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MEDIA COMPANIES AS ECONOMIC UNITS

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ABSTRACT

In order to carry out production and distribution activities media firms must be organized and operated as economic units. A large number of decisions taken by media organizations involve resource and financial issues. In this context the paper discusses the requirements of media, the factors that affect the entire media, the economic and financial factors that affect specific media and the challenges managers of media must contend with in a fast changing media environment where technological changes have progressively led to what is known as a buyer's market.

KEYWORDS

Cultural Good, Dual Product, Globalization, Media Abundance, Product Portfolio

I. INTRODUCTION

For purposes of production and distribution media firms operate as an economic unit within an economic and corporate framework. The economic framework comprises of the constraints imposed by the political economy, the specific decision making processes of consumers and firms and the macroeconomic features of the economy. The corporate framework consists of the underpinnings of industrial organization, the different functional areas of the firm's operations, investors demand for acceptable returns and the affects of globalization. [1]

Many decisions taken by media organizations relate to resource and financial issues. Economic factors not only affect the size and extent of activities of media companies but also their capacity to produce diverse output (what is commonly referred to as diversity of content). Hence, economics as a discipline is highly relevant to understand how media firms and industries operate [2]. In order to understand the operations of media industries, it is essential to have an understanding of factors that drive media firms, how media markets work, what influences the decisions of managers of media companies regarding the structure and the nature and composition of the activities of their company. All companies require not only to raise capital but also decide the sources from which it has to be accessed as it has implications for their economic viability. Further, the location unit, hiring of personnel, the products to be offered and the market for the product are all important considerations that must be adequately planned. The firms are faced with economic and managerial challenges and must make individual choices and pursue individual strategies to be successful. Whether a media company operates as a commercial or non-commercial entity it must contend with various economic and financial forces and hence must operate as a business entity to be able to effectively respond and manage these forces.

The requirements of varying types of media activities/operations and the scale and scope of these operations have an impact on the form and structure of media companies. Media companies can take various forms ranging from the simplest form of sole proprietorship owned and operated by an individual to large public corporations whose shares are publicly listed and traded on stock markets. In case of non-commercial firms the form of ownership could take the form of a non-profit corporation which include public service broadcasters e.g. DD, BBC, ABC. The primary objective/purpose of these companies is producing informative and interesting programs for their audience. However, in the case of commercial media companies the main function/objective is the creation of such content which the audience would be willing to purchase or to produce audience for advertisers as these would enable them to bring in revenue and make profits which is essential for their continued operations. This does not necessarily imply that commercial firms produce sub-standard content but what it does imply is that their choice of content is primarily based on the need to package audiences desirable to specific advertisers or certain categories of advertisers with an eye on profitability [3].

As the organizational requirements for the creation of media goods differ depending upon their markets, and the fact that needs of media differ, the size of media firms range from small units to large public corporations. However, the entire media environment is affected by certain underlying economic and financial factors. There are also certain financial and economic factors that are unique to specific media.

II. FACTORS IMPACTING THE ENTIRE MEDIA

Let us now turn to the exploration of these factors. First, we shall discuss the factors that have an impact on the entire media.

Media Abundance: The growth in supply of media far exceeds the growth in demand for media in nominal and temporal terms as there has been a phenomenal rise not only in the number of media firms but also in the different types of media. This is evident in the case of newspapers and magazines, over the air TV channels, and web sites and web pages on the Internet. This abundance of media has resulted in competition among media and also competition for time spent between media and other leisure activities.

Fragmentation and Polarization of Audience: Media abundance has led to fragmentation and polarization of audiences as people spread their media consumption across more TV channels, books, magazines etc. For example, viewers tend to focus at the most on five to six TV channels because the higher availability of TV channels does not create a proportionate amount of increase in consumption which fact is recognized by the advertisers who have responded by spreading their expenditures and paying less for smaller audiences. The audience-use change implies that competition is driven by the time and money audiences are willing to spend on media and that the structure of the industry is not a relevant factor impinging on competition, and that the competitive focus is on the attention economy and the experience economy. The former implies that media must compete with other avenues that vie for the limited amount of time the consumers have available. The experience economy is based on the premise that customers' interactions with the enterprises should be satisfying and memorable in order to generate loyalty and repeated engagement.

Product Portfolio Development: The difficulties faced by individual units of media especially the high risk attached to a single product, have led media companies to diversify their activities by creating portfolios of media products. The reason for this is also the decline in per unit returns resulting from owning a single media product. Further, the creation and operation of the portfolios allow for exploiting economies of scale and scope and if these portfolios result in more efficient operations and joint cost savings they can increase the returns accruing to the company.

Eroding Strength of Media Companies: Despite the growth of portfolios and large media companies, the strength of the companies is eroding. United States has no established content producing media companies in the list of top one hundred companies of the nation or in the top five hundred companies worldwide though such companies have grown bigger. Each company has less of the viewers', readers', and listeners' attention than in the past, and this trend is a cause of concern to many media investors. Media companies are having a difficult time retaining their major investors, and the fear of becoming takeover targets is always on their mind [4].

Fundamental Power Shift in the Communications Process: Transcending the aforementioned factors is a fundamental power shift in communications. In the past the media space was controlled by the media companies. Now consumers are progressively gaining control of the media space as the market is increasingly becoming a buyers' market. Further, consumers of media are no longer content being mere passive receivers and many are actively participating in production through various forms of interactive and user-generated content such as rating, adding comments to articles and creating their own blogs and web sites. The evidence of this shift can be inferred from the changing pattern of financing of present day initiatives in television, radio, audio and video downloading, digital TV, and mobile media, all of which are primarily based on a consumer payment model, where the major part of income comes from consumer spending rather than expenditure by advertisers [5].

This shift has been greatly facilitated by technological changes that have made it easier to develop software for the creation of high quality videos, audio recordings, online presentations etc. without professional assistance. Further, new technology has enabled social networking, collaborative gaming and peer to peer file sharing thus creating new distribution network.

Media companies all over the world are engaged in understanding and adjusting to the wide ranging external and internal changes that are altering the established patterns of market dominance and the modes of production, eroding their traditional audience and advertiser bases, rapidly increasing competition, and changing the potential of the firms. There is an urgent need for media managers to recognize and adjust to the new conditions because the fast changing media environment could result in the failure of the existing and new products and also, ultimately, to the loss of value or the collapse of firms.

The media markets of the present are far more complex and turbulent than they were in the past. This enhances the element of uncertainty making the task of risk mitigation more difficult while necessitating the need for rapid innovation. However, the fundamental power shift in communications concurrently forces managers to rapidly introduce new products and find new markets, to make quick investment decisions, and to bring desired changes in existing products; all of which carry significant risks.

The factors discussed above make it crucial that media managers and personnel possess a clear understanding of their business operations and the economic and financial forces that affect their choices and structures.

III. UNIQUE ECONOMIC AND FINANCIAL FACTORS AFFECTING SPECIFIC MEDIA

Let us now explore the unique economic and financial factors that affect specific media. At a broad level media products differ from other products because they involve creative work based on ideas, information and literary and artistic inputs. The benefits from media products accrue not only in economic terms but also in terms of social and cultural benefits. Media content is generally classified as a 'cultural good'. It exhibits a number of interesting and unusual features [6]. Additionally, special benefits to media accrue from copyrights and related rights which are not available to other products. Moreover, media are much more regulated and influenced by public policy. More specifically, media are differentiated from other products and services because of both supply and demand side differences.

Supply Side Differences: Though media companies operate in a competitive environment, when compared to other industries, media firms tend to face less direct competition. For e.g. the number of newspapers and radio channels in markets are far lower than the no. of shoe stores or restaurants. Further, the number of TV channels is far fewer than the types of ice-creams available. Secondly, quite a few decisions in media industries tend to based on non eco. criteria such as public service, artistic and cultural considerations, and the gut feeling of creative individuals, the desire to become famous, and at times on whims and hubris. In short, the extent of economic irrationality in decision making in media industries is generally greater and more widespread in comparison to other industries. Thirdly, the methods of production in media are different from that of other industries. Since media products are based on creative and artistic elements, the process of production is not as straightforward and controllable as in other industries. Production of med normally involves people with a good deal of professional autonomy because of their knowledge and artistic abilities. As a consequence, often situations of conflict arises bet content creators and managers. Fourthly, a number of media products have intangible properties, thus necessitating very different distribution mechanisms and costs than those associated with physical products. The "virtual" nature of these products has distinct benefits e.g. the switch from film projection to Digital exhibition technology by movie theaters has resulted in significant reduction in distribution costs because of substitution of a physical product (film stock) by a nonphysical (digital) medium. Lastly, many media products can easily be duplicated illegally and the pirated version becomes a cheap replacement of the genuine product. For example, an individual can easily create copies of digital content in a small room at a very low cost using inexpensive and accessible technology. The fact that it is quite easy to make unauthorized duplicates of media products invariably has adverse consequences for the legitimate supply of the product and affects both its costs and revenues.

Demand Side Differences: A very important characteristic of media, which is not found in other products, is its high unpredictability of success resulting from difficulties in forecasting product quality and consumer demand. Hence, product failure rates are high especially for books, audio recordings and films. Secondly, media products allow for multiple reuses and the reuses may be more valuable than the original use e.g. motion pictures have multiple uses after their exhibition in movie theaters – cable license sales, DVD sales, TV license sales etc., and audio recordings can be sold for use in different ways e.g. for various types of audio collections and soundtracks. Thirdly, consumers have a plethora of content available to choose from. Since it is not possible to consume all products, the determination of success, failure and the price of media products depends on the choices made by the consumers. Consumers, therefore, possess significant power in media markets. Fourthly, due of high unpredictability of success, a major part of the revenue accrues from only a few products and services because even though failure rates are high, successes are financially well rewarded. Fifthly, in comparison to other products media products normally are consumed more often and the time allocated to their consumption is far greater, especially in the case of television and radio programs and audio recordings. All these factors result in unique relationships between consumers and suppliers of media to the extent not found in other industries. Sixthly, media industries are unusual in the sense that they generally operate in a so called 'dual product' market [7] hence the demand for commercial media products is influenced by more than one set of consumers – audiences and advertisers. A change in consumption by one group of consumers resulting from a change in product price, in turn, affects both the prices faced by the other group and their demand. Optimal revenues can only be achieved by dealing with all groups of consumers simultaneously. Revenue from a product depends on consumer and advertiser expenditures both of which involve separate demand functions. Hence, media products which do not appeal to advertisers but are liked by consumers, could fail if the latter are unable or unwilling to provide the revenue necessary for the survival of the product. Finally, the consumption patterns differ because demand functions for much of media do not follow the pattern of demand for other products. Many of the expenditures for product acquisition are sunk costs and direct and immediate expenditures for consumption are not made. This generally leads to consumers ending up with large quantities of content that they do not consume and also significant quantities of content that is only minimally satisfying.

IV. CONCLUSION

From the above discussion it is evident that not only media products differ among themselves but also between themselves and other products with respect to their markets, and financial and operational characteristics. These in turn give rise to different business dynamics and managerial issues that are faced by media managers. Appreciating these differences would help media managers and industry analysts to (i) recognize those factors and interactions on which attention should be focused, (ii) identify such aspects that are crucial in the creation and distribution of products and (iii) understand the dependencies and vulnerabilities that exist in the creation and distribution of these products. Since media firms in order to be viable must be organized and operated as an economic unit, the decision making essentially involves many decisions relating to resource and financial issues which in turn have a direct implication for the firm's profitability. A clear understanding of the aforementioned factors would enable the managers of media firms to take optimal decisions.

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