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## MEDIA ECONOMICS

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Media economics is a field of study that has experienced considerable growth and development over the past 40 years. Miller and Gandy (1991) identified 351 articles published between 1965 and 1988 in several key journals (the *Journal of Broadcasting and Electronic Media*, *Journalism and Mass Communication Quarterly*, and the *Journal of Communication*) that focused on “some economic aspect of communication” (p. 663).

Media economics involves the application of economic theories, concepts, and principles to study the macroeconomic and microeconomic aspects of mass media companies and industries. Concomitant with the increasing consolidation and concentration across the media industries, media economics emerged as an important area of study for academicians, policymakers, and industry analysts. Media economics literature encompasses a variety of methodological approaches involving both qualitative and quantitative methods and statistical analysis, as well as studies using financial, historical, and policy-driven data.

This chapter focuses on the topic of media economics by organizing itself around four separate sections. The first section examines the historical development of the field of media economics, tracing its roots to the founding of economics. The second section centers on theoretical and methodological dimensions of media economics. The third section addresses concepts important to the study of media economics. The fourth and final section reviews contemporary issues confronting media economics scholars. Illustrations will be drawn from the United States.

### ◆ *Economics: Historical Development*

To understand the historical development of the field of media economics, one must first begin with the study of economics itself. The initial literature on economic thinking began to evolve in the time period between 1500 and 1800, with much of the early work occurring in Western Europe (Landreth & Colander, 1989).

Mercantilism represents the earliest form of economic thought, originating in the 16th century. Mercantilists equated a nation's wealth with the accumulation of gold and silver. If nations lacked mines, they could acquire the precious metals via trade and commerce. This led to political intervention in the market via tariffs and subsidies, elevating commercial interests to national policy.

Physiocrats, a group of philosophers in 18th-century France, rejected mercantilism in favor of agriculture and called for a policy of *laissez-faire*, or minimal government intervention in the market. The physiocrats were among the first to view the economy as a constant flow of input and output.

Philosopher/scholar Adam Smith is credited with providing one of the first syntheses of economic thought with a collection of writings in 1776 commonly referred to as *The Wealth of Nations* (Smith, 1937). Smith defined land, labor, and capital as the three factors of production and the major contributors to a nation's wealth. Interestingly, Smith referred to the growing discipline as *political economy*, a term used much differently in contemporary economic thought (see Chapter 15, this volume, for a complete discussion of political economy).

Along with Smith, David Ricardo's (1953) theoretical contributions related to land, rent, and capital; Thomas Malthus's work on population theory; and the later writings of John Stuart Mill (recognized for noting the distinction between allocation of resources, distribution of income, and the theory of value) collectively formed the

classical period of political economy. The work of these authors centered on the interplay of economic forces, the cost of production, and the operation of markets.

The classical school was eventually challenged by two new philosophies: marginalist economics and Marxism. Classical scholars believed price was determined by the costs of production, whereas marginalist economists equated prices with the level of demand, and in Marxism, price was controlled by the ruling class. The marginalists contributed the basic analytic tools of demand and supply, consumer utility, and the use of mathematics as analytical tools—all forerunners to the development of microeconomics. Marginalists also demonstrated that given a free market economy, the factors of production (land, labor, and capital) were important in understanding the economic system. The marginalists viewed value in a more rigorous manner than the classical school.

The Marxist school, built on the writings of Karl Marx (1926), identified labor as the source of all production. Marx rejected the market system that allowed the capitalists, the owners of the factories and necessary machinery, to exploit the working class and deny them a fair share of the goods produced. Marx predicted the fall of capitalism, as the disenfranchised labor class would ultimately rebel, overthrow the capitalists, and seize the means of production.

At the beginning of the 20th century, institutions of higher learning began to embrace the field, and the modern label of "economics" was used to represent courses of study in both America and Europe. At the same time, the focus of economic research was shifting from a classical approach to neoclassical economics. Neoclassical economics differed in its use of both analytical tools and mathematics (primarily differential calculus) to understand market behavior and price determination (Ekelund & Hérbert, 1990). Another important contribution of neoclassical economics was its refined interest in demand theory, as much of classical economics tended to focus only on production and supply. Many of

the principles developed in neoclassical economics became the basis for the broader area of microeconomics.

The writings of William Stanley Jevons (1957), Carl Menger (1950), and Leon Walras (1954), along with the seminal contributions of Alfred Marshall (1961), helped fuel the growth of economics as a field during the neoclassical period. Marshall, perhaps one of the most prolific economic scholars, influenced numerous other graduate students during his tenure at Cambridge, forming the Marshallian approach to the study of economics. Marshall refined many aspects of economic theory and also made advances in the study of industry supply, consumer surplus, elasticity of demand, and resource allocation (Ekelund & Hérbert, 1990).

The 20th century also saw the field of economics move in other directions. Previously, market structure was theorized to represent monopoly, duopoly, or perfectly competitive markets. Edward H. Chamberlin (1950) theorized a new form of market structure, labeled as *monopolistic competition*. Monopolistic competition centered on the role of product differentiation, which offered application to a number of different markets. Both more traditional and general in its analysis as compared to Chamberlain's, Joan Robinson's (1969) theory of imperfect competition offered two important contributions: (a) analysis of monopoly and price discrimination and (b) the market for labor. The study of welfare economics (Pigou, 1932), or how economics can be used to promote better social policy, also came of age during the neoclassical period.

Significant changes in 20th-century economic thought were realized with the development of macroeconomics. Here the focus shifted to aggregate economics, which encompasses the gamut of monetary and market principles. Macroeconomics became a catalyst for fiscal policy decisions in both Western Europe and the United States during the 1950s and 1960s. John Maynard Keynes, a student of Alfred Marshall and the founder of Keynesian economics,

became the focal point for the development of macroeconomics.

Keynes's writings were numerous, but his most influential work was *The General Theory of Employment, Interest, and Money* (Keynes, 1936). Keynes's arguments would provide the pivotal rationale for the use of government spending and taxing to stabilize the economy. Keynes argued that government would spend and decrease taxes when private spending was insufficient and threatened a recession; conversely, government would reduce spending and increase taxes when private spending was too great and threatened inflation. Keynes's work, focusing on the factors that determine the total spending process, remains at the core of modern macroeconomic analysis.

Other scholars who helped refine macroeconomics as an area of study and economic thought (Ekelund & Hérbert, 1990) included Irving Fisher (money, prices, and statistical analysis), Knut Wicksell (public choice), A. C. Pigou (welfare economics), and Milton Friedman (economic policy and consumption). Today, macroeconomics is concerned with a number of topics, including economic growth, employment, aggregate production and consumption, inflation, and political economy (Albarran, 2002). Additional areas of study that coincided with this time period included the field of international economics, better methods of applied economics, and the adoption of more powerful analytical and statistical tools in econometrics.

Economic theories and economic thought are constantly changing and evolving. By the end of the 1960s, growing inflation and changes in productivity began to push economic thought in new directions. Monetarist theories reemphasized the importance of growth in the money supply as a determinant of inflation. Rationale expectations anticipate government intervention in the economy, arguing that the market's ability to anticipate government policy actions limits their effectiveness.

Finally, "supply-side" economics revisited a chief concern of the classical

school regarding economic growth as a fundamental prerequisite for improving society's well-being. Supply-side economics emphasizes the need for incentives to save and invest if a nation's economy is to prosper, as well as the danger of canceling out those incentives through high taxation.

This review of major historical developments in economic thought illustrates the rich diversity of philosophies and theories found in the field of economics. As the study of economics became more refined, scholars began to investigate many different markets and industries, applying economic concepts and principles to different fields, including media.

### ◆ *The Development of Media Economics*

The rise of the mass media paved the way for the study of media economics. Research began to emerge during the 1950s. The media industries provided all of the elements required for studying the economic process. Content providers, offering information and entertainment, became the suppliers, whereas consumers and advertisers formed the demand side of the market. Various regulatory agencies (e.g., Federal Communications Commission [FCC], Federal Trade Commission, and other government entities) affected macroeconomic market conditions, and the relationship among suppliers in various industries created microeconomic market conditions.

Many of the early media economists addressed microeconomic concepts. Ray (1951, 1952) examined newspaper competition and concentration, whereas Reddaway (1963) reviewed economic characteristics of newspapers as firms. Steiner's (1952) classic work on competition in radio involves the application of microeconomic concepts to the radio industry. Early studies of the television industry examined market structure (Levin, 1958), competition with other media (Berlson, 1961), and the

impact on advertising revenues (Tijmstra, 1959–1960).

Concentration of ownership has been another topic studied across media industries. Representative studies of media concentration across industries include Albarran and Dimmick (1996), Bagdikian (2000), and Compaine (1985b), along with specific studies of industry concentration in newspapers (Lacy, 1984, 1985; McCombs, 1988; Picard, 1982, 1988a; Rosse, 1980), broadcast television (Bates, 1993; Litman, 1979), motion pictures (Gomery, 1993), and trade books (Greco, 1993).

Ownership structure has been examined in regard to management policy in the newspaper industry. Key works include Blankenburg's (1982, 1983) research on controlling circulation costs and pricing behavior and the impact on financial performance (Blankenburg & Ozanich, 1993). Further inquiry into press ownership and competition continues to develop, including the market for online newspapers (see Chyi & Sylvie, 2001; Lacy, Shaver, & St. Cyr, 1996; Lacy & Simon, 1997).

Other studies have examined variables such as media competition (Compaine, 1985a; Dimmick & Rothenbuhler, 1984), consumer expenditures and the principle of relative constancy (McCombs, 1972), barriers to entry (Wirth, 1986), demand (Busterna, 1987; Lacy, 1990), and utility (Albarran & Dimmick, 1993; Dimmick, 1993).

In 1988, the field of media economics gained further legitimacy by the debut of the *Journal of Media Economics (JME)*, established by the first editor of the journal, Robert G. Picard. Initially published twice a year, *JME* moved to three issues a year by 1991 and quarterly distribution in 1994. The *Journal of Media Economics* has emerged as the premier journal for the latest research in the field. In addition to articles in scholarly journals, a number of books and edited volumes have contributed to the development of media economics.<sup>1</sup> Our focus now shifts to the theoretical and methodological dimensions of the field.

### ◆ *General Theoretical and Methodological Issues*

Media economics research combines a variety of theoretical and methodological approaches. The following paragraphs in this section detail some of the most widely used theoretical and methodological tools used in the field of media economics.

#### *THEORETICAL FOUNDATIONS*

In terms of theoretical development, three areas account for much of the knowledge regarding media economics. These areas involve microeconomic theories, macroeconomic theories, and studies related to political economy. Much of the literature base deals with microeconomics, which is particularly suited for media economics research because it centers on specific industry and market conditions.

Macroeconomic studies tend to take a much broader focus, examining such topics as labor and capital markets, as well as policy and regulatory concerns. The literature base involving macroeconomic theories is much smaller than that using microeconomic theories.

Political economy of the media also encompasses many areas, emerging as a response to positivist approaches in mainstream economics. The mass media became a natural area of study, drawing scholars from sociology and economics as well as communications (Golding & Murdock, 1997). For discussion of media political economy, consult the chapter by Janet Wasko (Chapter 15, this volume). Here we will focus on microeconomic and macroeconomic theories used in the study of media economics.

#### *MICROECONOMIC THEORIES: INDUSTRIAL ORGANIZATIONAL MODEL*

Among the most widely used frameworks for the study of media economics is the

industrial organization model, developed by Scherer (1980), which in turn drew on the contributions of Bain (1968) and other neoclassical economists. The model offers a systematic means of analyzing many abstract concepts encountered in the study of a specific market. Scherer's explication of the market structure-conduct-performance (SCP) model as a tool for analysis has been widely used in the study of media markets and industries (Wirth & Bloch, 1995).

In its simplest form, the industrial organizational model posits that if the structure of the market is known, it allows explanation of the likely conduct and performance among firms. Each of the three areas (SCP) can be further defined by considering specific variables associated with each part of the model. For example, in terms of market structure, the variables used for analysis include the number of sellers/buyers in the market, product differentiation, barriers to entry, cost structures, and the degree of vertical integration (Albarran, 2002).

Gomery (1989) details the utility of the industrial organization model for media economics scholarship, echoed by Busterna (1988), Litman (1988), and Wirth and Bloch (1995). Several scholars have focused on just one part of the model, such as market structure (Wirth & Wollert, 1984), conduct (Picard, 1988b), or performance (Albarran & Porco, 1990; Litman & Bridges, 1986).

#### *THE THEORY OF THE FIRM*

Efforts to explicate a better understanding of market structure led to the development of the theory of the firm (Litman, 1988). The theory of the firm is an expansion of the industrial organization model, with the goal of gaining a better understanding of four common types of market structure: monopoly, oligopoly, monopolistic competition, and perfect competition.

The appeal of this approach lies in its simplicity and parsimonious nature. However, the defining of a market structure has

become increasingly complicated due to increasing consolidation across the media industries and technological change. For example, the market for television could be thought of as simply the market for broadcast television or could encompass a much wider definition to include cable and satellite networks, premium and pay-per-view services, and VCR/DVD use. Bates (1993) and other scholars (Albarran & Dimmick, 1996) suggest that market structure cannot really be defined clearly using these broad and simplistic labels.

### *MEDIA CONCENTRATION*

Another area of theoretical development relates to media concentration. In the United States, antitrust laws are designed to promote competition and limit concentration, making this an important area of inquiry for both public and social policy.

Media concentration is usually examined in one of two ways. Researchers gather existing data on firm/industry revenues to measure the degree of concentration by applying different methodological tools (e.g., concentration ratios, indices, or the Lorenz curve [see Albarran, 2002]), or researchers track concentration of ownership among the media industries (see Bagdikian, 2000; Compaine & Gomery, 2001; Howard, 1998). Regardless of the methods used, research documents increasing consolidation across all areas that make up the media industries, with many industries reaching "highly concentrated" status, indicating that the industry is dominated by a handful of firms (see Albarran, 2002; Albarran & Dimmick, 1996).

### *MACROECONOMIC THEORIES*

There is a much more limited body of literature that involves macroeconomic analysis in the field of media economics. For example, some scholars have offered

descriptive analysis of labor trends in particular media industries (Harwood, 1989).

Most macroeconomic research is related to policy and regulatory analysis, usually conducted at a national level of analysis. Policy studies typically attempt to analyze the impact of specific regulatory actions on existing markets and industries. Representative studies include Bates and Chambers (1999), Ford and Jackson (2000), and Lutzhöft and Machill (1999).

### *METHODOLOGIES USED IN MEDIA ECONOMICS RESEARCH*

Media economics research is very eclectic in the sense that many different types of method are used to answer research questions and investigate hypotheses. However, much of the literature employs one of four methods: trend studies, financial analysis, econometrics, and case studies.

Trend studies compare and contrast data over a time series. In assessing media concentration, for example, scholars typically study concentration indices over time to gauge the impact of different policy decisions or other actions on media ownership. Most trend studies use annual data as the unit of analysis. Trend studies are useful due to their descriptive nature and ease of presentation, and they aid in analyzing the performance of media companies and industries. Representative trend studies include Dimmick and McDonald's (2001) look at network radio, Greco's (1999) examination of book publishing mergers, and Lewis's (1995) study of changes in newspaper pricing and subscription costs.

Financial analysis is another common methodological tool used in media economics research. Financial analysis can take many different forms and use different types of data. The most common data include information derived from financial statements and the use of various types of financial ratios.

For example, in the United States, all publicly traded companies operating must file various types of financial documents regularly with the Securities and Exchange Commission. Individual companies also distribute annual reports to their shareholders that contain a number of financial statements and other data. The Internet is an important source of financial data for researchers, easing the ability to collect and analyze data. Financial analysis is much harder to conduct on privately held companies, which are not required to disclose any financial information, and with companies domiciled outside the United States, where accounting practices and currency exchange rates vary.

Econometrics involves the use of statistical and mathematical models to verify and develop economic research questions, hypotheses, and theory. Econometrics has been more prevalent in the general economic literature because most media economics researchers coming from communication or journalism backgrounds lack the mathematical knowledge to pursue econometric modeling. Studies by Kennert and Uri (2001) and Miller (1997) represent research involving econometric analysis.

Case studies represent another useful method in media economics research. Case studies are popular because they allow a researcher to embrace different types of data as well as different methods. Case studies in media economics research tend to be very targeted and focused examinations. Representative case studies include McDowell and Sutherland's (2000) analysis of branding, Nye's (2000) review of litigation in music publishing, and Gershon and Egen's (1999) case study involving retransmission consent in the cable television industry.

Methods used in media economics research are not confined to these. Others can be found as noted above, such as policy analysis of regulatory policy and action on media markets and industries. Historical research is also found, although with less

frequency (e.g., Dimmick & McDonald, 2001; Wolfe & Kapoor, 1996).

### ◆ *Forces Driving Media Industry Change*

The previous overview of the historical, theoretical, and methodological dimensions of the field of media economics provides a context for examining some of the key concepts important to media economics research. Prior to reviewing specific concepts, a review is warranted of the forces driving media industry change.

Four external forces continue to drive change across the media industries, leading to evolution of the study of media economics. These four forces consist of technology, regulation, globalization, and sociocultural developments. Each is briefly reviewed in the following paragraphs.

#### *TECHNOLOGY*

Because media industries are heavily dependent on technology for the creation, distribution, and exhibition of various forms of media content, changes in technology affect economic processes between and within the media industries. There are three critical areas where technology has done this. The first is the initial evolution of computers. Computing technology improved efficiency among workers in many areas and greatly minimized storage requirements for paperwork as well as increasing opportunities for communication (e-mail) and other software applications.

The second technological area, coupled with the rise of computing technology, has involved the transition from analog to digital content. As computers became more powerful and sophisticated, the ability to convert text and graphics digitally soon led to digital audio and video files. And once content is digitized, it can easily be distributed and

shared with others. The media industries quickly moved to converting to a digital world, first in print and later in electronic media.

The third area of technological impact was and continues to be with the development of the Internet. First used primarily to exchange textual information, the advent of hypertext language led to the development of the World Wide Web, forever changing the user's experience with the Internet. Some media companies quickly recognized the power of the Internet, building Web sites to attract consumers and advertisers, whereas other companies floundered in their initial attempts to understand how best to use the new medium. The Internet offers media companies another way to connect audiences and advertisers, as well as a means to build and enhance brand development. By the late 1990s, the ability to stream audio and video files over the Internet was introduced, along with the rise of broadband services in the form of cable modems and digital subscriber lines. Early in the 21st century, wireless access was positioned to be the next major Internet innovation. The Internet also represents major challenges regarding intellectual property and copyrighted content.

### REGULATION

Regulatory actions can always affect competitive market forces, and media industries are no exception. During the 1980s and 1990s, U.S. media industries benefited from a combination of deregulatory actions as well as liberalization of former policies. During the 8 years of the Reagan administration, the FCC took on a marketplace approach to regulation. Ownership limits were increased, and burdensome rules regarding program requirements and public interest standards were either removed or relaxed.

The 1996 Telecommunications Act, the most significant U.S. communications regulation passed since 1934, sought to

eliminate competitive barriers in the broadcast, cable, and telecommunication industries. Ownership caps were relaxed yet again, and companies operating in one industry could now compete in others (e.g., cable companies could now offer telephone service, and telephone companies could offer cable-like services). Other rulings passed in 1998 and 1999 to stimulate competition in the emerging direct broadcast satellite (DBS) market allowed satellite operators to offer local television signals in addition to their regular lineup of traditional cable and pay networks.

These regulatory actions paved the way for increasing consolidation across U.S. media industries. For example, in the radio industry, some 75 different radio companies eventually were merged or acquired into one of two companies: Clear Channel Communications or Infinity (Viacom). In television, Viacom acquired the assets of CBS, King World, UPN, and Black Entertainment Television (BET). America Online merged with Time-Warner, creating the first company combining "old" and "new" media. The French utility company Vivendi, in a span of just 2 years, acquired the media assets of Seagram Universal and the USA Networks to become a global media giant, along with the likes of Disney, News Corporation, and Bertelsmann AG.

Court decisions, coupled with regulatory actions, also affect media markets. In early 2002, the U.S. Court of Appeals ruled in favor of separate cases brought forward by AT&T and Viacom regarding government-mandated ownership caps, declaring that the limits imposed by the FCC on cable and television station ownership were arbitrary and capricious. Trends strongly suggest that these decisions may lead to removal of all ownership caps at the national level for many media industries, leading to even more mergers and acquisitions. In a related matter, the FCC is expected to remove old restrictions barring newspapers from owning broadcast stations in the same markets in which they operate. If eliminated, the cross-ownership rules would give publishing

companies the opportunity to acquire broadcast stations and cable systems within the markets they serve, leading to the development of multi-media-based companies offering content and advertising across multiple mediums.

### GLOBALIZATION

With many American media markets heavily saturated, the global marketplace has become even more important in generating revenues for media firms and industries. Media products are often created with global audiences in mind, which is why so much content contains sex and violence—two topics that are easily understood across cultures.

Globalization of media content began with motion pictures and magazines but then expanded into other arenas, including television programming, VHS and DVD sales and rentals, and sound recordings. The United States has been the primary exporter of content, but the rise of international media conglomerates such as News Corporation, Vivendi Universal, Sony, and Bertelsmann demonstrated that a global oligopoly of media companies was increasingly dominating the marketplace for information and entertainment goods and services.

Globalization presents a challenge for media economics researchers, as accounting practices and regulatory structures differ from country to country. There are few reliable sources of global financial data related to media. Nevertheless, it is critical that scholars recognize that media companies compete and operate in a global as well as domestic marketplace for audience share and advertiser revenues.

### SOCIOCULTURAL DEVELOPMENTS

Changes in demography and other aspects of society also affect the media industries and, ultimately, media economics. As noted, media content is often created

with the desire to reach global audiences, so consumer tastes and preferences are critical in understanding audience needs and wants.

In addition, U.S. media users are changing. Census data clearly track the transition of the United States to a multicultural society. This has led to pressures from groups such as the National Advancement for the Association of Colored People (NAACP) to present network television programming that better reflects the actual makeup of society. In addition to becoming a nation of color, Americans are living longer and desire more content geared toward the needs of a mature audience. Aging baby boomers will demand more content devoted to issues related to retirement, health, travel, and leisure. Some cable networks were already beginning to address this market, but more will follow suit.

Audiences have an insatiable appetite for media-related content and services. As people live longer and obtain more discretionary income, spending on media will likely rise. These shifts in audience composition and makeup will present new pressures on media firms to develop content that will appeal to these unique and differing audiences.

Having reviewed these four macro-level forces, we now turn to some of the key concepts found in the study of media economics: media products, the dual-product marketplace, branding, competition, economics of scale and scope, mergers and acquisitions, and labor.

## ◆ *Standard Concepts*

### MEDIA PRODUCTS

Media content, in the form of television programs, movies, sound and video recordings, and print (e.g., books, magazines, newspapers), represents some of the products supplied by media firms. Media products can be broadly classified into categories of information (news-related content)

and entertainment (drama, comedy, action, music, games, etc.). Massive consolidation across the media industries has given rise to vertically integrated conglomerates (meaning they control many aspects of production, distribution, and exhibition) such as Viacom, AOL Time-Warner, Disney, and News Corporation. Media products such as television programming, feature films, and sound recordings can be repeatedly used and marketed to both audiences and advertisers, forming the “dual-product marketplace.”

#### *DUAL-PRODUCT MARKETPLACE*

Many media industries function in a dual-product marketplace. That is, media firms produce or supply information and entertainment products that are consumed or demanded by audiences and, in most cases, advertisers. The dual-product marketplace is a unique characteristic of the media industries, allowing for separate transactions and potential revenue streams from both audiences and advertisers. Media firms try to strategically position their content so as to maximize potential revenues. The number one priority of media executives and managers is to generate positive cash flow (revenues less expenses, depreciation, taxes, and interest) to increase the value of their firm.

#### *BRANDING*

This is another key concept in media economics. Media companies use branding as a way to build awareness and identity connected with content products. Most audiences and advertisers recognize brands, and larger media companies have invested billions of dollars to develop and acquire different brands. Viacom is a multidivisional media company with a large cadre of recognizable brands, including MTV, Nickelodeon, Paramount, Blockbuster, CBS/UPN, Infinity, and King World. AOL

Time-Warner is another branded company, with well-known entities such as AOL, CNN, HBO, Warner Brothers, Netscape, Time, Sports Illustrated, and TBS/TNT. Branding provides not only instant recognition but also the opportunity to be recognized in a heavily competitive market environment.

#### *COMPETITION*

The dual-product marketplace operates at the distribution and exhibition levels once products are actually created. Prior to this, there are many competitive processes at work. For example, competition exists for ideas by writers that can be turned in to successful scripts for television programs and films. Securing experienced photographers, producers, directors, and editors for the production process involves competition, as well as the demand for the best available talent. An interesting aspect of studying media competition is the fact that, throughout the history of the media, no new media have completely displaced older forms of media (Dimmick & Rothenbuhler, 1984). Typically, some type of evolution or repositioning takes place, but traditional media learn to coexist and survive with newer media forms.

#### *ECONOMIES OF SCALE AND SCOPE*

Economies of scale and scope refer to the cost efficiencies realized by the operation of media firms in different venues. Economies of scale are realized when the average cost declines as multiple units of a product are produced. For example, the fixed and variable costs to produce a single newspaper would be very high, but the cost per newspaper drops dramatically as multiple papers are printed. Likewise, as radio stations have consolidated, there is no longer need for multiple offices and administrative and engineering staff.

Economies of scope allow multidivisional conglomerates to realize cost-efficiencies across horizontal media markets. Viacom has the ability to produce a motion picture via its Paramount Studios, air that movie on its pay channel Showtime, reap additional revenues from rentals via Blockbuster, and cross-promote the film through other owned programming and publishing outlets.

### MERGERS AND ACQUISITIONS

The composition of the media industries has undergone considerable change due to mergers and acquisitions across many market sectors. Mergers and acquisition activity surged during the 1980s and 1990s due to a number of macroeconomic processes, including relaxation of ownership provisions, low interest rates available for financing, strong business performance, and technological convergence (see Ozanich & Wirth, 1998). As policymakers continued to relax ownership limits and more mergers took place, public interest watchdog groups became ever more concerned, fearing the growing consolidation of media would lead to constriction of news and information sources needed to nourish democracy.

### LABOR

Media industries depend on talented technical, creative, and managerial personnel to function effectively. Personnel represent the greatest single expense for any organization. In the media industries, trade, craft, and technical workers are considered “below-the-line” employees, whereas producers, writers, directors, talent, and management are considered “above-the-line” employees (see Shanks, 1977).

Labor unions are common across many U.S. media industries. Various guilds and craft unions negotiate minimum pay grades for everything from scripts to directing. A common management responsibility is negotiating contract renewals, with unions

representing media workers to avoid strikes and labor disruptions.

Technology continually changes the labor market for media firms, evidenced by the influx of computing systems used for many different applications. Media companies either invest in the development of personnel skilled in these new areas, or they may choose to outsource these responsibilities to firms specializing in specific applications. Labor markets are affected by consolidation, which typically creates a loss of some repetitive jobs, as well as general labor trends.

### ◆ Contemporary Issues in Media Economics

There are a number of issues scholars need to address in their efforts to further develop this important area of research. This final section considers three issues of particular relevance affecting media economics at the beginning of the 21st century: theory building, defining market structures more precisely, and better methods.

### BROADER THEORETICAL DEVELOPMENT

Media economics research has primarily drawn on microeconomic concepts and principles, with a heavy reliance on the industrial organization model. Although this emphasis clarifies the relationship of various concepts in microeconomic analysis, it limits the development of the field. As a result, other economic theories, which have possible application to the mass media industries, have been ignored, especially those found in macroeconomics (Chambers, 1998; Lacy & Niebauer, 1995). For example, understanding the global consolidation of many media markets is an area that would be strengthened using macroeconomic approaches. The impact of global consolidation on general patterns of

employment, economic development, and inflation are just three potential topics of interest.

In addition to drawing on the breadth of existing economic theories, scholars should consider new theoretical inquiries that could draw on multiple methods of investigation. The interplay of business structures, regulation, technology, and social policy implications across the media industries offers a unique playing field for scholars to generate new theories and hypotheses. To do so, researchers must be willing to move away from simply describing specific firms' structure and performance to more analytical and investigative analysis.

Theory building is never easy in any field, but given the rapid pace of change in the media industries, no area could benefit more from fresh ideas and news perspectives than media economics.

#### *DELINEATING THE MARKET AND DEFINING MARKET STRUCTURE*

A second issue involves better definition of what constitutes a market and expanding our understanding of market structure. Media economics research must grapple with the evolving definition of what constitutes a media market, a critical issue given the convergence under way across the media industries. Markets can no longer be defined cleanly. In reality, media companies tend to supply products in many different markets, in competition with other providers. Yet the tendency among policy-makers and researchers is to still treat markets under traditional labels, such as television, newspapers, or motion pictures. This approach fails to recognize the realities of the media marketplace and can lead to inaccurate assumptions over which firms dominate a particular market.

One answer to this dilemma may be to consider the functions of a firm rather than focusing on the final product. If we begin to think of Viacom as a company with multiple brands engaged in content creation and distribution, it perhaps offers a clearer

interpretation of what the company was about and how it sought to be a leader in many different markets: network television, program syndication, cable networks, radio, and so on. Likewise, EchoStar was primarily a distribution company and the leader in direct-to-home satellite subscriptions, competing with the likes of AT&T/Comcast, Cox, and AOL Time-Warner in the market to capture multichannel households. Conceptually, this makes much more sense than to say AT&T/Comcast was the leading cable operator and EchoStar the leading satellite provider.

Coupled with the need for better understanding of the market is a need to expand or redefine the theory of the firm. For decades, media economists have tried to work within the three categories found in the mass media: monopoly, oligopoly, and monopolistic competition (Albarran, 2002). Yet other types of structures are evolving. Duopoly, a market with two primary firms, is becoming more common in media markets. U.S. examples at the beginning of the century included the market for new national digital satellite radio services, XM Radio and Sirius (Albarran & Pitts, 2001), and the market for Internet browsers, involving Microsoft Internet Explorer and Netscape.

But what was truly emerging in many media industries was a two-tiered market structure, with a limited oligopoly of firms (between three and five) controlling between 75% and 90% of the revenue/market share and a number of smaller firms on the other tier fighting for a small percentage of the remaining market share. Media industries representative of this type of evolving structure are the motion picture and recording industries, television networks, radio, consumer book publishing, and magazine publishing (Albarran & Dimmick, 1996).

#### *BETTER METHODS OF ANALYSIS*

Improvements in theory development and redefining of the media market and market structure must be realized in

conjunction with enhancements in methods. In particular, one area deserves attention: measures used to assess competition and concentration.

Measures to assess competition and concentration have primarily relied on one of two available tools: concentration ratios and the Herfindahl-Hirschman Index (HHI) (Albarran, 2002). Concentration ratios provide a parsimonious way to measure concentration, using either the top four firms or the top eight firms in a market. Basically, if the top four firms control more than 50% of the market revenue, or if the top eight firms control more than 75% of the revenue, the market is considered highly concentrated. Although the measure is useful, it fails to address inequality of market shares. For example, using the four-firm ratio, one could encounter one firm dominating the market with 45% of the revenues, with the other three firms holding a combined 5%. In such a case, one might conclude the market was concentrated, but this would fail to offer a complete picture.

The HHI index seeks to be much more rigorous. The HHI squares the market share for each entity and then generates a total number for all the firms. Herein, however, lies a key problem. Researchers must have data on *every* firm in a market to calculate the index. Often, researchers lack access to data from all the firms, especially from privately held companies. Furthermore, calculating the index can be unwieldy.

More problematic for both measures is that they are designed only to measure concentration *within* a market segment. There are no generally accepted measures available to assess concentration *across* markets (see Albarran & Dimmick, 1996), yet this is an area of key concern. AOL Time-Warner, Disney, Viacom, and other media giants may have limited market share within individual market segments, but no tools exist to measure their combined influence across markets. With multiproduct firms engaged simultaneously in many media markets, developing measures to assess within-industry concentration and competition are badly needed.

## ◆ Conclusions

Media economics provides a means to understand the activities and functions of media companies as economic institutions. Only by understanding individual media companies as business entities can one fully appreciate their conduct within society. An understanding of media economics strengthens our understanding of the role and function of mass media in society. At a theoretical level, media economics complements existing mass communication theory by adding important dimensions regarding the structure, conduct, and performance of media firms and industries; the interplay of economics, policy, and regulation; and audience behaviors and preferences.

As a field of scholarship, media economics research offers important contributions to media studies. Media economics research faces many challenges as it attempts to analyze and evaluate the complex and changing world in which the mass media industries operate.

## ◆ Note

1. Research in media economics was spurred by a number of early volumes, including the following: *Economic Aspects of Television Regulation* (Noll, Peck, & McGowan, 1973); *Television Economics* (Owen, Beebe, & Manning, 1974); *Economics and Freedom of Expression: Media Structure and the First Amendment* (Owen, 1975); *Beyond Agenda-Setting: Information Subsidies and Public Policy* (Gandy, 1982); *Who Owns the Media? Concentration and Ownership in Mass Communications Industry* (Compaine, 1985b); and *Press Concentration and Monopoly: New Perspectives on Newspaper Ownership and Operation* (Picard, Winter, McCombs, & Lacy, 1988). Later volumes concentrated on broader coverage of the field, including *Media Economics: Concepts and Issues* (Picard, 1989); *Media Economics: Theory and Practice* (Alexander, Owers, & Carveth, 1993); *Media*

*Economics: Understanding Markets, Industries and Concepts* (Albarran, 2002); and *Global Media Economics: Commercialization, Concentration, and Integration of World Media Markets* (Albarran & Chan-Olmsted, 1998). Other volumes address specific industries such as newspapers (Demers, 1996; Lacy & Simon, 1993) and the evolving video entertainment industry (Owen & Wildman, 1992).

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