Media and Advertising

THE TELEVISION INDUSTRY AS A MARKET OF ATTENTION

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TV stations serve two different groups of clients

- Viewers, who want information and/or entertainment.
- Advertisers, who want the attention of potential customers.

The two groups affect each other’s well being

- Viewers dislike advertising
- Advertisers like viewers’ attention
A case of two-way externalities:

- Viewers, when deciding to watch a particular TV channel, affect advertisers’ profits.
- Advertisers, when deciding to put ads on a particular TV channel, affect viewers’ well-being.

A two-sided market. Platform competition.

- Another important two-sided market: credit cards – merchants and card users.
- The TV industry is different because externalities here have different signs in the two directions.
Television is in many places a concentrated industry.

- regulations; technology; history.

Imperfect competition and two-way externalities

→ How does such a market work?
Recent changes in technology

- digital terrestrial TV
- web TV

These changes may allow for

- A change in business model for TV firms: moving away from purely advertising-financed TV.
  - Possible to make viewers pay in ways not available earlier.

- More competition in the TV industry.
  - Viewers having access to a larger number of TV channels than before.
Pay-TV – a good or a bad?

- **Advertising-financed TV stations** live by their viewers – the more the better.
- An advertising-financed TV station will – if it can – try to eat into the viewers of other TV stations.

- **Advertising-financed TV** tends to lead to *too little variation* in program content.
• With pay-TV, another force comes into play: The more your programmes differ from other programmes, the more viewers care about that difference rather than about any difference in price.

• Being different makes it easier for a pay-TV channel to keep the price up.

• With pay-TV, there is more variation in programme content than with advertising-financed TV.
How does increased competition affect the TV industry?

Suppose viewers have preferences for program variety.

More TV channels mean
  • More firms in the industry, of course.
But also:
  • More similar TV channels.

*The two senses of increased competition do not always work similarly.*

Suppose TV stations set both viewer prices and advertising prices
  • how will increased competition affect these prices?
The *market for viewers* differs from the *market for advertisers*

- TV firms’ *viewer prices* are “in step” – if one firm lowers its viewer price, then other firms will want to lower their own viewer prices.

- TV firms’ *advertising prices* are “out of step” – if one firm lowers its advertising price, then other firms will want to increase their own advertising prices.

  - Lower price at one firm means this firm carries more advertising, implying viewers go elsewhere, so that other firms have more viewers and therefore a higher demand for advertising – and can increase their prices.

So what happens when *competition increases*?
Keep the number of TV channels fixed. What if they get more similar?

- Lower prices to consumers – a regular effect.
- But *higher prices to advertisers*!
- Advertising’s share of a TV firm’s total revenue *increases*.
  - A lower viewer price at a TV channel means more viewers there, so that advertisers’ demand at that channel increases, and therefore, in sum, advertising prices increase.
Keep TV channels’ similarity fixed. What if the *number of TV channels increases*?

- Advertising prices decrease.
  - A TV channel’s market power in the advertising market gets diluted as the number of channels increases.

- Viewer prices also decrease, but not as fast as advertising prices.

- Advertising’s share of total revenue decreases.
So – as competition increases, will there be more or less reliance on advertising for TV-industry revenues?

• The economist’s standard answer: *It depends.*
  – Which force is the strongest – similarity or numbers?
  – If the number effect is the stronger, then we can expect the TV industry to move in the direction of viewer payment, or *pay-TV.*

• The ambiguity in the answer calls for increased focus on media industries in the future, from researchers and policy makers alike.
In summary…

What role will pay-TV play in the future?

Hard to tell. But one thing is certain: These are exciting times for viewers, regulators, advertisers, … and researchers!