
CDTM Elective **Media Economics**

Winter Term 2004/05

October 21st, 2004

Session 2: Introduction to Media Economics

Prof. Dr. Thomas Hess

Agenda

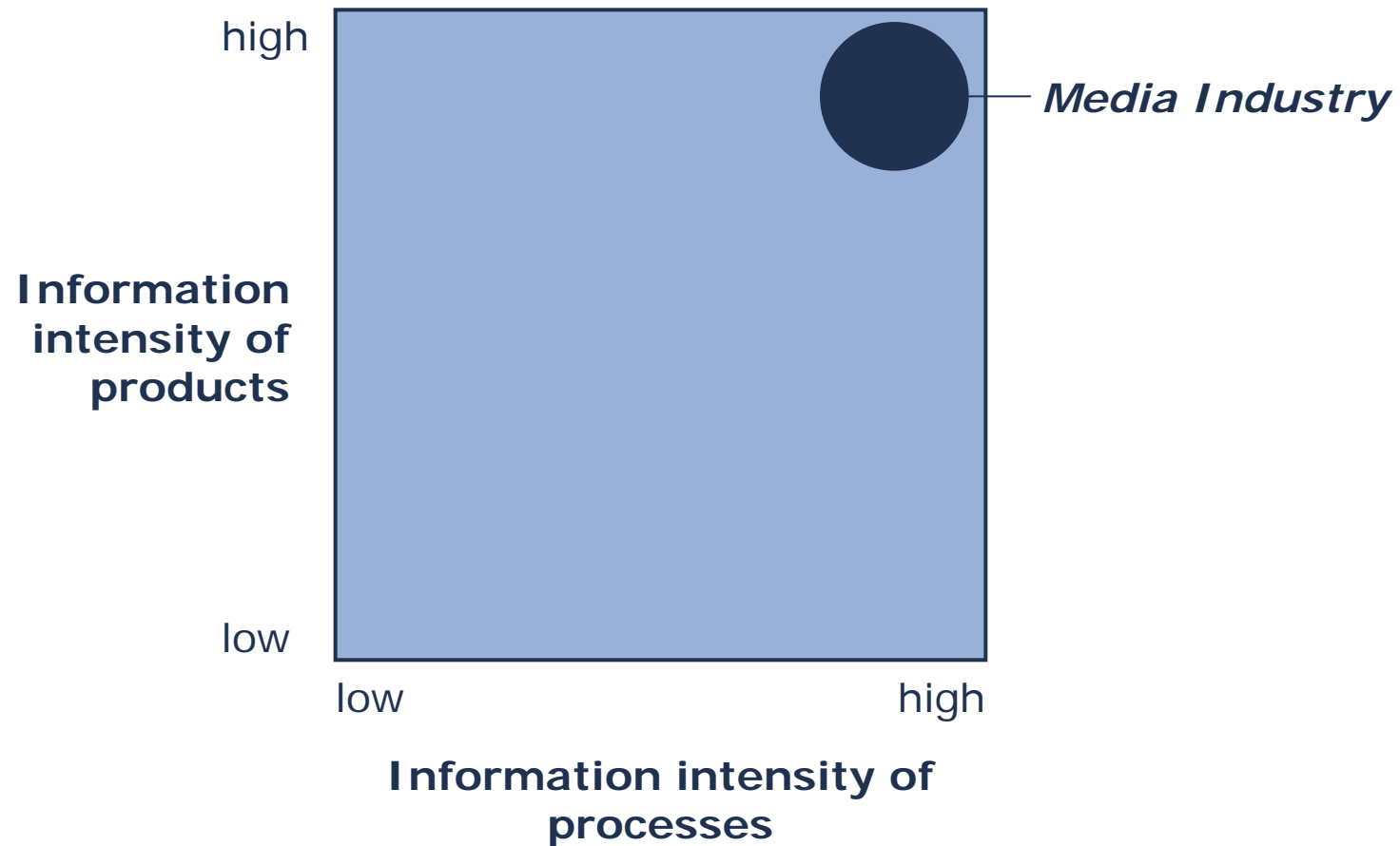
General Introduction and Basics

Particularities of Media Products

Media Firms Facing the Internet

Lessons (to Be) Learned

Particularities of the Media Industry



Media Firms – Basic Understanding

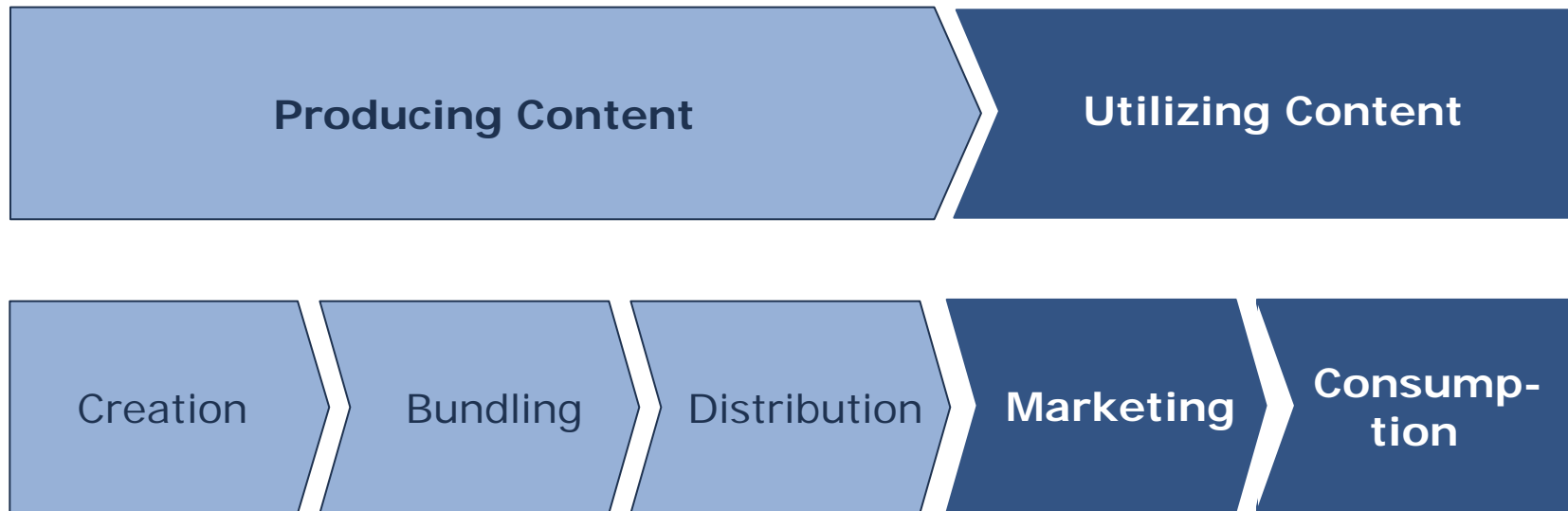
Business Mission:

- 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

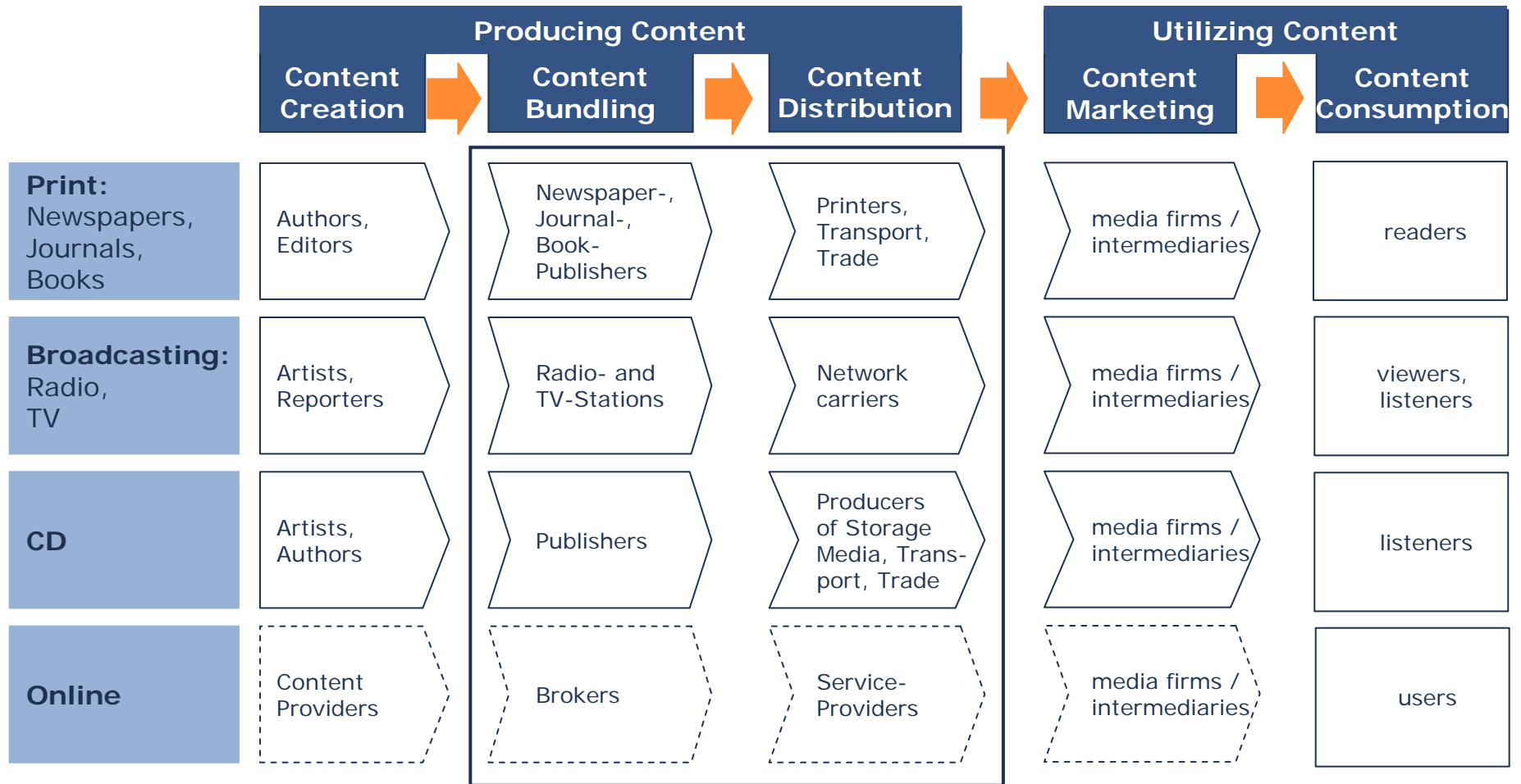
Objectives:

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

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

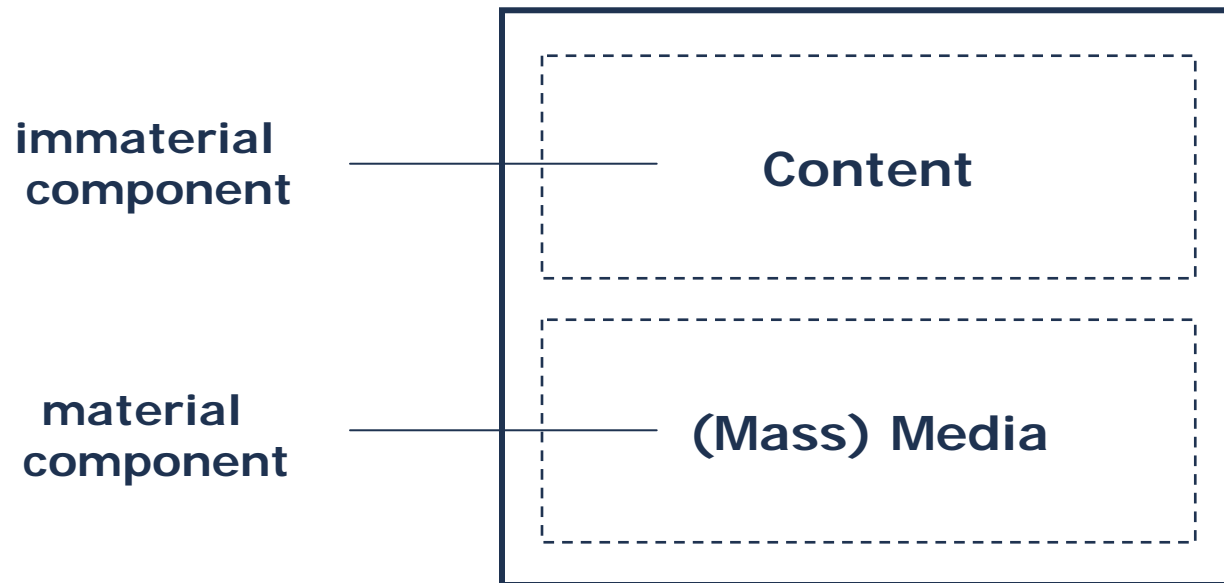


More in Detail (2) – Categorization of Media Firms



(Schumann/Hess, 2002)

Media Products – Basic Understanding



(Hass, 2002)

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"

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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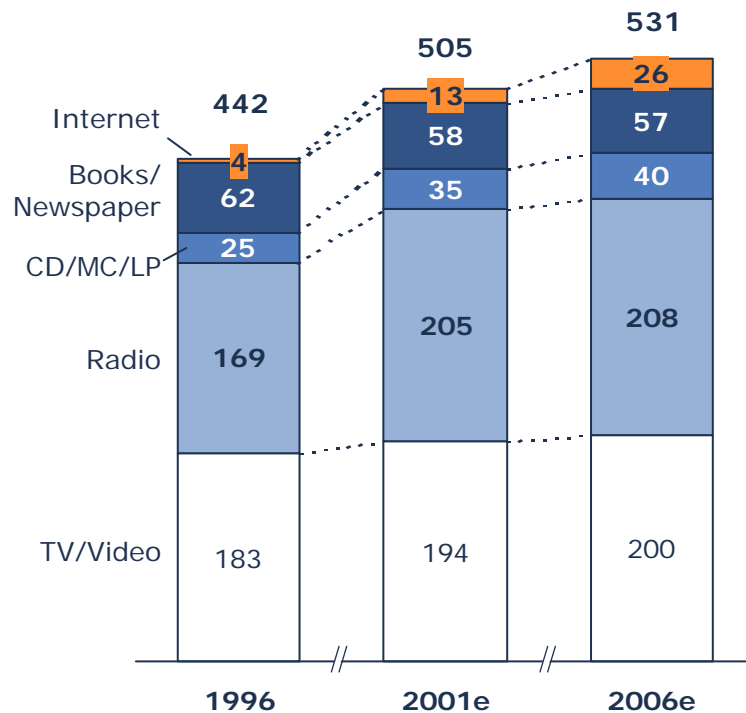
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Media Consumption

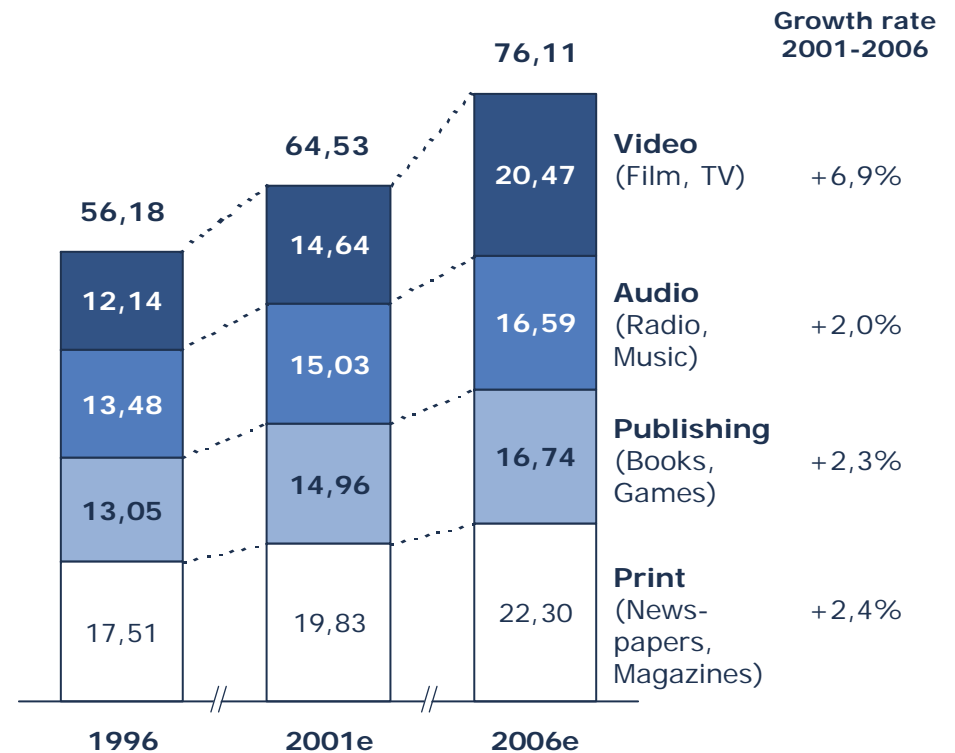
Development of time budget for media in Germany

Media utilization per person per day [Min.]



Development of monetary budget for media in Germany

Media Budget per household [EUR]



source: Mercer/HVB

Overview about Selected Properties

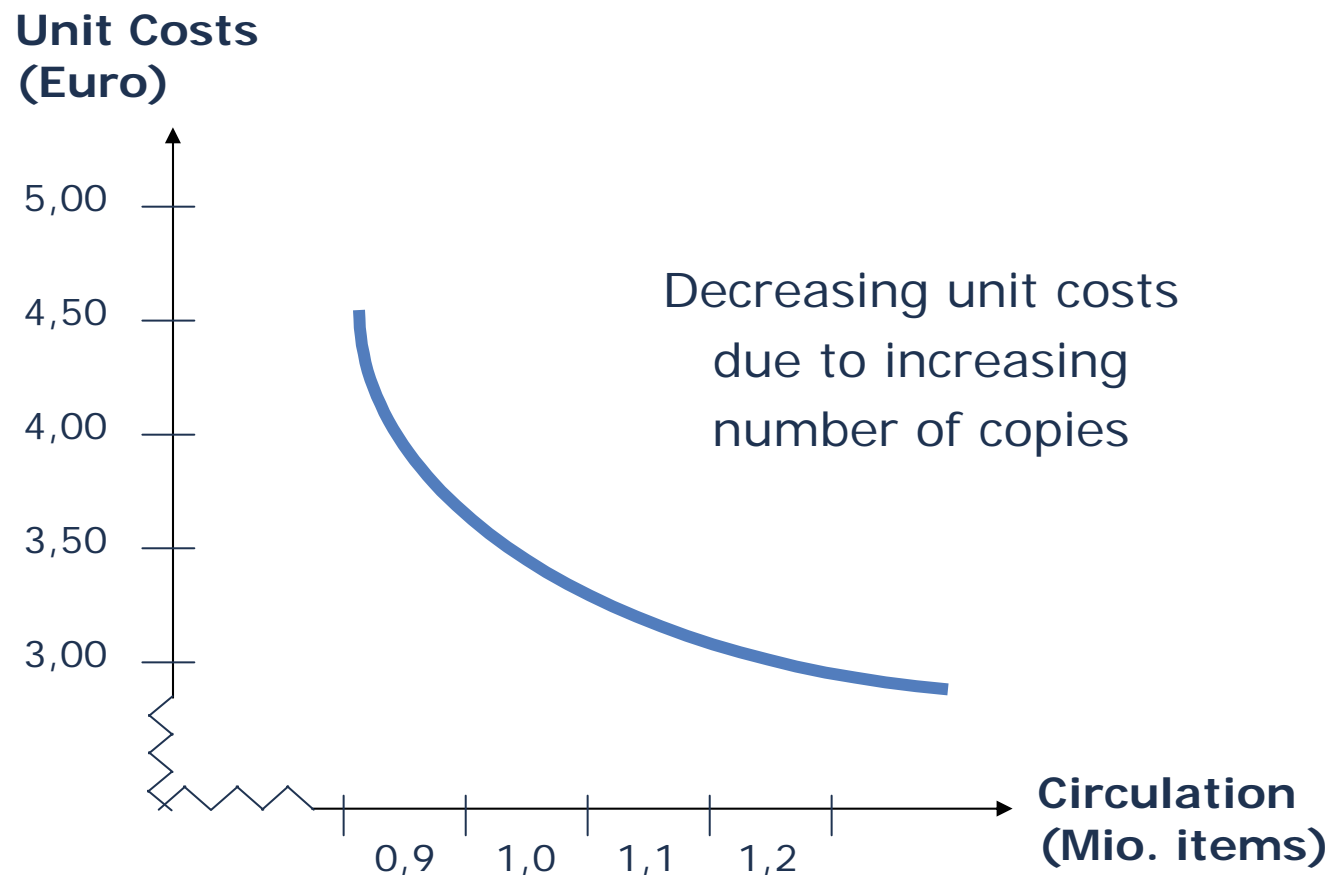
Producing Content

- First copy cost
- Limited storing capability

Utilizing Content

- Double sales market
- Public good (partially)

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



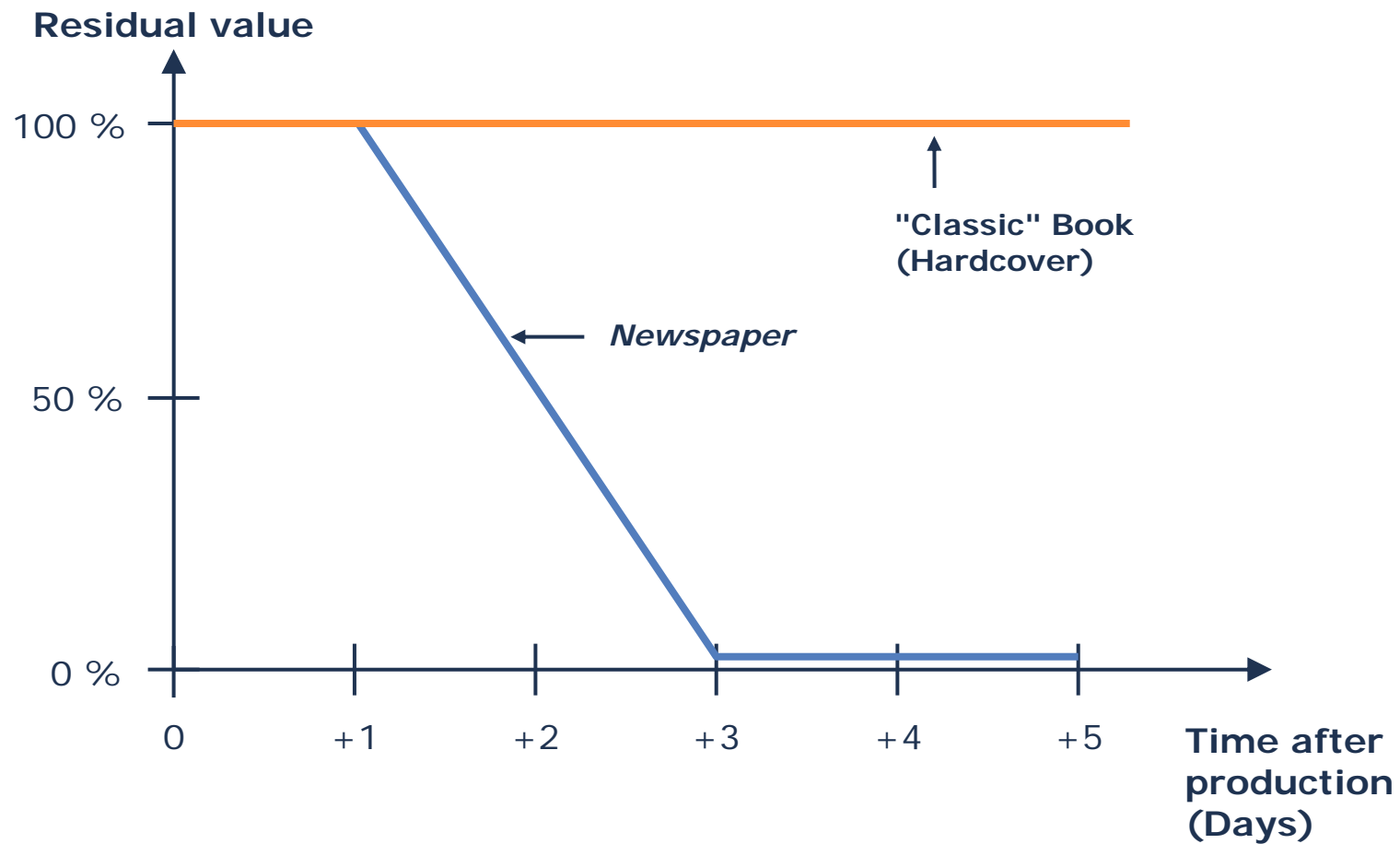
[Source: Schumann M./Hess T. (2002): Grundfragen der Medienwirtschaft 2. Auflage, Berlin u.a., S.10.]

Production-Side – FCCE and Cost Structures

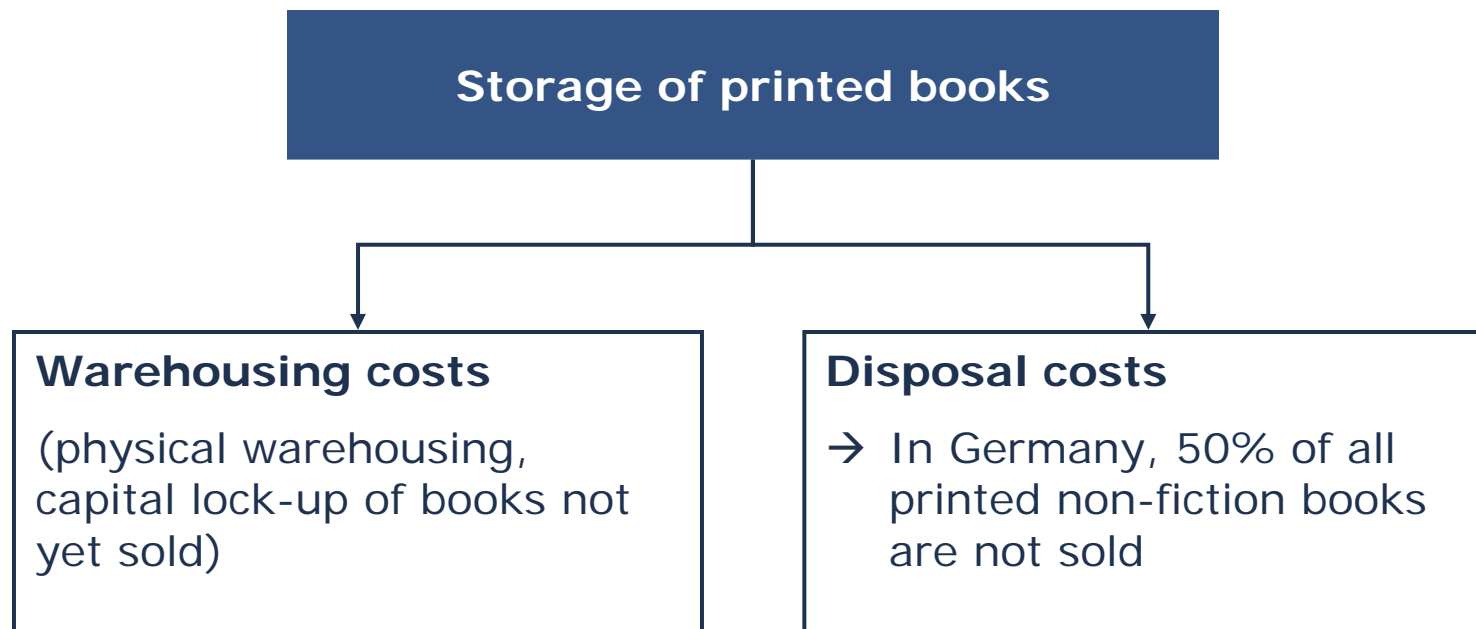
Cost allocation of German media 1992 (per cent)

	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

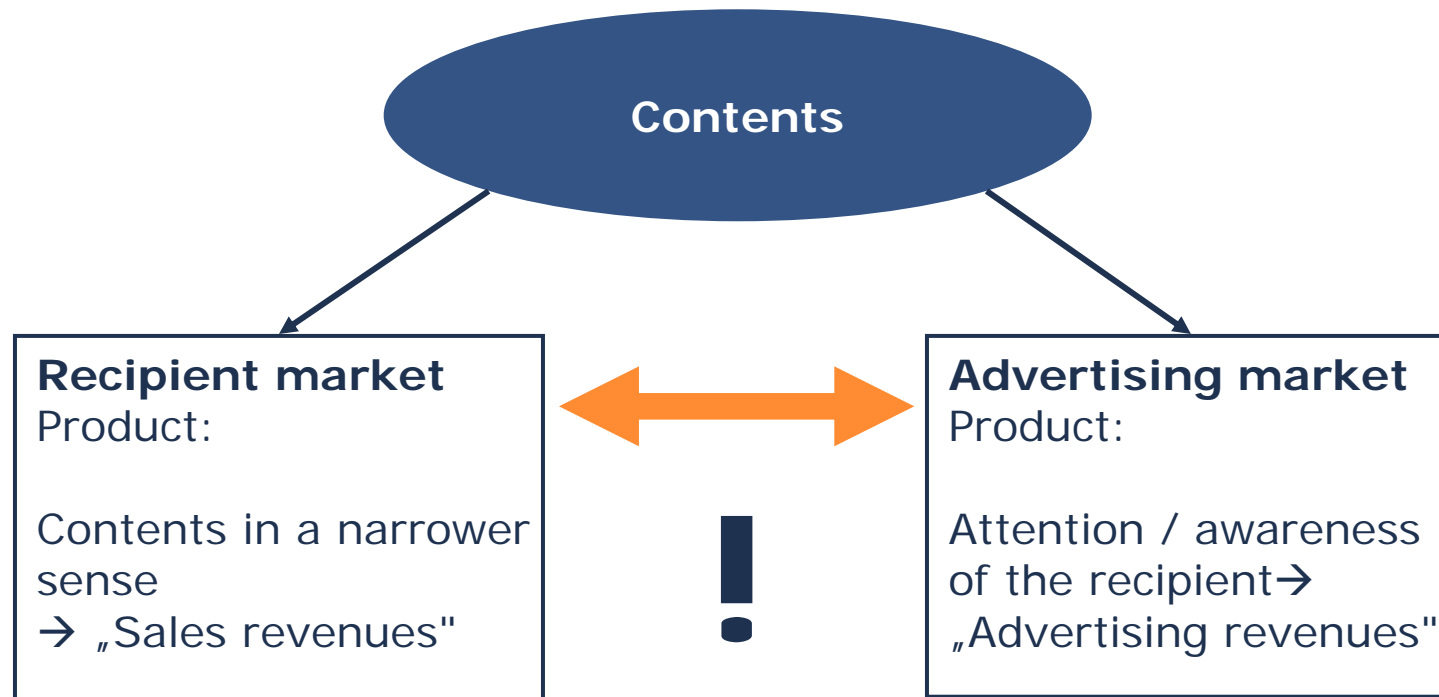
Production-Side – Limited Storing Capability (1)



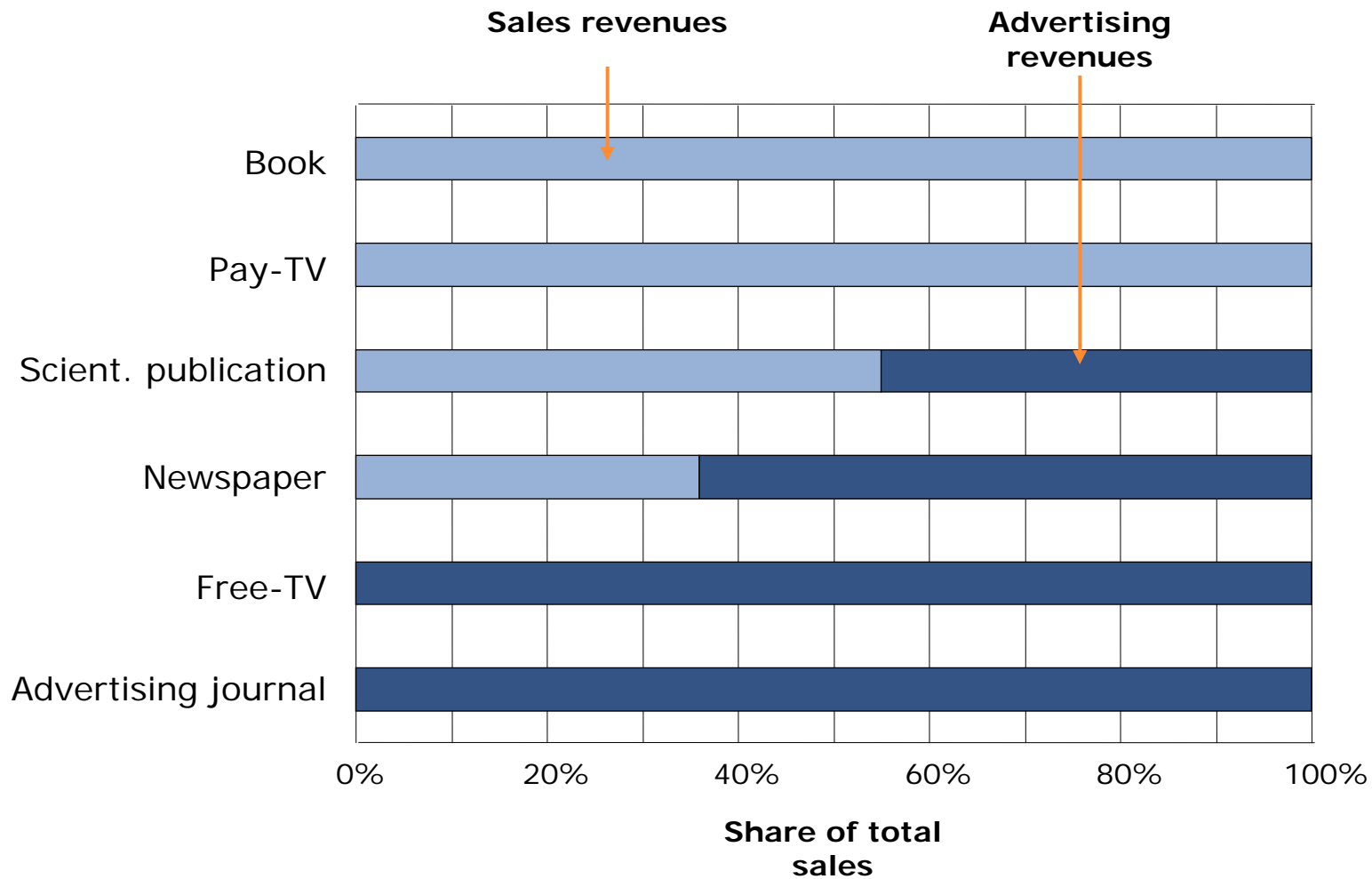
Production-Side – Limited Storing Capability (2)



Utilization-Side – Double Sales Market (1)



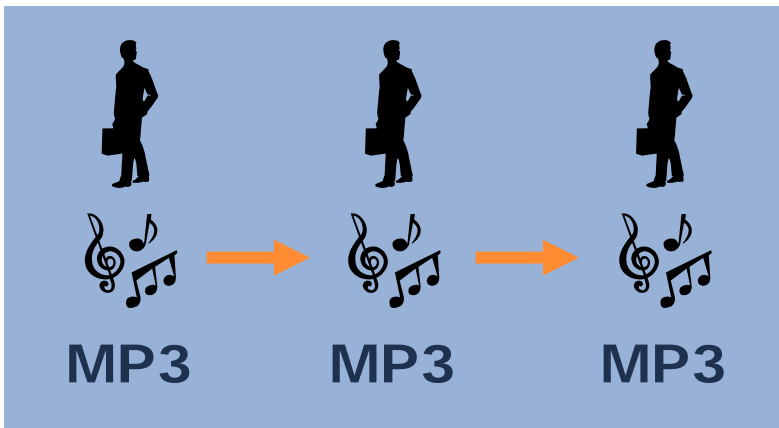
Utilization-Side – Double sales market (2)



Utilization-Side – Public good (1)

Non-rivalry in consumption

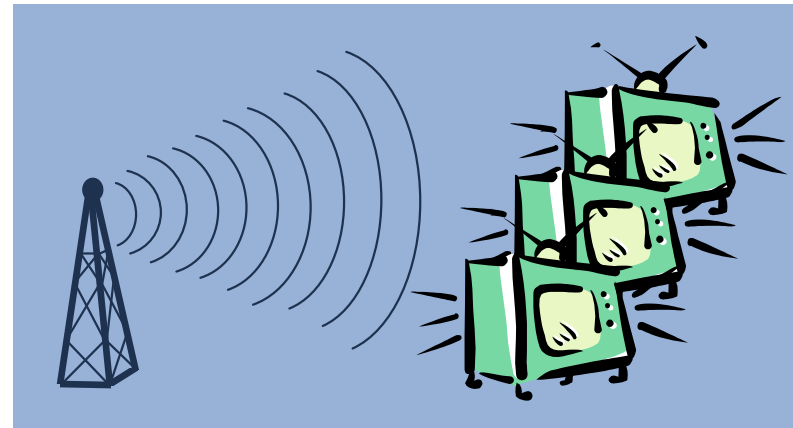
means, that the consumption of a good by one person doesn't decrease the value of the good for another person



→ 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”

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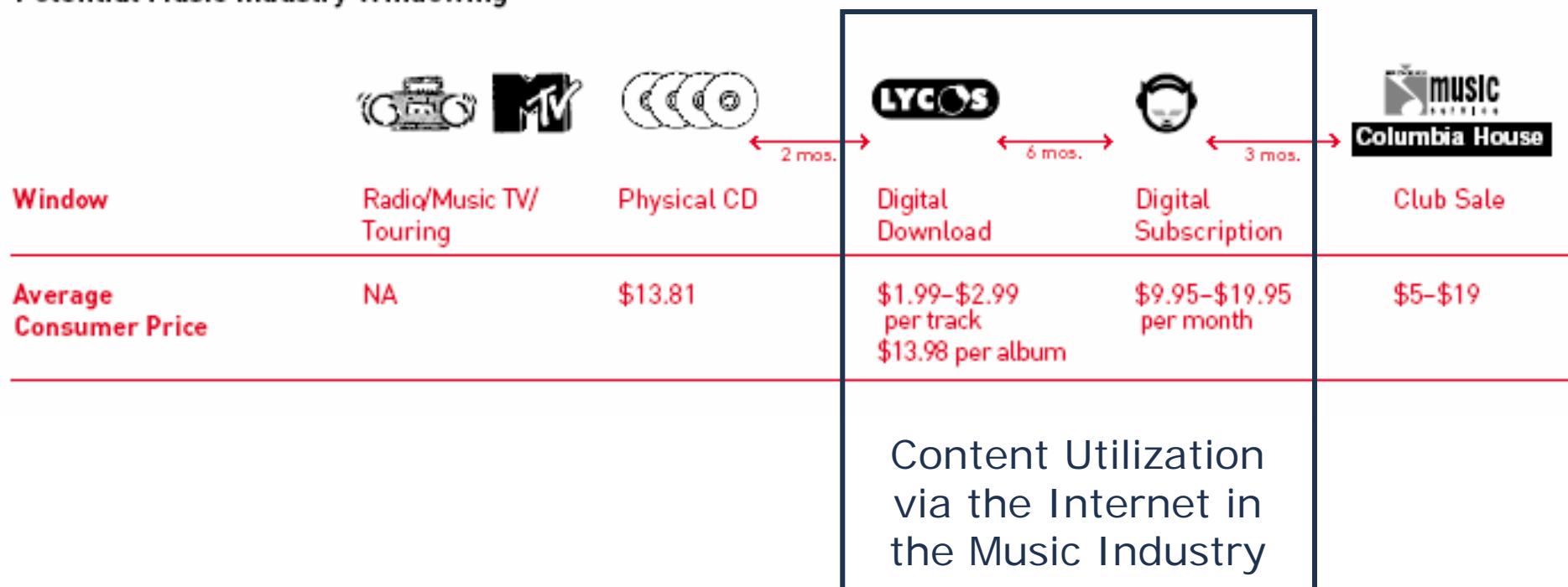
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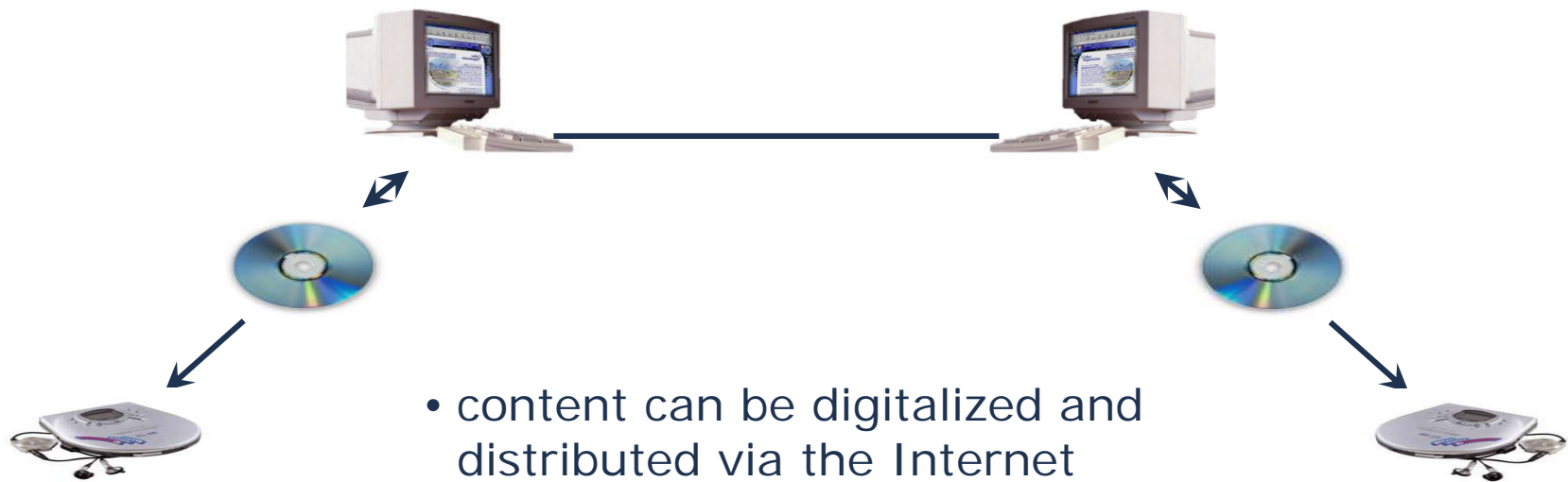
Content Utilization Via the Internet (1) – New Opportunities for Media Firms

Potential Music Industry Windowing



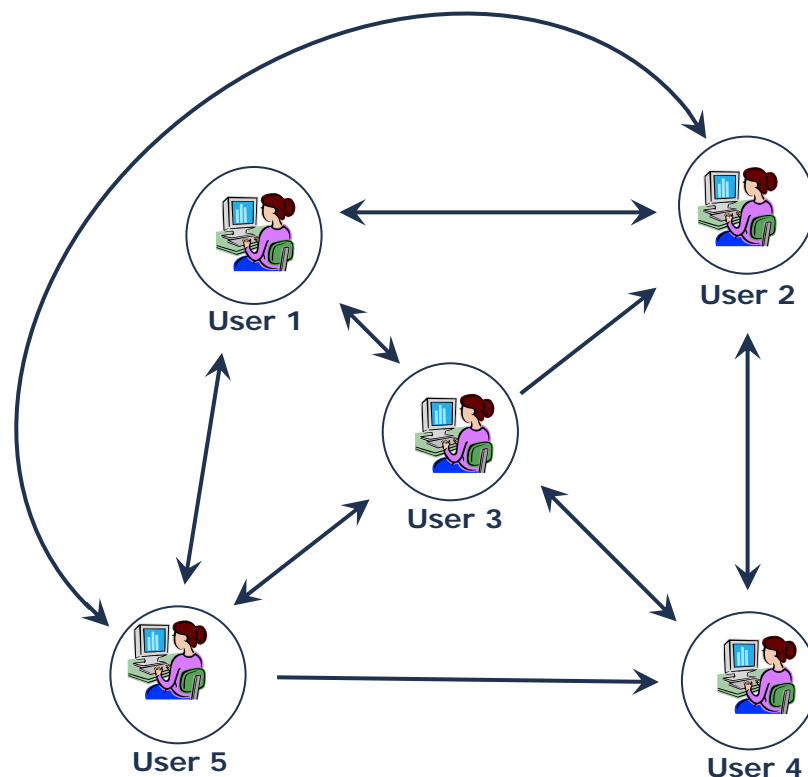
Bhatia, G. K. / Gay, R. C. / Honey, W. R. (2001): Windows into the Future: How Lessons from Hollywood Will Shape the Music Industry. Available under http://www.bah.de/content/downloads/insights/5J_Windowsi.pdf (2004-10-14).

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

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



P2P-Systems support

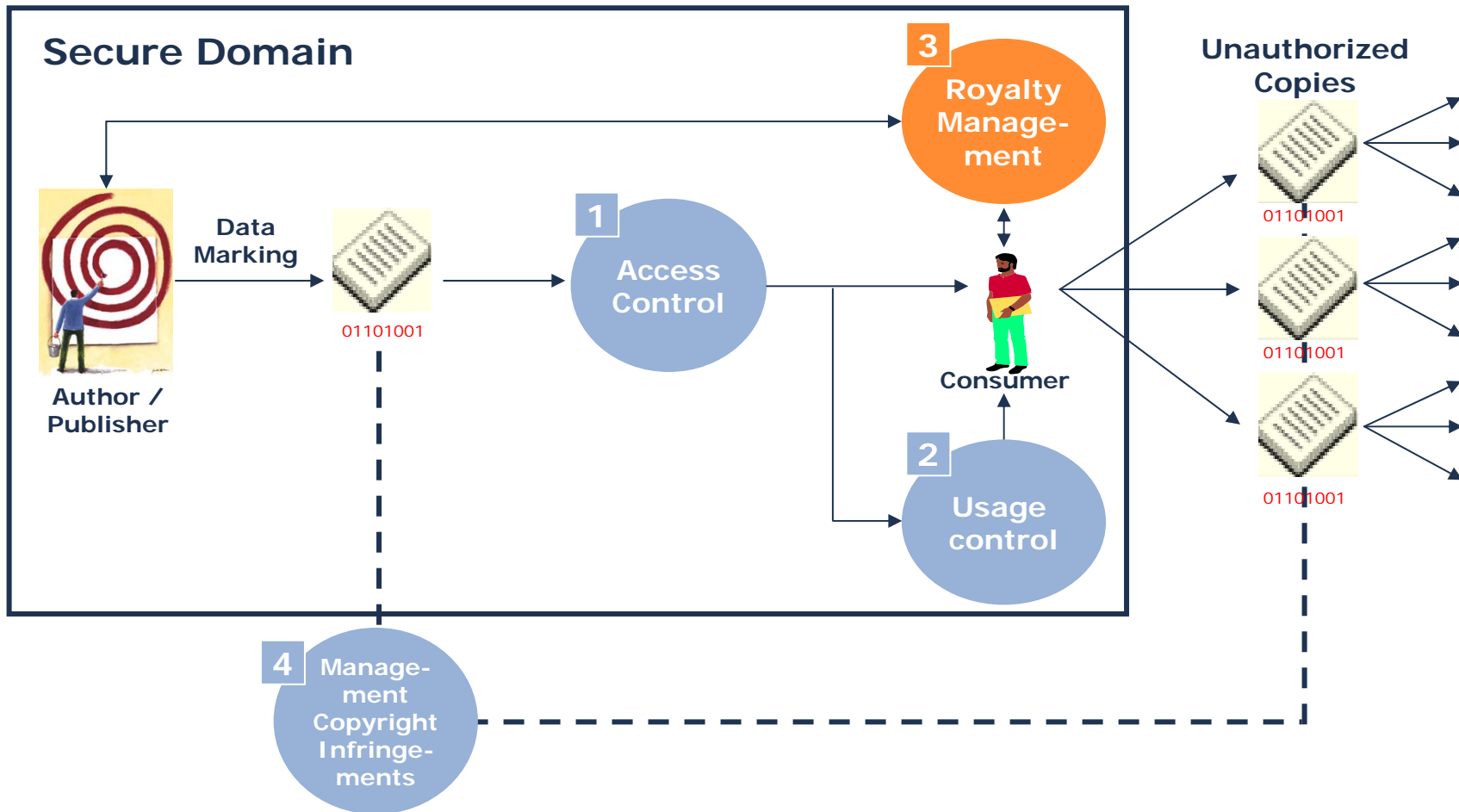
- the identification of transmission players and
- the transmission of files (e.g. songs, videos)

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)

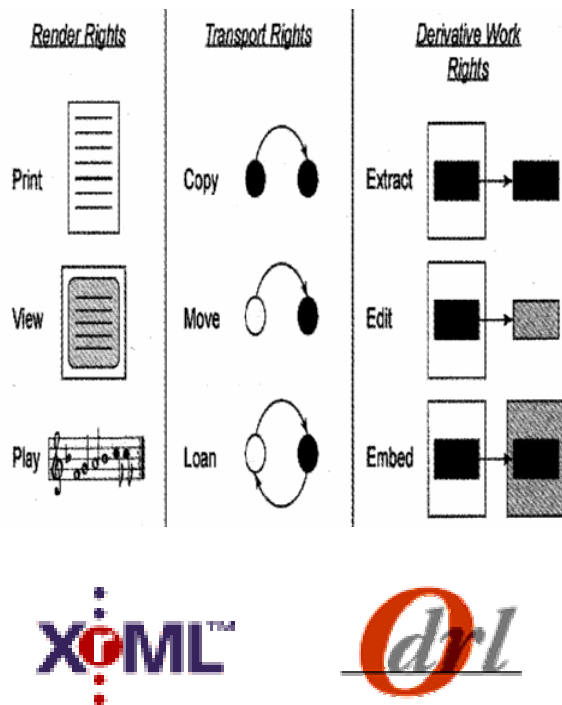
DRM-Systems (1) – Functions



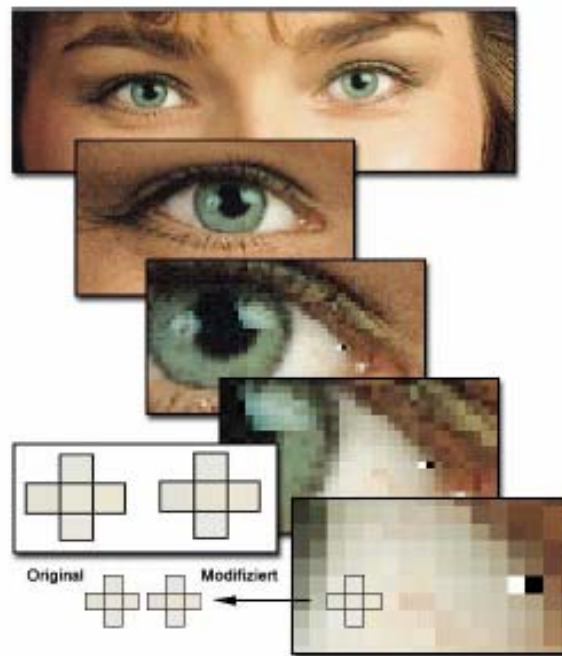
Source: Arnold et al. - Technische Schutzmaßnahmen multimedialer Daten

DRM-Systems (2) – Technologies

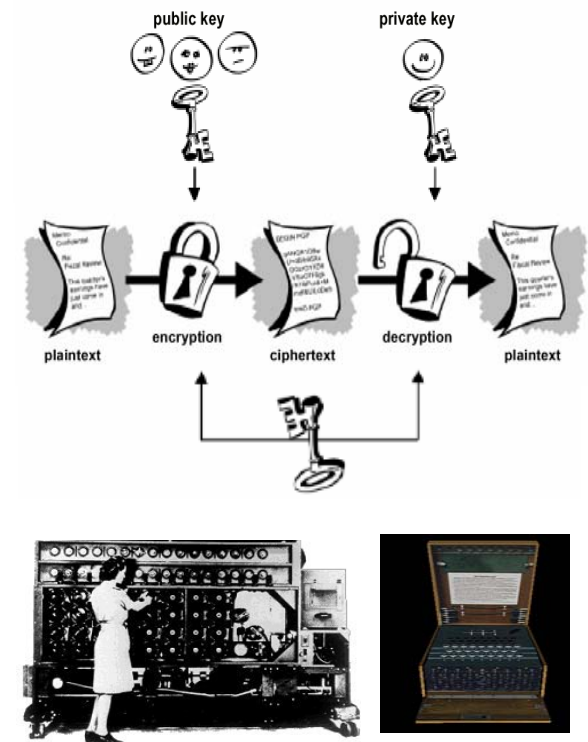
Rights Management Languages



Watermarking/ Fingerprinting



Encryption



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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 theses 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.