

The Economics of Newspapers in a Digital Age

Federal Trade Commission

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Overview

- Economic fundamentals shape newspaper markets
- Technology changes these fundamentals and transforms the market in predictable ways
 - “Superstar” market for journalism
 - Viewpoint differentiation replacing geographic differentiation
 - Subscriber funded content, advertiser funded bundling
 - Growing market for content, shrinking market for subscriptions
- Welfare tradeoffs – what’s better & what’s not
- Policy comments & conclusions

Economics of Newspaper Markets

- High fixed cost of producing content
- High variable cost of distribution
- Vertically integrated content production
- Advertiser finance & two sided markets
- Information externalities

Fixed Costs of Content Production

- High “first copy costs” limits the number of papers that can survive in any market
 - Large cities have larger papers with higher readership
 - Groups with minority tastes may be poorly served
- Technology & transformation
 - Lowers cost of producing content (data, facts, opinions)
 - Opens the market for supply of content
 - Journalists compete with academics, non-profits, citizens
 - Newspapers compete with TV, radio, blogs
- Technology & welfare
 - Reduces the advantage to large markets
 - More content satisfying minority tastes

Distribution Costs & Market Integration

- Distribution cost limits geographic range of newspapers
 - Geographic rather than viewpoint differentiation
 - International comparisons
- Technology & transformation
 - Zero distribution cost enlarges markets
 - Less geographic more viewpoint differentiation
 - “Superstar” market for journalism
- Technology & welfare
 - More people reading better stuff
 - Fewer writers making more money

Vertical Integration & the Freelance Model

- Few direct links between writers and readers meant writers worked for newspapers
 - Low pay, lots of journalists, low risk of failure
- Technology & transformation
 - Enables direct connections between writers & readers
 - Market for “superstars” with higher risk, higher reward
 - Readers not papers make the superstars (Bruni/Pogue)
 - Content type determines vertical integration
- Technology & welfare
 - Higher returns to content producers

Two Sided Markets

- Advertisers value access to targeted consumers
 - Newspapers long earned monopoly rents from ads.
 - Incentives to produce content preferred by elites.
- Technology & transformation
 - Advertiser value for targeted consumers and consumer value for “bundled” content is higher than ever.
 - New entrants (Huffington, Drudge) are good at bundling & targeting, drive down price.
 - Bundling vs. content price and the future of subscriptions
- Technology & welfare
 - Targeting with news is costly—cheaper ways to sell a watch
 - Democratization of advertiser finance

Information Externalities

- What you read affects what you do
 - Consumers, producers, voters
 - Potential for exposure disciplines politicians
- Technology & transformation
 - Shift from local to national media = shift from local to national externalities (Localism vs. Globalism)
 - Shift to integrated markets reduces probability but raises consequences of corruption (NJ Rabbis)
- Technology & welfare
 - Costs and benefits of attention shifts

Summary of Trends & Predictions

- Fewer papers, more viewpoint differentiation
 - Fox Newspaper?
 - Declining readership for local content, even when free.
- Expanding freelance market for journalism
 - Especially for analysis, commentary, & expertise.
 - Market for superstars.
- More advertiser funding for valuable “bundling”
 - Smaller market for subscriptions (high price)
- More reader funding for content (micropayments)
 - Larger market for articles (low price)

Summary of Gains & Losses

- Geographic vs. viewpoint differentiation
 - Geographic model arose from high transport costs in a big country
 - Viewpoint differentiation supports accuracy, serves minority tastes
- Advertiser vs. reader funding
 - Old advertising model skewed content toward elites.
 - Efficient pricing separates content from bundling value
- Superstar journalism – higher risk, higher reward
- Local versus global externalities

Conclusions

- Welfare evaluations must consider both what is lost with what is gained
- All of the potential downsides of technology have an opposing positive effect
- Data and analysis needed to fully evaluate tradeoffs
- When in doubt, individual choices (“revealed preference”) are the best guide