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Starting over

THE FUTURE OF THE MEDIA CONGLOMERATE

The rise of the internet has drastically reduced the costs of media production and paved the way for the entry of new firms into a traditionally highly concentrated industry. This bulletin examines the recent dynamics of the industry and posits reasons why many of the old media firms have struggled to maintain their sales and profitability. It also explains why the new opportunities created by the internet should be welcomed.

Recent media inquiries in the UK and Australia don't reflect the full malaise facing several traditional private mass media companies at the moment. Many television, newspaper and other publishing conglomerates are losing customers and the subscription and advertising revenues on which they rely for their profits. This is largely explained by the rise of the internet which has spurred new forms of content generation and consumption, reduced the costs of disseminating content and encouraged the entry of new firms. These developments have led to greater competition in the supply of content and in the provision of advertising opportunities.

THAT WAS THEN

Once upon a time, running a TV network required enormous investments. In the case of free-to-air broadcasting these included spectrum, broadcast towers and transmission equipment. For pay TV it comprised cable or satellites and dishes (and associated spectrum) and set-top boxes. Today it is possible for an IPTV station to be developed without many of these things – or most of the infrastructure to support it is provided by the communications network owner and can be shared across multiple communications and content services. This makes distribution of IPTV services extremely cheap compared to traditional TV services.

Likewise, running a large publishing business such as a newspaper or a stable of magazines required large investments in assets needed for publication production and distribution. These included printing presses and the land and buildings that house them, paper for printing and transport services for distribution. Many of these production tasks also required large numbers of employees. Publishing exclusively online requires none of these things, and is consequently much cheaper.

THIS IS NOW

The lower-cost bases offered by on-line services have greatly diminished the economies of scale in the industry and opened the market up to many more participants which would otherwise have struggled to raise the necessary capital and recover their costs. The result has been new entrants and audience fragmentation, and the erosion of the ability of many media companies to compete with their legacy cost bases.

What all this means is that content suppliers such as authors, film and recording artists and event organisers such as sports leagues, now have the means to supply their content directly to customers at very low cost via their own websites. These developments are very bad news for the media conglomerates.

Take the following examples. Purely on-line news sites have emerged such as the Huffington Post in the US and Crikey and Business Spectator in Australia, not to mention the many thousands of amateur sites and blogs. Large swathes of classified advertising, where once newspaper companies dominated, have been captured by new entrant on-line sites such as eBay and craigslist in the US and Seek and Carsales in Australia.

As an illustration of the potential threat to book and other traditional publishers, J. K. Rowling, the author of Harry Potter books, has her own website Pottermore, where her fans can purchase electronic versions of her books directly. She therefore not only by-passes publishers, but also e-book retailers such as Amazon and iBooks.

In the sport broadcasting sphere, still one of the major money earners for broadcasters, changes are afoot. In the US most of the major sports leagues such as Major League Baseball run their own IPTV channels that enable fans to watch matches directly via the leagues' websites. While these sites have not to date usurped the contracts issued to media companies for media rights, this may not be far away. The rise of TVs that can be connected directly to the internet and the proliferation of high speed broadband connections could soon mean that the leagues no longer need the broadcasters. That is, they could reach a wider audience and earn more revenues and profits by running their own exclusive channels.

AND THE WORLD CAME TUMBLING DOWN

A question that may be asked of many media and publishing firms by their shareholders is why have they struggled to transition successfully to these new-lower cost business models?

One part of the answer is that the revenues and profits on the traditional parts of their business remained larger than the on-line business for many years. In this context, vigorous promotion of the on-line business would have actually served to undermine revenues and profits, so it made little commercial sense to do so until these were drastically eroded. However, in the meantime this created an opportunity for new entrants that could enter without the legacy revenues and profits to worry about, and could take advantage of much lower costs.

A second part of the answer is that they have, in fact, been successful. It is just not appropriate to compare their current revenues and profits with what existed before. This is because the fundamental change in technology and associated quantum reduction in costs mean that they were never likely to sustain the revenues and profit levels that they used to command. In other words, they need to be judged against their peers in terms of revenues and rate of profit, not against their past levels of performance.

There have, however, been a number of other reasons that have made it hard for many media and publishing companies to maintain their profitability. The first is that one feature of the internet is an expectation by many people that content should either be free or very cheap to view. This has limited the ability of newspapers in particular, to charge customers subscription fees as an alternative to their traditional model of recovering most of the content production costs from advertising revenue.

A second reason is that there are new alternative means by which advertisers can more effectively target particular customers, and in doing so by-pass traditional broadcasters and other content aggregators altogether. These include internet search engines, social media and website-based advertisements that enable firms to deliver advertising directly to those people who are interested in their products. Advertisements on search engines, in particular, don't need to be tied to a content provider.

A final possible reason is the better position of publicly funded media. These media are not (or only partially) reliant on private advertising. Hence to the extent that their funding is maintained and their costs of production have fallen, they can be expected to have an increased ability to compete with the offerings of traditional media companies which face declining advertising revenues in an on-line world. News Corporation, for example, has complained that it faces unfair competition for online content in the United Kingdom from the BBC.

EMBRACING THE FUTURE

The reduction in costs of production and dissemination of content and the proliferation of competition are developments that societies should welcome. Nevertheless, the recent Australian independent media inquiry unearthed two possible concerns.

One is that there could be a reduction in quality journalism. This fear seems to be based on the idea that less profitable media companies would have less money to pay top quality journalists and to engage them in undertaking costly investigative assignments. There should be a number of doubts about this fear. First, so long as consumers value quality journalism, there should be a market for it. Second, the reduction in costs of gathering and distributing information as a result of the internet is also helping to reduce the costs of investigative tasks. Third, while individual media organisations might shrink, reductions in the costs of communication enable quality journalism to be shared more readily across organisations.

A second concern is that there would be a reduction in local news as local monopolies in news were eroded by outside sources of content. There is no doubt that reductions in the cost of transmission and distribution have opened regional and national media markets to wider sources of content. Nevertheless, it has also greatly reduced the costs for local organisations, including community organisations, to produce their own content such as online newsletters, newspapers and the like. It is likely therefore that far from reducing local content, the internet has served to alter the distribution of the producers of that content.

CONCLUSION

The internet has led to a quantum fall in the production costs of media content. This has challenged the commercial position of traditional media companies, which have lost customers to new sources of content and competitors that have been quicker to embrace the new opportunities. These changes should be welcomed by society due to the lower resource cost, greater diversity and choice that it brings to media production and consumption.

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