

Challenges for Media Markets – and Possibly Regulation - in 2009

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Outline

- The nature of media products
- Recent technological challenges
- Implications for diversity, competition, localism
- Things to monitor

The Nature of Media Products

- Special because they inform (entertain)
- As products, unusual in two respects:
 - High FC – need a lot of folks to want it in order for it to be provided
 - What's available depends essentially on value that advertisers attach to users, not value users attach to content.
- So, oddly, whether we get informed depends
 - *Not* on our appetite for information
 - But on whether we are in a large segment sought by advertisers.
- Large groups get more products
 - Tyranny of the majority in product markets

Ensuing Market Failures

- Inefficient underprovision
 - When value $>$ cost but revenue does not
 - Corrected by public broadcasting?
 - Berry and Waldfogel (1999), JPubEcon
- Ironically, also excess entry
 - Private benefits of second entrant exceeds social benefit
 - Too many products/firms
 - Berry and Waldfogel (1999), RAND

What Do We Know about Media Regulation?

- Ownership matters for content
 - Concentration and product positioning
 - Berry and Waldfogel, QJE, 1999
 - Owner demographics and targeting
 - Siegelman and Waldfogel
- Content matters for behavior
 - Presence of group-targeted content affects voter turnout
 - Oberholzer-Gee and Waldfogel (2005, forthcoming)
- *So this conversation matters*

Technological Change

- Internet brings 3 innovations in one:
- Market enlargement
- Reduced distribution costs
 - Good for consumers and firms
- More choice and ease of switching
 - Good for consumers
 - “more competitive”
- But: availability of substitutes makes it harder for sellers to charge

Information Paradox

- Digital distribution makes information ubiquitously available
 - Music, text, video – all more useful than ever before
- But huge challenges to appropriability
 - Why pay for things I can get elsewhere for free?
 - Music
 - Much of the contents of the local paper
- Value of product category vs value of product
 - Area under the industry demand curve may be high even if the area under product demand curve isn't

Implications

- Given nature of media products, what are implications of changed environment for
- Diversity
- Competition
- Localism

Diversity

- Multiple meanings
- Variety of content appealing to different sorts of people
- Market enlargement promotes enormous diversity in national products
- Reduced distribution costs could promote more products locally and nationally

Competition

- Stylized idea – based on “widget market”
- Internet changes promote textbook competition
 - Lower costs, more elastic demand
 - Drives prices toward costs in textbook markets
- Nuances in media markets
 - High – and endogenous – fixed costs
 - Can firms still cover these costs?

Quality Competition

- How do newspapers compete?
 - Not by prices; by content
- When quality is produced with fixed costs, then better product need not charge more than competitor
- If consumers agree on what is better, then better product – more reporters, content, etc - can attract large audience share, even if the market grows large
 - Sutton, *Sunk Cost and Market Structure*

Quality, cont'd

- Fits some media products well
 - quality is FC, not MC
- Compare radio and newspapers
 - Radio: N is proportional to market size
 - Newspapers: $N = 1$, almost regardless of market size
 - Larger markets have “better” papers: More pages, stories, reporters, Pulitzer Prizes (Berry and Waldfogel, forthcoming, JIE)
- Not obvious more products is better for consumers

Localism case study: newspapers

- Formerly:
 - Monopoly power with local products – e.g. local paper had no easy substitutes
 - Bundled local, national news, local sports, non-local features, classified ads
 - Cross subsidization: “golden age” for news provision
- New challenges:
 - Threats to classified market
 - National online products: easily available alternatives to local products’ nonlocal coverage
- Forced unbundling

Competition (and Localism)

- Traditionally concern about prices paid by advertisers. (for DOJ, FTC)
 - Separate from focus on information consumers (“public interest”)
- Old concern: e.g. N to N-1 mergers, threats to “voices,” prices.
 - New concern: do we have a source of local information? (0 vs 1)
 - Is 1 bad? Bias evidence suggests not, but...

Local Experimentation

- Era of shakeout, “ferment”
- Most dailies shrinking, but local weeklies growing
- Old media journalists launching hyper local products online
 - Too soon to say whether this will work
 - Some reason for optimism: few substitutes, potentially targeted ads