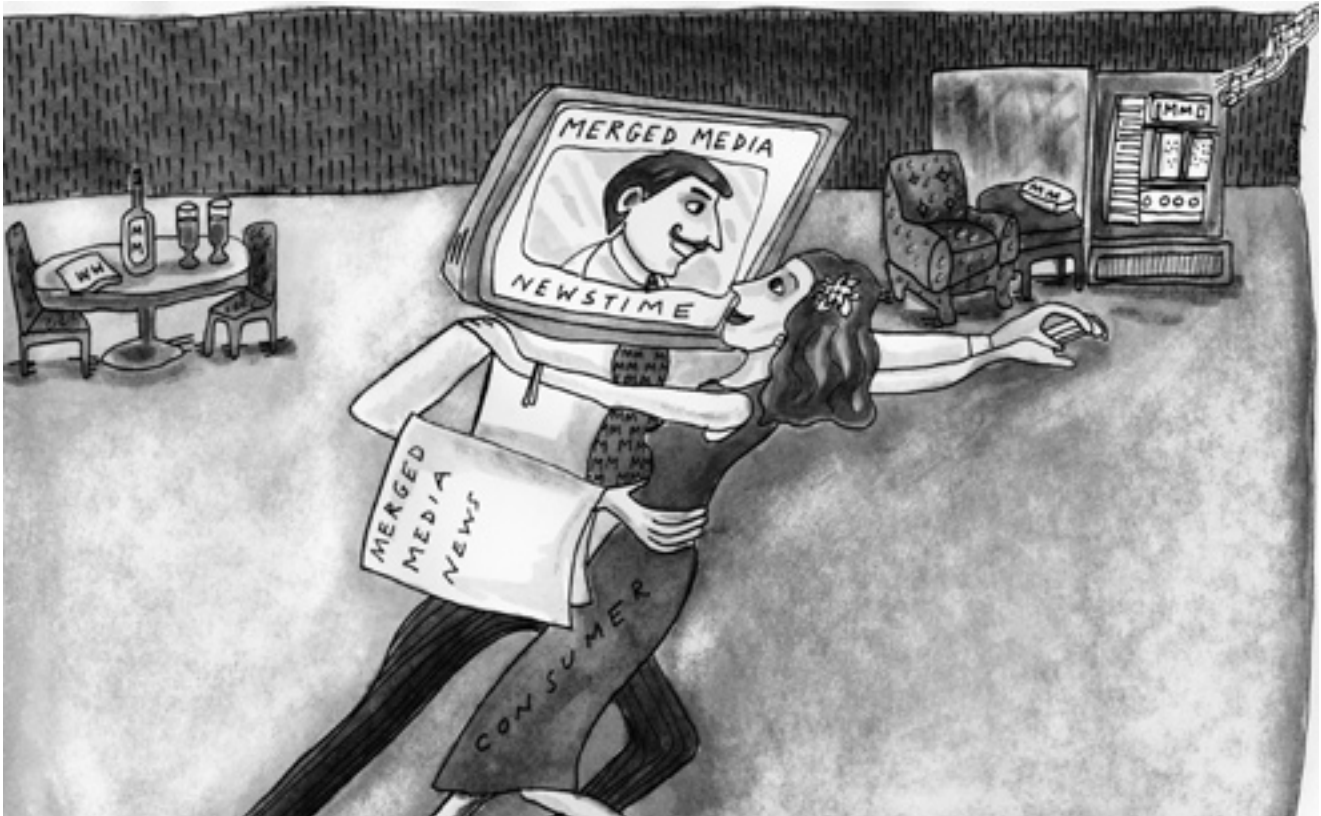


What is different about media mergers?

Simon Anderson and Joshua Gans



Mergers in media markets will provide considerable challenges to competition authorities. Due to special features of these markets, media mergers may be desirable even if they are accompanied by anti-competitive effects that are generally the focus for competition authorities.

In Australia, the Government has moved to relax cross-media ownership laws. Prior to 2006, no one individual or company could own television, radio or a newspaper in the same area although pay television services were exempt. In addition, there were restrictions on foreign ownership.

With new legislation, this has changed significantly. The cross-media rules have been amended to allow cross-media transactions to proceed, subject to a minimum number of commercial media groups remaining in the relevant market. Existing limits on broadcasting

licences have been retained but public disclosure is required when a media outlet reports on the activities of a cross-held entity.

This means that the policy focus will shift from cross-media restrictions to an analysis of competition between media groups. Not surprisingly, there is speculation that parties which previously could not merge or integrate might do so. Moreover, it will fall on the shoulders of the Australian Competition and Consumer Commission (ACCC) to consider the competitive effects of such mergers and whether they will result in other benefits to the public.

These changes have prompted us to consider the question: What is different about media mergers? This is not to justify past restrictions but to suggest issues that will face the competition authority when it considers media mergers that are unique and would not have arisen in regard to other industries. Traditional concerns with regard to mergers such as entry barriers,

is there for mergers – in particular, cross-media mergers – to introduce such biases?

The second issue relates to the dual nature of media products. In television, radio and newspapers, a key, if not major, revenue stream is from advertisers. In this respect, those media providers are in the business of attracting viewers,

substitution possibilities (e.g. for the purposes of market definition) must take an ‘attention’ perspective seriously.

Media bias

The concern about media bias relates to the workings of the democratic process, that is: ‘Are the media providing decision makers with the information they need to make the right decisions?’ When that decision maker is a politician, the information we are concerned about relates to citizens’ views about the importance of an issue and how to make value judgements and other trade-offs. When that decision maker is a voter, the relevant information is the facts needed to evaluate different perspectives and properly formulate an opinion.

Media bias can undermine this process in two ways. First, it may provide a distorted picture to politicians of what citizens actually care about. This can arise, for instance, by emphasising one set of issues (e.g. terrorism, obesity) over others (e.g. free trade, AIDS). Politicians observe that people are watching this and assess (possibly correctly) that those are the issues that citizens will care about when they get to the polls. Thus, the media can influence the national policy agenda.

Second, the media may distort the facts to the public in a way that changes their views about what policies to support. Of course, if sufficient diversity of media providers exists, then citizens may be able to assemble a set of distorted facts into a clear picture. However, without this

This means that the policy focus will shift from cross-media restrictions to an analysis of competition between media groups. Not surprisingly, there is speculation that parties which previously could not merge or integrate might do so.

vertical integration and technological dynamism may still be important considerations. However, other issues will require a more nuanced approach by the ACCC when it considers any proposed media merger.

This article focuses on two of these issues. The first is what the media provide in terms of content. For normal mergers, this concern would relate to how the quality of the product might change as a result of a merger. In media, however, there is an additional social element.

Media content plays a critical role in a democracy both in reporting on the issues citizens care about (and hence, form the national policy agenda) and in reporting the activities of government to those citizens. Thus, there is a two-way role for the information flowing through the media and in its impact on the national debate. If there are biases here, then there may be public detriments to this process. The question here is: ‘What potential

listeners or readers with their content in the hope that they will also take in advertisements. The more successful they are at this, the more advertising revenue they will generate. Thus, media providers can be seen as competing in two markets (which is not unusual) for an interrelated purpose (which is unusual). That is, they compete in ‘two-sided’ markets. Again, our question is: ‘How does this affect traditional analyses of the competitive impact of mergers?’

We deal with the issues of media bias and two-sided markets in turn. But first it is worth emphasising a key economic fact: *the fundamental scarcity in media markets is consumer attention*. At one level or another, this is what the media are competing for and there are real limits to how much attention can be attracted at any given time. This affects attention to news, choices of entertainment and also advertising awareness. Thus, any analysis of

diversity, citizens may themselves become biased.

This type of fact bias can also manifest itself in other ways. People rely on the media for information on all sorts of decisions. For example, this might be business information relating to what stocks or mutual funds to purchase. If a media owner has certain interests, that owner may have incentives not to provide information which is unfavourable to those interests. Notice that we are not suggesting here that untrue information would be provided but merely that selection and emphasis may be distorted away from what a fully independent owner might do. This could be true not only of business information but other commercial considerations such as product reviews. As an example, a newspaper owned by a television station may supply fewer

message is that 'it takes two to tango'. Consumers will only pay attention to news that is giving them some satisfaction. This might be through information or through confirmation of their own biases. Thus, to the extent that a media owner wants to distort information, they will have to pay for it in terms of forgone profits.¹

Let's first consider what could happen if media owners only care about commercial returns. For a monopoly media owner with no bias of their own, they will likely position themselves at the centre of public opinion and supply the truth. Consumers will recognise this and pay accordingly – with money or attention.

How does media competition influence this? To the extent that media owners have a pure profit motive, to differentiate themselves,

Consumers will only pay attention to news that is giving them some satisfaction. This might be through information or through confirmation of their own biases. Thus, to the extent that a media owner wants to distort information, they will have to pay for it in terms of forgone profits.

unfavourable reviews of programs on that station compared with a situation in which there was no cross-media ownership.

Of course, agenda bias and fact bias describe what could happen but as economists we are also worried about why a media owner might choose to provide biased content. Recent research in economics has shed light on these issues. The basic

they will direct their offering towards distinct consumer biases. However, as there are fewer media owners than consumers, the media outlets may position themselves at the extreme ends of public opinion. The end result could be a polarisation of the media, to a greater extent than polarisation of views in society.²

Now consider media owners with their own political agenda (as well as



commercial motives). If a monopoly media owner has a distinct and known bias, that owner may not be able to commit to a central position, regardless of how commercially desirable that might be. Nonetheless, a media owner that controls the media can only control public opinion to a certain extent. By slanting their news reporting, the media owner may be able to report news favourable to their own positions and withhold adverse or other news reports. In the latter case, a sceptical public – knowing who owns the media – could infer that 'no news' means 'unfavourable news' to the media owner. The likely end result of this suspicion is that they will not give the media their attention or be willing to pay as much for this news service.

If there is media competition, the outcome will depend upon whether media owners' *agenda are distinct*. Under competition, more news will be reported and competition

between media owners will reduce the cost of this news to consumers. Note, however, that it is not clear that media owners would choose to consolidate their interests through a merger. While it may be commercially desirable to do so, it could mean sacrificing the agenda of one of the parties.³

On the other hand, to the extent that media owners have similar agenda,

content providers to sell directly to consumers. Instead, they give content to consumers for free, grab their attention, bundle their content with advertisements and sell advertising space to businesses.⁶

The main issue with two-sided markets is that 'one-sided thinking' about competition issues may not apply.⁷ Consider, for example, a newspaper or television market.

advertising space as overall, they lose fewer viewers in so doing. The end result may be more advertising space supplied but also a fall in advertising rates. This is a potential public benefit offsetting any detriment to the market for viewers. Unlike other public benefits, it would not only be shareholders but also advertisers (the customers of media outlets) who might benefit from a merger. So, even under a consumer welfare standard, the merger may be desirable.⁹

In summary, media mergers may give rise to important non-economic consequences in terms of the provision of information. It depends upon the biases of media owners as to whether competition between media outlets effectively increases or restricts the amount of information provided. This would have to be examined merger proposal by merger proposal.

Alternatively, consider media markets where advertising is something consumers also value (e.g. classified ads or property sales). In this case, the two-sided interaction gives rise to a positive reinforcement. Firms will value consolidation because this aggregates viewers who enjoy advertisements and they can then 'ration' those viewers to advertisers. The rationing means that both consumers and advertisers will be worse off as a result of the merger.¹⁰

then consolidation will likely be motivated by purely commercial (and perhaps anti-competitive) reasons.⁴

In summary, media mergers may give rise to important non-economic consequences in terms of the provision of information. It depends upon the biases of media owners as to whether competition between media outlets effectively increases or restricts the amount of information provided. This would have to be examined merger proposal by merger proposal.⁵

A merger within or across these markets may lead to reduced competition for viewers. This occurs because media outlets are less concerned about losing viewers to their rivals if, for example, advertising levels increase. Thus, the 'price' to viewers could rise, resulting in a

The general point here is that 'one-sided thinking' may be inappropriate for the analysis of media mergers and their impact on competition. For

...the distinction between what is sold (advertising) and what is bought (viewership) can become blurred. This will make analysis more complex and will require a clearer understanding of the links between advertising and consumer markets.

Two-sided markets

The other 'special' characteristic of media markets is that they are two-sided. A two-sided market is one in which suppliers need to attract two diverse sets of agents in order to make a profit. Media markets have this feature. It can be difficult for

substantial lessening of competition on one side of the market.⁸

But what happens on the other side of the market? That is, what benefits are advertisers getting? From the media operator's point of view, it is now easier to supply advertisers with

example, the distinction between what is sold (advertising) and what is bought (viewership) can become blurred. This will make analysis more complex and will require a clearer understanding of the links between advertising and consumer markets.

Conclusion

Mergers in media markets will provide considerable challenges to competition authorities. First, the goods supplied by these markets have certain qualitative aspects that impact upon economic and political activities far removed from them. Second, media markets are two-sided, meaning that a reduction in competition on one side of the market could be accompanied by pro-competitive impacts on the other. The end result of both of these special features is that mergers may be desirable even if they are accompanied by anti-competitive effects that are generally a key concern for competition authorities. ■

ENDNOTES

- ¹ See, for instance: Sendhil Mullainathan and Andrei Shleifer 2005, 'The Market for News,' *American Economic Review*, 95 (4), pp. 1031–1053; Matthew A. Gentzkow and Jessie Shapiro 2006, 'Media Bias and Reputation,' *Journal of Political Economy*, 114 (2), April, pp. 280–316.
- ² For a simple discussion see Joshua Gans 2006, 'Getting Cross with the Media and Cross-Media Ownership,' *New Matilda*, 1 March.
- ³ This argument is put forward by Simon P. Anderson and John McLaren 2005, 'Media Mergers and Media Bias with Rational Consumers,' *mimeo.*, Virginia.
- ⁴ Tim Groseclose and Jeff Miylo, 'A Measure of Media Bias,' *Quarterly Journal of Economics*



(forthcoming), provide a means of testing for current media bias in this respect.

- ⁵ Similar issues arise in relation to the impact of mergers on the quality of media content offered. One possibility is that a merger could result in a greater variety of programming appealing to mass and niche viewers alike (see P. Steiner 1952, 'Program Patterns and Preferences, and the Workability of Competition in Radio Broadcasting,' *Quarterly Journal of Economics*, 66, pp. 194–223). Alternatively, a merger may reduce competition leading to programming for the lowest common denominator (see J. Beebe 1977, 'Institutional Structure and Program Choices in Television Markets,' *Quarterly Journal of Economics*, 91, pp. 15–37).
- ⁶ Media markets are not the only two-sided markets. This also occurs in payments systems, computer game development, some software markets and night clubs. See Jean-Charles Rochet and Jean Tirole 2003, 'Platform Competition in Two-Sided Markets,' *Journal of the European Economic Association*.

- ⁷ Julian Wright 2003, 'One-Sided Logic in Two-Sided Markets,' *Brookings Working Paper* 03–10.
- ⁸ Simon P. Anderson and Stephen Coate 2005, 'Market Provision of Broadcasting: A Welfare Analysis,' *Review of Economic Studies*, 72 (4), October, pp. 947–972.
- ⁹ Esther Gal-Or and Anthony J. Dukes 2006, 'On the Profitability of Media Mergers,' *Journal of Business*, 79(2).
- ¹⁰ Simon P. Anderson and J.J. Gabszewicz 2005, 'The Media and Advertising: A Tale of Two-Sided Markets,' *Handbook of Cultural Economics*, in V. Ginsburgh and D. Throsby (eds.), Elsevier (forthcoming).

Simon Anderson

Simon Anderson is Commonwealth Professor of Economics at the University of Virginia. Email: sa9w@virginia.edu

Joshua Gans

Joshua Gans is Professor of Management (Information Economics) at the Melbourne Business School and Associate Director of IPRIA (Intellectual Property Research Institute of Australia). Email: j.gans@mbs.edu