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EFFECTIVENESS AND PROFITABILITY IN THE CONTEXT OF MASS MEDIA INDUSTRIES

EFIKASNOST I PROFITABILNOST U KONTEKSTU INDUSTRIJE MASOVNIH MEDIJA

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Abstract

In this paper system analysis of media market in the context of strong development of media industry is being conducted, on all levels of local, national, regional and global media communication. Authors conduct synchrony and diachrony analysis of profitability of media subjects (economic value in business of media institutions) and also communication aspects of the media (analysis of information and communication contents) in the context of preserving of informational, cultural, political and social role of media communication in the terms of global media industry. Research has shown that the economic, communication and social aspects of media and media industry are linked. Media profitability and the social role of media is in the constant "social conflict" between economic profitability and social role of the media. Research has shown that media industry in the context of market and survival in media market must respect laws of market with thw respect to basic social role of media on all levels of media communication (global, national, regional and local). Authors conclude that todays media industry in the modern communication world, from the aspect of business and public afficiency, is in the permanent social discrepancy between profit and social responsibility of the media.

Sažetak

U radu se provodi sustavna analiza medijskog tržišta u kontekstu snažnog razvoja medijske industrije na svim razinama lokalne, nacionalne, regionalne i globalne medijske komunikacije. Autori provode sinkronijsku i dijakronijsku provedbenu analizu profitabilnosti medijskih subjekata (ekonomska isplatljivost u poslovanju medijskih institucija) kao i komunikološke aspekte medija (analiza informacijsko-komunikacijskih sadržaja) u kontekstu očuvanja informativne, kulturne, političke i socijalne uloge medijske komunikacije u uvjetima globalne medijske industrije. Istraživanje je pokazalo da su ekonomski, komunikološki, društveni aspekti medija i medijske industrije u međusobnoj korelaciji. Medijska profitabilnost i društvena uloga medija je u stalnom „društvenom konfliktu“ između ekonomske profitabilnosti i društveno odgovorne uloge medija . Istraživanje je pokazalo da medijska industrija u uvjetima tržišnog privređivanja i opstanka na medijskom tržištu mora poštivati zakonitosti tržišnog poslovanja uz puno uvažavanje osnovne društvene uloge medija na svim razinama medijskog komuniciranja (globalno, nacionalno, regionalno i lokalno).

Autori zaključuju kako je današnja medijska industrija u suvremenom komunikacijskom svijetu, s aspekta poslovne i programsko javne učinkovitosti, u stalnom društvenom raskoraku između profitabilnosti i društveno odgovorne funkcije medija.

1.1. Introduction and background

The impact of technology, government regulation and globalization has put attention to the importance of media not only as information and entertainment resources, but also as economic entities. Because media companies are economic entities, their behaviour is governed by economics.

Most consumers view mass media as a source of diversion, information, and entertainment. The average consumer probably does not think about the costs of content or commercials. But to the people who create the content, media is their business.

But, consumers are an important part of the economic system /1/. Consumers indicate preference for the media content through the exchange of money (as in case of magazine or video rentals) and

time (as in case of broadcast radio and television). In many media markets, the content is designed to attract not only consumers but also advertisers who want access to consumers. Consumers and advertisers influence media companies and the content they produce. Thus, media content is clearly linked to economics.

Media over the last 150 years have become closely related to “business activities”, activities which are not just only which are not just ruled by norms of the journalistic profession, but also business interests play a crucial role. Shortly speaking: the bigger is the public, the bigger is the profit for the media industry /2/. To gain a lot of public, media is, besides providing information and commentaries, also entertaining their public in different ways. Sensationalistic manipulation with information is not specific just for the yellow press, but occasionally also for the quality press.

With a few exceptions, mass media must turn profits to remain in the business. Except for books, sound recordings and movies, most media income is received from advertising. These economic realities are powerful shapers of media content /3/. By understanding the economic activities of media industries, one can better understand the role, function and purpose of media in society.

1.2. Main goals and methodology

In our article we will first analyse the mass media market and the mass media industry in general with their environment and will define the influence of competitiveness, advertising, and social responsibility on the media industry. We will find out the role of profitability and effectiveness in the large mass media industry.

The media market is related to the private industry and thus the principles of the private sector can be applied to media business as well. As a result, it is crucial that all people who are in some way or another involved in this field of business are familiar with these principles, in order to be able to carry out activities such as leading, managing, trading, and finally, successfully operating in the media business.

We will research why the people involved in the media business should understand how economic and financial forces which influence the operations and developments of media and communications companies operate. They should improve their economic knowledge by gaining deeper expertise in finance and economics so that they can cope better with the increasingly complex environment of the companies. They should understand why managers are making certain decisions and they should have abilities to identify and evaluate alternative

strategies and courses of action. They should know how to explore the economic structure and organization of various communications industries.

We will also categorize the activities of media firms and markets, because we should understand how the market structure affects the activities of different media companies, know about the concentration on certain media markets and how external forces like governmental regulation and advances in technology may affect the future market performance.

We will use the method of description to clarify the main goals we mentioned above and to analyse the media market structure and organization in general and finally, to establish the role of gaining profit in the mass media industries.

2. The structure of media market and competitiveness

An industry is a group of firms supplying substitute goods and services to a common group of buyers. In addition to a product dimension, a market has a geographic dimension. Because the implications of profit maximization depend on market structure, there are four variants; perfect competition, monopolistic competition, oligopoly, and monopoly /4/.

Many companies produce multiple products that sell in different markets. For example, magazines sell information and entertainment through subscriptions, but they also sell advertising space. A market is an interrelated group of buyers and sellers, whereas an industry is only the sellers in a particular market (such as the film industry) or across several markets (as in the newspaper industry) /5/.

In the table 1 is shown the market structure of media industries.

TABLE 1: Market structures of media industries

<i>Monopolistic Competition</i>	<i>Oligopoly</i>	<i>Monopoly</i>
Books Magazines Radio	Television Networks Motion pictures Music Recording	Cable television Newspapers (in most markets)
Source: Albarran (2002, 37).		

The development of large media companies resulted from changes in technologies that produced additional types of media, from strategies of growth and expansion, and from the availability of capital, particularly through equity markets, to finance expansion and further development of media companies. Companies have also grown to reduce economic risks, seeking geographical

diversity to reduce the effects of economic cycles or downturns in a particular region. Others have grown to diversify their operations by pursuing multimedia strategies designed to reduce their dependence upon a particular type of media or to gain greater share of the market and gain a profit /6/. But size is no guarantee of success. It is both an advantage and a disadvantage. It can both empower as well as constrain a manager's actions. Size can provide strength and economies of scale, but it can also make enterprises difficult to manage and cause inertia or slow response when change is needed. Size can create greater dependence on outside capital or vulnerability to rapid economic changes.

Every market, including the media market, shows an important relationship between demand and supply. The interaction of demand and supply determines the market price under competitive conditions. Competitiveness is a term that indicates the degree to which a firm or industry can survive, sustain itself, and remain a viable economic contributor. It also involves the degree to which a company or national industry can respond to market opportunities or threats. It represents the rivalry of media companies to provide products and services. Also media companies must be effective; they must be competitive if they wish to exist and to develop on the market.

Compared to other industries, the degree of competition among media products is not very high because of limited choice. In many cases, competition is very low. An interesting example /7/: the number of pizzerias is about sixty times higher than the number of newspapers in the United States of America and there are about five times as many ice cream shops than consumer magazines.

There are some competitive advantages, characteristically for the media industry:

- lower costs;
- differentiated products commanding a high price;
- proprietary assets;
- higher quality products and services;
- efficient production;
- rapid product development;
- advanced features;
- innovation /8/;
- personal skills level.

The amount and degree of competition among media and media units are another economical factor that affects the development and success of media companies. When there are more competitors and the market is divided among them, no one company will control the market, and each will take

part in a continuing struggle to improve or maintain their market share.

With growing competition, there are three broad scenarios:

- more means worse as competition leads to lurid sensationalism and sex and the tabloidization of all media;
- more optimistically, more means more diversity as each shade of taste and opinion is catered for by an appropriate medium able to target an interest group economically;
- a hybrid with policies to ensure access by everyone to a basic tier of communication, but with an additional huge variety of services available to those willing and able to pay more for more.

The higher the degree of the competitiveness, in the media industry and also in business in general, the bigger is the pressure on the others for the adoption of the interests (of the competitors) on the other companies. And vice versa, a company in case of a big degree of monopolistic concentration could govern the market and could impose his own interests on the other participants. Without doubt, such behaviour is very egoistic and unethical

3. The roles of advertising in the media industries

Advertising is an important source of revenue in many segments of the media industry and is one of the most visible tools of the communication mix. Advertisers pay the mass media for getting access to potential customers. From print media advertisers buy space, from broadcasters they buy time. The more potential customers a media company can deliver to the advertisers, the more advertisers are willing to pay for time or space /9/. Even media that seek narrow segments of the population need to reach as many people within their segments as possible to attract advertisers.

A key driver of media decisions for advertisers including the issue of substitutability is audience delivery: advertisers buy audiences. Media compete for audiences to deliver to advertisers by satisfying basic audience-information needs.

Media serve as a bridge between advertisers and audiences. The bridge is built through media contents which attract the audiences, by making it possible for advertisers to reach the audiences attracted by the media, and by providing mechanisms for targeting specific groups of people. Building and maintaining this bridge is not without problems and conflicts. Since commercial media are dependent on the income from advertisers, audiences must not see evidence that their interests are harmed by that dependence or they will lose

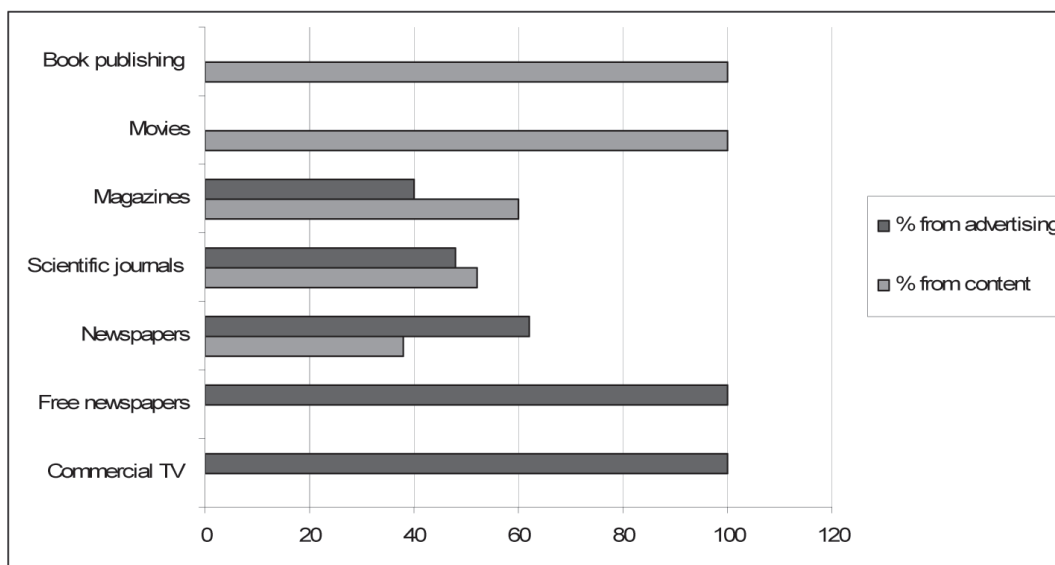
confidence in the bridge and thus the bridge will lose its effectiveness. Media must seek to build and maintain a stable relationship with both audiences and advertisers.

Some media, for example commercial radio and TV or publishers of free newspapers, as seen in table 2, obtain 100% of their revenue from advertisers. Daily newspapers, magazines, cable television services, and some Web services rely on both advertising and subscription revenue. Traditionally, only book publishing and movies have sold exclusively to consumers' /10/.

Advertising on Internet sites is development with a different approach than that found in traditional media. This new approach developed due to advertisers' unease with the penetration rates of Internet services among the population and because of difficulties in measuring audience size and characteristics. Internet advertising has grown rapidly in the recent years, but by the year 2000 it accounted for only about 4 percent of total advertising spending /11/.

No one media or media unit can perfectly serve an advertiser's needs, and they must typically seek a

Table 2: Proportion of revenue, divided into sale of content and sale of advertising (source: Ludwig, 2000)



media mix to effectively serve their purposes. When the advertising budget is constrained by the must-buy phenomena, an advertiser is forced to diminish the amount of advertising expenditures used to achieve the mix, reduce the number of media in the mix, or reduce the outlets of each media in the mix from which advertising space or time is purchased.

Advertising content is often a substantial part of the total content and can affect its value. In the case of most television services, commercial messages take up more than 10 minutes of the hour /12/. The interruption of the program is likely to detract from a viewer's enjoyment of the entertainment or information content of the program. This is typically less a problem for newspapers or magazines because readers can easily ignore advertisements that are of no interest.

For the economy as a whole, the effects of advertising are also on prices. Advertising in some form is a necessary part of a competitive market

economy. It does cost firms money, but without it, competition is reduced and prices can be higher.

4. Analysis: profitability and effectiveness in the mass media industries

4.1. Corporate social responsibility or economic profit

The dilemma which arises is the following: How is it possible to make a profit and to act at the same time socially responsible? Every firm faces many conflict situations: On one hand to make a profit-economic interest and on the other hand to realize a social responsibility.

It is important to know that most newspapers and broadcast stations in a market economy are not in business because of high and lofty ideals, but they are there to make profit for their owners and shareholders. This means that costs need to be kept to the minimum, concomitant with providing a

saleable product, whilst keeping revenue, through selling advertising space and the product, as high as the market can bear. It due to the pressure of the market economy that if a revenue-generating idea proves to be successful, other entrepreneurs will move in to exploit the profit potential, reducing the amount of revenue available to all until the number of competitors in that market place neatly matches the number that can exist and still provide a reasonable return on capital invested /13/. The media market is related to the private industry and thus the principles of the private sector can be applied to media business as well. As a result, it is crucial that all people who are in some way or another involved in this field of business, are familiar with these principles, in order to be able to carry out activities such as leading, managing, trading, and finally, successfully operating in the media business.

Economic interest being a basic problem of the business ethics is not beforehand a negative category. But it's true that it's gaining and proceeding is not morally neutral. We think that making profit being the only or basic goal of the company is not suitable. Furthermore, we share the opinion that it is inappropriate to make profit which neglects the satisfaction of the consumers, the environment and the employees.

Closely related to the ethical conduct of an organization is its social responsibility. Corporate social responsibility is about how companies manage the business processes to produce an overall positive impact on society /14/. This implies that any social institution, from the smallest family unit to the largest corporation, is responsible for the behaviour of its members, because every activity of the companies is also a subject of a public supervision, which is executed by media, who represents first of all things which are "socially responsible". The supervisor function of the media is necessary for an efficient and legitimate supervision of activity of the company, finally leading to the high democracy in a country.

The presence and the interest of mass media for the social responsibility of the companies are facts which firms cannot avoid. But also the companies can take advantage from the media reporting, in a sense to explain their point of view, advertising and with that they could directly influence to an image or reputation of the company. Due to this settled, correct and good media relationships are very important.

4.2. The roles of gaining profit in the media industries

The objective of all companies is to maximize profit. For profits to be maximized, the total cost of

producing the selected output of the goods must be minimized /15/. Shortly, the production must be economically efficient; there must be no other methods available that is capable of producing the output for a smaller total value (cost) of inputs. The total costs depend on the number of each factor employed and the price per unit that the company has to pay.

To meet their expenses, the mass media sell their products in two ways. Either they derive their income from selling a product directly to mass audiences, as the movie, record and book industries do, or they derive their income from advertisers that place advertisements for mass audiences that the media provide, as newspapers, magazines, radio and television do. Newspapers and magazines are hybrids with both audience and advertising revenue streams /16/.

Publishers of magazines, for example, have advantages in production and distribution that reduce the cost per copy and create efficiencies in production compared to companies that publishes few titles. Online media companies have tended to have advantages over traditional media companies because they have business cultures and company structures that allow them to rapidly alter existing products and change directions quickly to respond new market opportunities /17/. Some companies and industries also have advantages because they operate in nations that have advantages such as strategic location, better infrastructures, financial stability, higher levels of economic development, and so on. Competitiveness represents the degree to which a firm uses advantages and managerial competence to generate more wealth than its competitors.

For commercial media companies, profit creates the money available to pay their owners or investors, make capital expenditures, and pay debts. For non-commercial media, owners/investors do not receive the profit, but it provides funds to improve the company through capital investments, make additional expenditures on content and other items, and pay debts. Profitability is crucial to all media companies because it allows companies to produce their own financial resources and to improve their own content and making them more attractive to audiences, lenders and advertisers.

Some very popular international co-productions come into existence due to the fact that financial resources have been pooled together. It involves forming an alliance with one or more foreign partners to jointly develop and produce a program or film with attributes that make it attractive to audiences in more than one national market. In effect, the partner's pool financial resources to share

the high cost of the first copy of the program or the film and than are able to produce additional copies for the other national markets at a very low marginal cost because of the huge economies of scale.

There is an advantage, created by economies of scale, for those companies that are able to print and sell more copies than competitors.

Economies of scope exist if the total cost of producing two (or more) products within the same company is less than producing them separately in two (or more) non-related companies. This occurs when products are jointly produced or where there are factors that are shared by the processes used to make different products. This explains why most studios produce both movies and television programs /18/.

A recording and video distributor will have economies of scope over separate recording and video distributors because the distribution and retailing mechanisms for recordings and video are similar and overlapping. This permits the joint use of distribution systems and facilities in a cost-effective manner. Similarly, a magazine publisher will have advantages over independent publishers if it also produces a directory or yearbook /19/. This occurs because of the advantages it has in terms of production, brand recognition, marketing, and distribution that make it less expensive to operate such secondary products.

An understanding of media economics is useful and can be achieved by analyzing the functions and activities of companies involved in the media.

Media must cover their costs and create returns, just as any other business. The forces that require effective operation are the same for both private commercial and non-commercial media such as public service broadcasting.

It is important to recognize that although the media industries serve as agents of culture and vital sources of information and entertainment, the media also operate as a business with the goal of producing profits.

5. Concluding comments

The economic system determines who will produce goods, how goods will be produced and who will consume the goods based on the type of economic structure found in a society. In most of the developed countries, a mixed economy is in operation regarding the mass media, which establish a market economy with limited governmental regulation.

Profitability is crucial to all media companies because it allows companies to produce their own financial resources and makes them more attractive to lenders and other capital sources when they require

additional financing to support their strategies and activities. Even non-commercial and not-for-profit media need to produce profit that can be than used to develop their content and organizations. If media companies are not able to operate profitably they reduce their ability to produce or acquire quality content, invest in personnel, upgrade equipment, or engage in marketing to attract audience and advertisers.

Conversely, profitable media companies are able to reinvest in their operations to improve their content, making them more attractive to audiences and advertisers, ultimately making themselves more profitable.

The social responsibility and the economic success are mostly understood as an opposite and they are not in a positive correlation /20/. To find a thesis for establishing a new, positive correlation between social responsibility and business and between business and economic success we should have a look at the tendencies in business which happen in the context of globalisation. These tendencies are: realization and emphasis of the role of ethics in companies (more and more companies and their managers are looking with their co-workers for innovative-creative solutions, which are at the same time also ethically acceptable), emergence and development of new potential protests (globalization is serving more opposites, also political), growth of the moralistic rights and claims (which are accumulating to the buyers, sellers, managers) and they should be ecological, ethical, market and economical relevant, growing the meaning of public (it is more opportunistic to judge in public and to condemn activities of the different companies and institutions).

Each company and their activities are to a certain extent exposed to public supervision. Media in their news coverage pay attention to companies by reporting on incidents which seem to be of public interest. The supervisor function of the media is necessary for efficient and legitimate supervision of activities of the company, leading to the high democracy in a country.

Without journalistic content there are no companies and vice versa. If the media do not deal with business, then there will be no content. But journalistic content mustn't be subordinate to the business interests, so that it will actively submit to the wishes of the advertisers. High journalistic content is very important for the business success; unfortunately it cannot serve as a guarantee for the success of the business. It could happen that journalistic contents of high quality remain unsold due to fact that the people in charge of the sales fail to reach the audience.

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