ECONOMICS OF PUBLISHING IN THE AGE OF THE INTERNET

SUSAN ATHEY
PROFESSOR OF ECONOMICS,
HARVARD UNIVERSITY

BASED ON JOINT WORK WITH JOSHUA GANS, UNIVERSITY OF MELBOURNE
Economic Forces

• Econ 101
  – Supply and demand
  – Many constituents, subtle effects
  – Supply: user attention, information v. space

• Modern economics
  – Platform markets: reduce prices for most sensitive side of market
  – Competing platforms: news outlet v. news outlet
  – Competing platforms: news, ad platform, aggregators
Old World

Publishers deliver known, stable, tailored audience to advertisers

- Newspapers have little competition across cities for either consumer attention or advertising dollars
The Impact of Internet Browsing

**Consumers:** limited time, multi-homing

**Publishers:** limited effective space

**Advertisers:** fixed costs of engaging w/ publisher, learning audience

---

- **Supply of ad space**
  - Effective supply decreases due to duplicated impressions, heterogeneous audience

- **Demand for ad space**
  - Not all advertisers compete for consumers on all outlets – scale

- **Publisher competition**
  - For consumers to steal market share: scale economies
  - For advertisers to reach the same consumers
  - Platform competition: reduce prices to consumers (free!)
  - Redistribution: pubs who had scarce supply of ad space worse off
The Impact of Browsing New Content

- **Supply of ad space**
  - Effective supply decreases since fragmented content does not attract advertisers, typically less effective advertising

- **Demand for ad space**
  - Miss some consumers because advertisers do not work with all pubs

- **Publisher competition**
  - Old pubs harmed by competition for consumers, differential impact
  - Economies of scale in competition for attention
  - Traditional publishers see higher prices, lower quantities

Consumers: limited time, growth in internet time

Publishers: limited effective space

Advertisers: fixed costs of engaging with publisher, evaluating audience
Ad Platforms and Internet Browsing

Consumers: limited time

Publisher competition
- Publishers lose tailored audience, unique info about audience

Ad platform competition drives publisher monetization

Publishers: limited effective space

Platforms: data, information, matchmaking

Advertisers: reduced fixed costs through platforms

Supply of ad space
- Increase effective supply on fragmented content

Demand for ad space
- Increase demand by lowering fixed costs of engagement
- Extreme targeting eventually thins out advertiser competition

Platforms:
- The Washington Post
- The New York Times
- Blogger
- YouTube
- Google
- Microsoft
- Facebook
- TOYOTA
- URISMAN
- TOYOTA of Manhattan

Deman for ad space
- Increase demand by lowering fixed costs of engagement
- Extreme targeting eventually thins out advertiser competition
Aggregators and Ad Platforms

Consumers: limited time

Publishers: compete for scarce links

Aggregators: Limited number of links; economies of scale; data

Platforms: data, information, matchmaking

Advertisers: reduced fixed costs through platforms

• Aggregators
  • Business model: attention, user data, synergy with ad platform
  • Economies of scale in data and information
  • Competing aggregators give publishers bargaining power

• Publishers lose advantages of dedicated & loyal audience
  • Ad platforms mitigate efficiency/info, but don’t stop pub. competition

• Competing ad platforms share rents with publishers
Conclusion: Economic Forces

• Econ 101 and the internet
  – Fundamental constraints governing supply and demand do not change
  – Technology changes efficiency, competition, distribution

• Modern economics
  – Platform competition (news): pressure for content to be free
  – Ad platforms
    • Enable better targeting, increases effective supply
    • Substitutes for tailored content
    • Become owners of valuable consumer information
    • Competition key
  – Aggregators
    • Own the eyeball and the information
    • Economies of scale in data
    • Encourages use of ad platforms
    • Competition and publisher scale key to bargaining for rents