondents (primarily large corporations and government agencies) detected computer security breaches within the last twelve months. However, only 34% reported the intrusions to the law, above all to avoid negative publicity or competitors using it to their advantage. After experiencing computer intrusions, 77% of the respondents patched the gaps in their security. Over the last twelve months financial fraud caused losses of over 115 million dollars while the theft of proprietary information rose to 170 million dollars. According to the survey, employee abuse involves cyber crime as well. The number of respondents reporting this kind of cyber crime (for example, downloading pornography or inappropriate use of e-mail systems) has dropped from 91% to 78% in the last four months. [Full Story]

**One Internet user in five is a teenager**

*Title:* Teenagers on the Net in Europe  
*Source:* NetValue  
*Date:* April 4, 2002  
*Abstract:* One Internet user in five is a teenager, according to a NetValue survey among young people from Spain, France, England and Germany. 17.7% of UK net surfers are teenagers, while in Spain young Net users account for 15.2% of the total, in France for 14.5%, in Denmark for 13.3% and 13.2% in Germany. The study reveals a very good balance between boys and girls, more than any other Internet user age group. However, European teenagers connect to the Internet less than the global Internet user population: 9.8 days a month on average, compared to 11.5 days per month on average for the all Internet users. On the other hand, when they are connected they stay longer online than the average. In Europe the average session lasts 28.2 minutes for teenagers, and 24.6 minutes for the rest of the Internet users. Spanish, German and French teenagers prefer the chat service, whereas British teenagers prefer forums. [Full Story]
Lower contribution of ICT to European output growth
Title: European competitiveness report 2001
Source: European Commission
Date: 2001
Abstract: The special theme of this report is an analysis of the contribution of information and communication technologies (ICT) and of innovation to productivity and economic growth. Though for the EU the second half of the 1990s proved to be a better period in terms of employment and GDP growth than the first half, the gap in GDP per capita relative to the US widened throughout the decade. Survey estimates for European countries generally indicate a lower contribution of ICT to output growth. The experience of the US but also of the smaller number of European nations that have successfully adopted ICT across economic activities suggests that a variety of complementary policies are necessary in order to reap the benefits of these technologies. [Full Story]

COMPANIES
Changes in AOL Time Warner online division
AOL Time Warner has re-organised the top management of its online division and has placed Robert Pittman in charge of the group. Mr Pittman takes over for Barry Schuler, who will remain at the company, serving as the chief of a new division to be called Digital Services Development Group. From Financial Times. [Full Story]

Jupiter Media Metrix, in a deep crisis
Jupiter Media Metrix could soon run out of cash. The company announced it had sold the assets of its advertising-measurement unit, AdRelevance, to NetRatings for $8.5 million. That deal will extend Jupiter's life a bit but was bittersweet. NetRatings, which has a strategic relationship with Nielsen Media Research, is Jupiter's arch-rival. A merger between the two companies was blocked two months ago because of anti-competitive concerns by the Federal Trade Commission. From Washington Post. [Full Story]

Yahoo Europe plans to acquire more companies
Yahoo's European chief says it is picking up its acquisition pace as part of an effort to revive its slumping international business. Yahoo reported its sixth straight quarterly loss on Thursday, but boosted full-year revenues forecast, saying its new strategy to reduce its dependence on advertising in favour of subscription-based services is starting to take hold. From Reuters. [Full Story]

WE RECOMMEND
Google is seeking... a business model
Google, which began as a research project at Stanford before raising venture capital in 1999, had earned a reputation as the best way to find things on the Internet. It had the prestige of being the search engine on Yahoo. Traffic to its own Google.com Web site was surging. The company's advertising sales, after a slow start, were starting to catch on. It had just turned a profit. However, it seems that Google has problems to find a business model. On the one hand, it is a tiny force in the rapidly growing market for selling advertising related to search. The dominant player there is Overture Services. On the other hand, Google is becoming more of a competitor to portals such as MSN and Yahoo, and that puts the contract between two both companies in
Can IT increase worker productivity?
Many economists, chief among them Federal Reserve Chairman Alan Greenspan, say IT will help deliver the productivity improvement that can help us out of the current slump. But the job jitters and pressure for greater productivity mean that many people feel heightened tension in the workplace, above all IT professionals. *Information Week* analyses how IT can increase worker productivity in companies. There are different opinions among interviewed CIOs. One of them, for instance, was surprised to know employees work during the lunch hour and even during the time they spend coming to the office. He thinks they can use the telephone to check their e-mail, tasks for the day, and meeting schedules. But other respondents think that more work necessarily yields increased productivity and, according to them, there's a hidden cost when managers don't enforce something close to a 40-hour workweek. Moreover, the advantage of having fewer technologies is that the staff members can back each other up and that the skills can be learned more deeply, which is key to stabilizing systems. From *Information Week*. [Full Story]

Managing migration
Increase customers loyalty: companies must do more than track today’s typical metrics: satisfaction and defection. A better appreciation of the underlying forces that influence the loyalty of customers—particularly their attitudes and changing needs—can help companies develop targeted efforts to correct any downward migration in their spending habits long before it leads them to defect. By learning to understand why customers exhibit different degrees of loyalty, companies can develop loyalty profiles that define and quantify six customer segments. These customers are loyal because they are emotionally attached to their current provider, have rationally chosen it as their best option, or don’t regard switching as worth the trouble. The remaining segments have one of three reasons for spending less: they have developed new needs; they have found a better option; or they are actively dissatisfied. From *McKinsey Quarterly*. [Full Story]

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