

## CDTM Elective Media Economics

Winter Term 2004/05

October 21st, 2004

**Session 2: Introduction to Media Economics**

Prof. Dr. Thomas Hess

1



## Agenda

General Introduction and Basics

Particularities of Media Products

Media Firms Facing the Internet

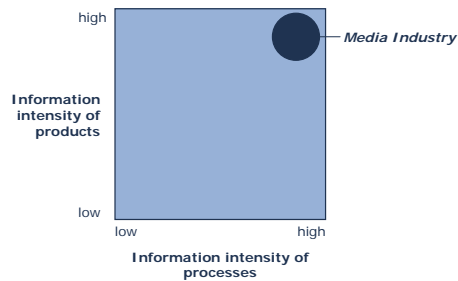
Lessons (to Be) Learned

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2



## Particularities of the Media Industry



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3



## Media Firms – Basic Understanding

### Business Mission:

- satisfying information and entertainment needs in the economic way by producing and utilizing media products
- bundling and distribution of content is in the middle of the media firm's typical business operations

### Objectives:

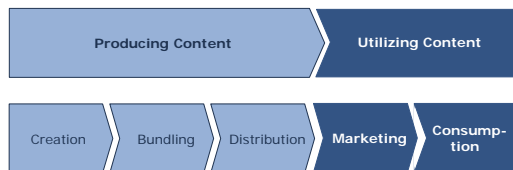
- economic view: commercial vs. non-commercial
- cultural view: educational vs. non-educational

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4



## More in Detail (1) – The Value-Added Process

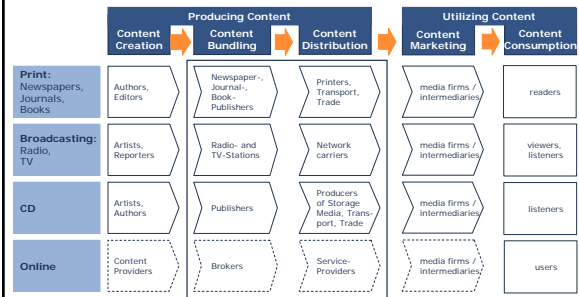


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5



## More in Detail (2) – Categorization of Media Firms



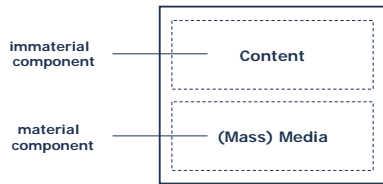
(Schumann/Hess, 2002)

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6



## Media Products – Basic Understanding



(Hass, 2002)

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7



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## More in Detail (1) – Content

"We use the term information very broadly. Essentially, **anything that can be digitized** – encoded as a stream of bits – **is information**. For our purposes, baseball scores, books, databases, magazines, movies, music, stock quotes, and Web pages are all information goods." *Shapiro/Varian (1998)*

"Digital goods and services are those that can be **delivered using the information infrastructure**" *Clarke (1999)*

Information products, allocated as goods to satisfy external needs, are termed as "content"

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8



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## More in Detail (2) – (Mass) Media

### Medium:

- Carrier and transmitter of content (information or entertainment)
- Means of communication
- Communication between sender and recipient runs indirectly via the medium as mediating instance

### Individual medium:

- Transported contents address **one single** recipient
- e.g.: Telephone (classic), E-Mail

### Mass media:

- Address not one single, but **many** recipients
- e.g.: Newspapers, Magazines, Books (Category Print), Radio und TV (Category Broadcast), CD and DVD, Internet and exclusive Online-Services (Category Online)

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9



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## Agenda

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Particularities of Media Products

Media Firms Facing the Internet

Lessons (to Be) Learned

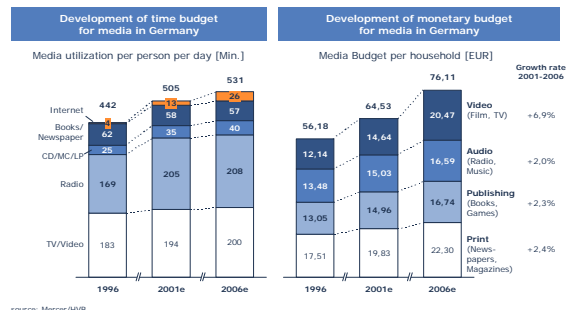
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10



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## Media Consumption



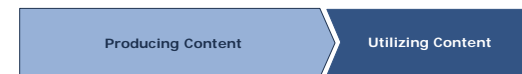
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11



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## Overview about Selected Properties



- First copy cost
- Double sales market
- Limited storing capability
- Public good (partially)

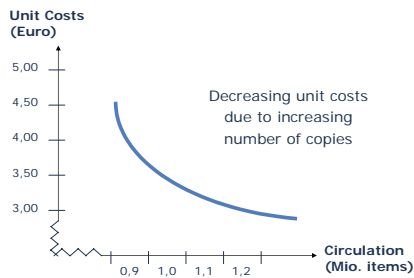
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12



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### Production-Side – First-Copy-Cost-Effect (FCCE) in the "Spiegel"-Example



[Source: Schumann M./Hess T. (2002): Grundfragen der Medienwirtschaft 2. Auflage, Berlin u.a., S.10.]

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13



### Production-Side – FCCE and Cost Structures

Cost allocation of German media 1992 (per cent)

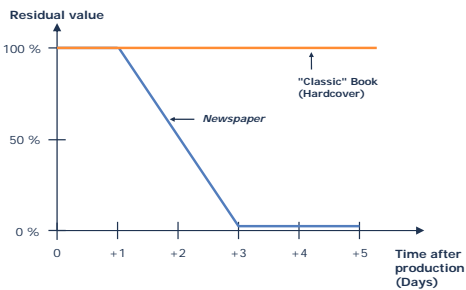
	Production costs	Duplication costs	Distribution costs	Duplication- and Distribution costs
Subscription Newspapers	20,0	39,5	19,0	58,5
Magazines	29,5	28,1	6,6	34,7
Public TV	55,9	0	9,2	9,2
Private TV	68,9	0	7,1	7,1

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14



### Production-Side – Limited Storing Capability (1)

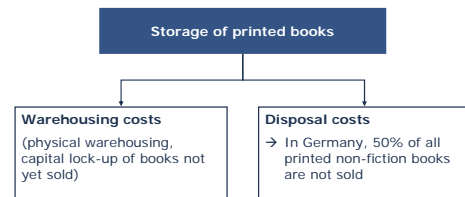


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15



### Production-Side – Limited Storing Capability (2)

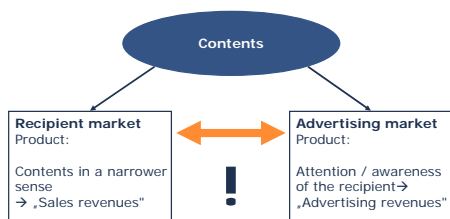


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16



### Utilization-Side – Double Sales Market (1)

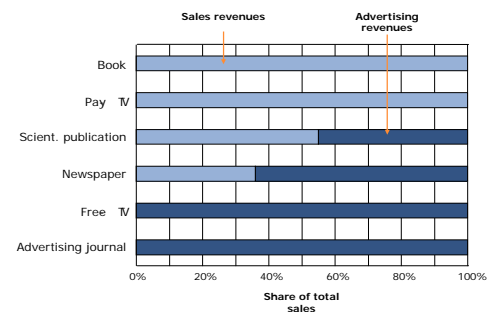


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17



### Utilization-Side – Double sales market (2)



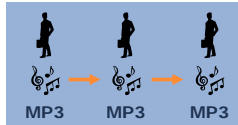
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18



## Utilization-Side – Public good (1)

**Non-rivalry in consumption** means, that the consumption of a good by one person doesn't decrease the value of the good for another person



→ relevant for all information products

**Non-excludability from consumption** means, that a person cannot be precluded from consuming the good



→ relevant for some information products

Goods feat. non-rivalry and non-excludability from consumption are termed "public goods"

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19



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## Utilization-Side – Public good (2)

Part of the information products are known as public goods. Ostensibly, there is no incentive for profit-oriented companies to produce public goods because sales revenues will not cover the production costs.

Three important solutions:

- Public provision (through public-law broadcast institutions!)
- Selling attention, especially through advertising
- Enforcement of non-excludability, through legal and technical means → relevant particularly in the case of online-distribution

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20



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## Agenda

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Lessons (to Be) Learned

Introduction to Media Economics

21



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## Content Utilization Via the Internet (1) – New Opportunities for Media Firms

### Potential Music Industry Windowing

Window	Radio/Music TV/ Touring	Physical CD	Digital Download	Digital Subscription	Club Sale
Average Consumer Price	NA	\$13.81	\$1.99-\$2.99 per track \$13.99 per album	\$9.95-\$19.95 per month	\$5-\$19

Content Utilization via the Internet in the Music Industry

Bhatia, G. K. / Gay, R. C. / Honey, W. R. (2001): Windows into the Future: How Lessons from Hollywood Will Shape the Music Industry. Available under [http://www.bah.de/content/downloads/insights/5J\\_Windowi.pdf](http://www.bah.de/content/downloads/insights/5J_Windowi.pdf) (2004-10-14).

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22



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## Content Utilization Via the Internet (2) – Background and Threats



- content can be digitalized and distributed via the Internet
- the digitalization of content eases file-sharing between consumers
- illegal file-sharing cannibalizes media firms' revenues

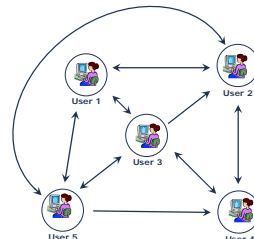
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23



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## File-Sharing (1) – Characteristics of P2P-Systems



P2P-Systems support

- the identification of transmission players and
- the transmission of files (e.g. songs, videos)

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24



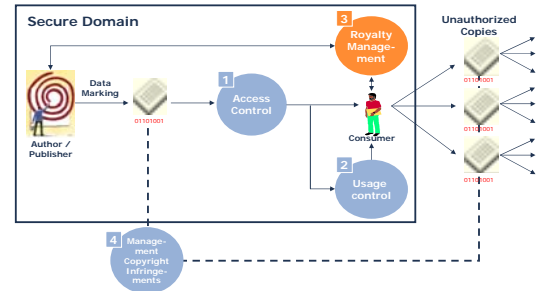
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## File-Sharing (2) – Need for Digital Rights Management

- Digital Rights Management (DRM) pursues the objective of technically enforcing the economic and moral interests of content providers.
- By using a bundle of technical components, a secure and efficient use of digital content via all media is ensured and usage-dependent business models are made possible.
  - In a narrower sense, DRM-systems pursue a complete control over distribution and use of content.
  - In a broader sense, DRM-systems allow an individual and differentiated royalty management of the use of content and efficient backend legal administration.

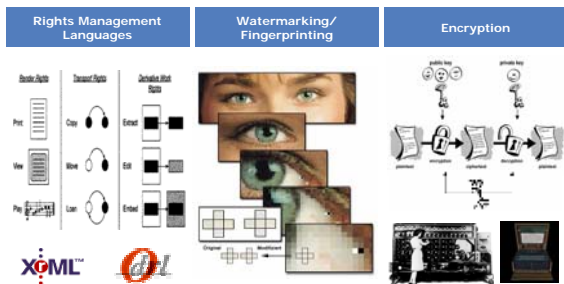
(Hess, 2002)

## DRM-Systems (1) – Functions



Source: Arnold et al. - Technische Schutzmaßnahmen multimedialer Daten

## DRM-Systems (2) – Technologies



## Agenda

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## Summary and Outlook

### Summary

- media firms produce content-based products that are distributed via (mass) media and mainly utilized opposite to recipients
- Talking about the production and utilization of content, a number of particularities has to be taken into account
- the Internet goes in line with new opportunities and threats for (traditional) media firms that demand for proper action

### Outlook

- the impact of emerging technologies on present content utilization chains has to be explored in detail in the future
- depending on these results, existing business models in the media industry have to be reconsidered

## Suggested Readings

- Picard, R. G. (2002): The Economics and Financing of Media Companies. Fordham University Press, New York, pp. 21-47.
- Albarran, A. B. (1996): Media Economics: Understanding Markets, Industries and Concepts. State University Press, Ames, pp. 26-41.