

# 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

# 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~~ ~~0.80~~ ~~Td~~ ~~0003~~ ~~>~~ ~~4.49~~ ~~Td~~ ~~()~~ ~~Tj~~ ~~8Tj~~ ~~/TT.5.if~~ ~~0.0f~~ ~~0.09~~

# 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 – an  $0 T c 0 3 1 . 9 8 - 3 1 . 9 8 0 4 6 2 7 9 . 2 3 n$

# 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

# 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



# Local Experimentation

- Era of shakeout, “ferment”
- Most dailies