

# The Economics of Newspapers in a Digital Age

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# Overview

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- Economic fundamentals shape newspaper markets
- Technology changes these fundamentals and transforms the market in predictable ways
  - “Superstar” market for journalism
  - Viewpoint differentiation replacing geographic differentiation
  - Subscriber funded content, advertiser funded bundling
  - Growing market for content, shrinking market for subscriptions
- Welfare tradeoffs – what’s better & what’s not
- Policy comments & conclusions

# Economics of Newspaper Markets

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- High fixed cost of producing content
- High variable cost of distribution
- Vertically integrated content production
- Advertiser finance & two sided markets
- Information externalities

# Fixed Costs of Content Production

- High “first copy costs” limits the number of papers that can survive in any market
  - Large cities have larger papers with higher readership
  - Groups with minority tastes may be poorly served
- Technology & transformation
  - Lowers cost of producing content (data, facts, opinions)
  - Opens the market for supply of content
    - Journalists compete with academics, non-profits, citizens
    - Newspapers compete with TV, radio, blogs
- Technology & welfare
  - Reduces the advantage to large markets
  - More content satisfying minority tastes

# Distribution Costs & Market Integration

- Distribution cost limits geographic range of newspapers
  - Geographic rather than viewpoint differentiation
  - International comparisons
- Technology & transformation
  - Zero distribution cost enlarges markets
  - Less geographic more viewpoint differentiation
  - “Superstar” market for journalism
- Technology & welfare
  - More people reading better stuff
  - Fewer writers making more money

# Vertical Integration & the Freelance Model

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- Few direct links between writers and readers meant writers worked for newspapers
  - Low pay, lots of journalists, low risk of failure
- Technology & transformation
  - Enables direct connections between writers & readers
  - Market for “superstars” with higher risk, higher reward
  - Readers not papers make the superstars (Bruni/Pogue)
  - Content type determines vertical integration
- Technology & welfare
  - Higher returns to content producers

# Two Sided Markets

- Advertisers value access to targeted consumers
  - Newspapers long earned monopoly rents from ads.
  - Incentives to produce content preferred by elites.
- Technology & transformation
  - Advertiser value for targeted consumers and consumer value for “bundled” content is higher than ever.
  - New entrants (Huffington, Drudge) are good at bundling & targeting, drive down price.
  - Bundling vs. content price and the future of subscriptions
- Technology & welfare
  - Targeting with news is costly—cheaper ways to sell a watch
  - Democratization of advertiser finance

# Information Externalities

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- What you read affects what you do
  - Consumers, producers, voters
  - Potential for exposure disciplines politicians
- Technology & transformation
  - Shift from local to national media = shift from local to national externalities (Localism vs. Globalism)
  - Shift to integrated markets reduces probability but raises consequences of corruption (NJ Rabbis)
- Technology & welfare
  - Costs and benefits of attention shifts

# Summary of Trends & Predictions

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- Fewer papers, more viewpoint differentiation
  - Fox Newspaper?
  - Declining readership for local content, even when free.
- Expanding freelance market for journalism
  - Especially for analysis, commentary, & expertise.
  - Market for superstars.
- More advertiser funding for valuable “bundling”
  - Smaller market for subscriptions (high price)
- More reader funding for content (micropayments)
  - Larger market for articles (low price)

# Summary of Gains & Losses

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- Geographic vs. viewpoint differentiation
  - Geographic model arose from high transport costs in a big country
  - Viewpoint differentiation supports accuracy, serves minority tastes
- Advertiser vs. reader funding
  - Old advertising model skewed content toward elites.
  - Efficient pricing separates content from bundling value
- Superstar journalism – higher risk, higher reward
- Local versus global externalities

# Conclusions

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- Welfare evaluations must consider both what is lost with what is gained
- All of the potential downsides of technology have an opposing positive effect
- Data and analysis needed to fully evaluate tradeoffs
- When in doubt, individual choices (“revealed preference”) are the best guide