The Dynamics of Media Business Models: Innovation, Versioning and Blended Media

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Badillo P.-Y., Bourgeois, D., “The dynamics of media business models: innovation, versioning and blended media”, *in* P.-Y. Badillo and J.-B. Lesourd (eds.), **The Media Industries and their Markets – Quantitative Analyses**, London, Palgrave, MacMillan, 2010.

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Patrick-Yves Badillo and Dominique Bourgeois[1]

5.1 Business models in the press: some elements

5.1.1 Main characteristics

'A business model involves the conception of how the business operates, its underlying foundations, and the exchange activities and financial flows upon which it can be successful' (Picard, 2002, p. 26).[2] Picard shows that historically the business model of US newspapers changed radically: during their first 100 to 150 years of publication, US newspapers served a relatively small audience, with very high prices and little advertising; in the last half of the nineteenth century US newspapers began to serve a larger audience, prices became very low and the level of advertising increased. Readership and advertising support continued to grow during the twentieth century until the appearance of television. Since the 1960s readership has declined steadily and Picard considers that newspaper readership will probably decline 'somewhere in the range of one-quarter to one-third of the population' (Picard, 2002, p. 31). It has to be noted that advertising has remained at a high level for the US newspapers: it provided about 80 per cent of the revenue of newspapers in the United States in the year 2000.

The business model of the French traditional press has certain distinct historical characteristics, including state subsidies. After the Second World War the principal choice was in favour of a general information and political press which was conceived as 'a quasi-public service conceded to private entrepreneurs' (*'un quasi-service public concédé à des entrepreneurs privés'*, Leprette and Pigeat, 2002, p. 93). This conception explains the importance and the complexity of the subsidy system which had the objective of guaranteeing diversity and pluralism. Thus profitability has not been a real goal for many

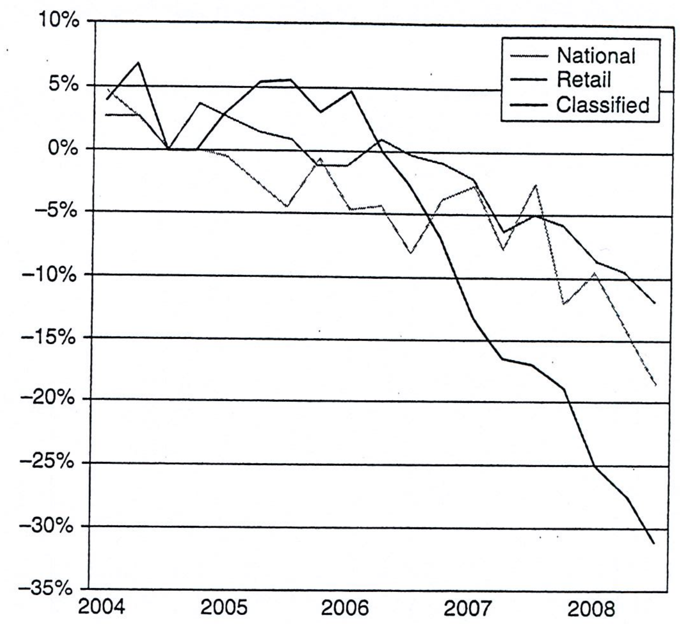

Figure 5.1 Newspaper advertising revenue in the United States, 2004–2008
Source: Newspaper Association of America.

years, at least in the general information press. Moreover, the level of advertising is quite low compared with the United States: if we consider only the general information press, in 2005–2006 advertising represented 87.7 per cent of the income in the United States and only 41.6 per cent in France (Albert, 2008, p. 43). Prices of French newspapers are relatively high compared with prices in the United States and distribution costs are also high (for more details see Leprette and Pigeat, 2002; Albert, 2008).

5.1.2 The emergence of the low-cost model

Although there are different business models for the traditional press, in many countries old media have been in decline for a long time although they have shown strong resistance. Since the beginning of the twenty-first century we observe the irruption of new media (like the Internet and the free press). Some interpretations suggest that these new media will replace old media, thanks to their new business models. These new business models are characterised in particular by advertising (that is to say, the second part of the two-sided model, advertising, is increasingly important) and the belief that everything could be free. Moreover, 'everybody is a journalist'[3] and Internet users can now write for a newspaper, so that the costs are declining and an online newspaper can be very cheap to produce. The 'low-cost' model of the press has emerged, linked to the rise of 'freeconomics'.

One of the promoters of this strategy in France is Alain Weill (the founder and chairman of NextRadioTV, which owns RMC (radio), BFM (radio), BFMTV, the first information TV channel in France, and Groupe Tests, a French press group that specialises in the exploitation of new technology). 'Alain Weill asserts a "low cost" model in the media, by externalising every administrative activity and never spending more than necessary. *"I do not know if we are 'low cost' or our competitors are 'high cost"*, he notices. It remains to see whether the recipes which made his success in the radio will be effective for television' (*Les Echos*, no. 19546, 23rd November 2005, p. 9; our translation).

Different studies seem to have confirmed both the trend towards the substitution of old media by new media and the importance of advertising in new media business models.

Concerning substitution, for example, Gentzkow (2007) studied competition between print and online newspapers thanks to a model applied to the Washington DC area, on the basis of a survey conducted between March 2000 and February 2003. He founds that 'print and online papers are clearly substitutes. (...) The magnitude of the crowding out of print readership is non-negligible. It is also small, however, relative to some earlier predictions. (...) Second, the welfare benefits of the online newspaper appear to outweigh its costs.' Other studies indicate that consumers are very sensitive to prices (see Findahl, 2008), which is obviously an argument in favour of the free press. The main empirical argument in favour of substitution is constituted by recent readership statistics: 'While the percentage of Americans who read online news went from 18% to 25% between 2006 and 2008, the percentage who read newspapers daily has decreased from 40% to 34% during that same time period' (Pew Research Center, 2008).

Concerning the importance of advertising in media business models, in a study on the United States, Mensing (2007) showed that 'despite aggressive competition for advertising revenue, newspapers as a whole have not altered their online strategies significantly from 1996 to 2005. (...) The primary revenue strategy for nearly all online newspapers is clear: advertising has proven to be the most successful source of revenue.' And, of course, the income of every online or offline free newspaper is equal to advertising. It should also be noted that the growth of advertising investments on the Internet is superior to the growth of all advertising investments at the global level,[4] which is a general indicator in favour of online media.

Nevertheless, there are also arguments which counterbalance the above approach. First, it is not certain that new media will replace old media. For example, Cao and Li (2006) found that the growth of Internet daily newspaper readership had a limited effect on the circulation of US daily print newspapers in the period 1995–2000. The declining trend in the print newspaper circulation was far from remarkable; consumers did not abandon print newspapers. According to them, 'the growth of new media may not be at the expense of the older media' (Cao and Li, 2006). Over the five-year period 2003–2007, newspaper circulation was down 8 per cent in the USA; but, first, this decline does not mean that print newspapers will necessarily disappear in the USA, and, secondly, at the global level the circulation of paid newspapers is rising, buoyed by demand in Asia and South America.[5]

Moreover, there may be complementarity between the two categories of media. For instance, during the Iraq War, large numbers of Americans were turning to the Internet as a source of supplementary information about the war. A survey completed between 14th May and 17th June 2004 shows that 24 per cent of American Internet users said they had gone online at one time or another for news that was not covered by the mainstream press (news stories, photographs or videos that other media outlets had decided not to publish or broadcast) (Fallows and Rainie, 2004). By contrast, many people choose to watch TV and not the Internet for 'special' events[6] and they often read the print newspaper on the following day.

Secondly, although advertising is a very important component of online media revenues, for the moment in the United States 'no simple model has been found to assure profitability for the online newspaper industry' (Greer and Mensing, 2006). In fact online advertisements did not yield the revenues that American newspaper publishers had hoped for. In the USA, there is a slowdown in online advertisements, and the effectiveness of these advertisements is discussed.

Moreover, 'all traditional media organizations, including public broadcasters, are re-examining the way their work reaches its audience and the impact of these new pathways on their business models. Not one of the traditional media industries has confidently identified its future revenue model' (Miel and Faris, 2008, p. 5).

Of course, the case of the United States must not be extended to other countries without analysis. For example, Findahl shows that

> traditional mass media, radio, television and newspapers, are still the main sources of information, news and entertainment in Sweden. There are no major changes during the last seven years [2000–07]. But among the young people, the importance of Internet has slowly increased, and today for them Internet is the most important source of information even if television still is the most important source of entertainment. (Findahl, 2008, p. 217)

In addition we must keep in mind that it is very difficult to make predictions about the future of the press industry in general, taking into account both the general economic framework with the financial and economic recession in the developed countries and the specific situation of the media industry.

5.2 The dynamics of media business models: first lessons from innovation theory

5.2.1 The life cycle model

Now we propose to explain the changes in the media no more by focusing on the short term but by a model of the dynamics on the long period.

Let us apply some elements of the economics of innovation to our subject, in particular the theory of product or technology life cycles. The diffusion of a product or the performance of a technology has a recognised pattern over time. It follows an S-curve: when the rate of adoption of a product or a technology performance parameter (y axis) is plotted against time (x axis), the result resembles an s-shaped diagram (sigmoid, eg logistic curve), called the S-curve (see Rogers, 1995; Khalil, 2000). Generally it is admitted that the life cycle includes three main stages:

1. The first period is characterised by the introduction of the innovation, which may be a new product, a new production process ... ; this innovation offers some economic advantage over prevailing products or methods, and there are few firms which are the producers and sellers; in this first period the rate of growth of the new product or new method or new technology ... is low.
2. The second period is characterised by rapid and sustained growth: information about the innovation is spreading among potential adopters and many firms are entering the market.

3. In the third period, the product or the technology is mature and progress in diffusion or in performance slows down. The market reaches a limit (a technology reaches its natural limit): the product or the technology is vulnerable to substitution or/and obsolescence.

We propose to apply this theory of the life cycle to the media industry but by considering that the diffusion process is dynamic and may be more complex than suggested by the S-curve. As shown for example by J. S. Metcalfe (1981), the standard diffusion model is static in nature and has largely ignored the supply side, that is to say the relationship between profitability and the pace of diffusion. So we consider that the S-curve is a simplified description of a model of innovation diffusion; for example, there may be many different successive incremental changes in a technology which lead to an envelope of successive diffusion curves, instead of a single diffusion curve. We consider also that it is necessary to relates innovation both to product and process evolution: in the case of the media, there have been new technological supports, in particular computers and the Internet, which have induced new production and diffusion processes; there have been new information products since information and communication technology has permitted to produce contents which meet the needs of users. The development of the free press relies on both new production processes and new products.

Following the work of Utterback and Abernathy (1975), we assume also that 'there will be a strong mutual relationship between a firm's choice of a strategy and its environment and given its strategy, between the types of product and process innovations that a firm undertakes and the way its productive resources will be deployed, particularly the state of development achieved in its production processes' (Utterback and Abernathy, 1975, p. 425). If we apply this approach to the media, we can understand, for example, why some traditional media firms have strategies which include the Internet and some others have difficulties to integrate online contents.

Finally, let us note that the second period of the life cycle could be broken up into two periods, corresponding respectively to a 'frenzy' phase (fast diffusion with new technologies) and a 'synergy' phase (coherent growth). When such a model is applied to a technological revolution, as shown by Perez (2002), between these two phases there appears a turning point, usually in the recession that follows the collapse of a financial bubble. Applied in a more restricted way to the media industries, this model helps to understand that the frenzy phase for the new media has developed with tensions (in particular, the profitability issue) that should lead to changes in business models. In the case of the French media system issues about regulatory changes are a main element of the turning point.

Figure 5.2 illustrates the life cycles of old media and new media. Old media, such as print paid newspapers, have declined for many years in many countries and new media, such as free print newspapers or online newspapers, are growing. We are in the second period characterised by a growing level of competition between the two types of media. The two curves will meet and the issues are: what will become of the old media? Will they disappear during the third period? Until when will new media continue to rise at such a high rate of growth?

Some data confirm our approach. In the United States the Internet has now surpassed the newspapers, but not television, as an outlet for national and international news (see Figure 5.3).

5.2.2 An illustration: changes in the French press

Let us analyse the case of the French press. Does the low-cost model explain the success of the free press in France? Does the media life cycle model, as illustrated by Figure 5.2, apply in the case of the French press?

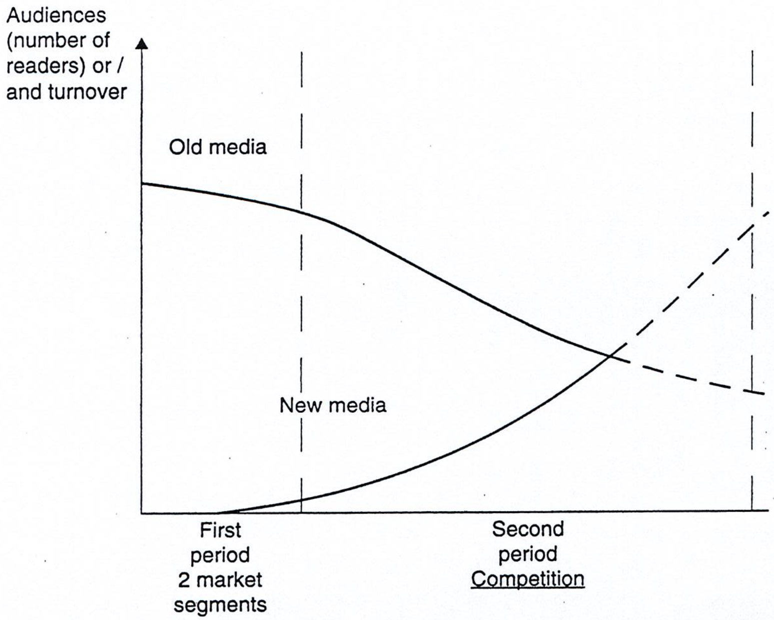

Figure 5.2 A representation of the dynamics of old media and new media

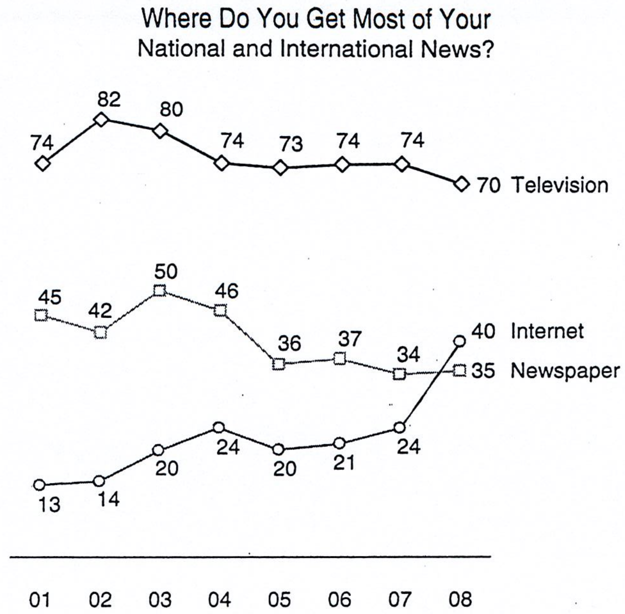

Figure 5.3 Surveys about the sources of news in the United States
Source: The Pew Research Center, 2008.

In recent years one of the key elements concerning the French press has been the new trend. As we have established,[7] there is a strong rupture of trend since the year 2000. This rupture is so strong that we can note a very strong decline of every segment of the French press, with the exception of the free press (see Figures 5.4 and 5.5; in Figure 5.4 the forecasts for 2008–16 are calculated on the basis of the 2000–07 data, which correspond to the new trend).

The development of the free press during recent years, and simultaneously the difficulties of the traditional press, in France, may be explained by the life cycle theory.

First it is clear that the French traditional written press has declined for a long time but has long resisted thanks to barriers to entry (high investment, social and legal protection, importance of the role of unions). This trend corresponds to the third period in the life cycle of this media. Since the beginning of the twenty-first century the emergence of new media, the Internet and the free press, has created new markets with lower barriers to entry. The French free press (the free written press and Internet newspapers) is indeed increasing strongly. As noted by Eveno,

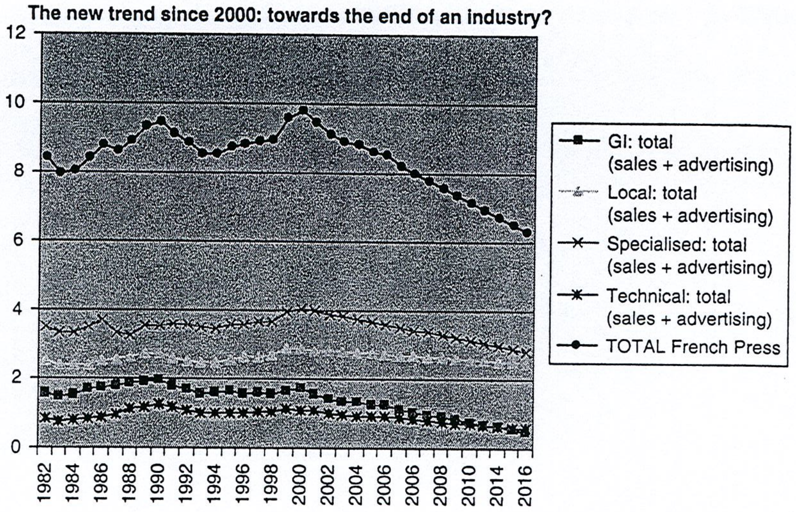

Figure 5.4 French press resources (in constant euro) (GI = General Information Press)

'The absence of a popular newspaper in France has favoured the appearance and the rise of the free daily newspapers' (Eveno, 2003, p. 167; our translation). An inquiry into the audience for French daily newspapers (EPIQ – Etude de la Presse d'Information Quotidienne – July 2007–June 2008) highlights the recent popular success of free information dailies: with 2.4 million readers on average *20 Minutes* is now the most read daily newspaper in France just in front of *L'Equipe* (2.3 million readers), *Metro* (another free daily newspaper: 2.03 million readers), *Le Parisien/Aujourd'hui en France* (2.01 million readers), *Le Monde* (1.89 million readers), *Le Figaro* (1.19 million readers) and *Libération* (806,000 readers).

Moreover, the new trend in the French press since 2000 has revealed a substantial decline in the advertising resources of the paid press (Badillo and Bourgeois, 2008). In general, advertising resources have declined since 2000 in France: in 2000 the global advertising market represented 2.1 per cent of GNP and in 2008 it represented only about 1.7 per cent of GNP (source: France Pub). But, if we observe the distribution of advertising resources in France, there are different trends: in particular, advertising in the free press and on the Internet has grown while that of the traditional press has declined. At the global level, the Internet is becoming the third channel for advertising, behind television and print but ahead of radio.[8]

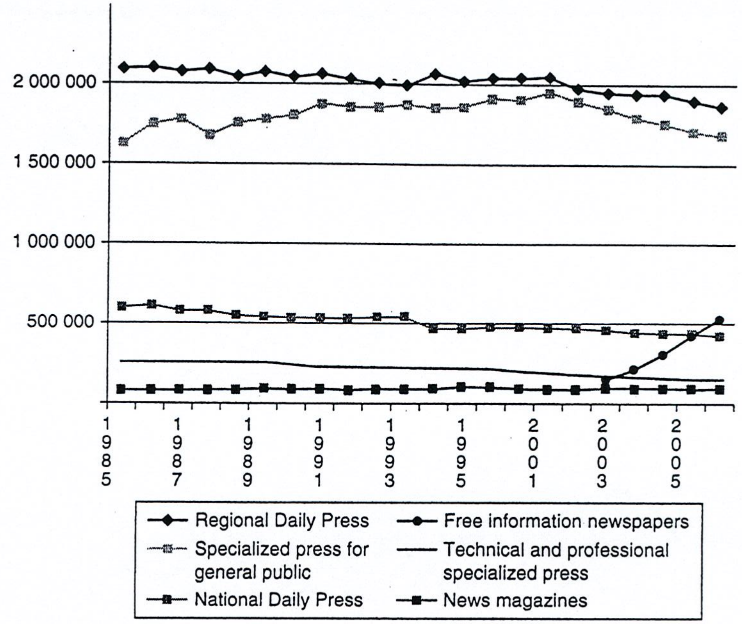

Figure 5.5 French press, total paid circulation (volume)
Source: Direction du Développement des Médias.

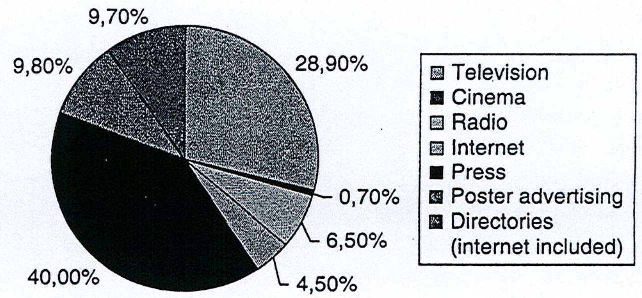

Figure 5.6 Advertising resources in France 2008
Source: IREP.

Let us consider specifically the free information written press in France. Of course, the free information press remains only a small part of the French press: about 3 per cent of the whole print press turnover in 2007 ('presse Editeur'). Moreover, compared to the advertising income of the national information press (about 583 million in 2007) or

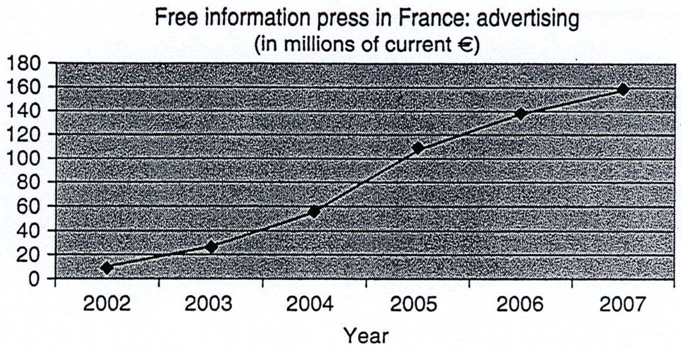

Figure 5.7 Turnover of free information newspapers in France

of the local information press (about 1,368 million in 2007), the turnover of the free written press (which is approximately equal to its advertising income) is still low. But since 2002 (the beginning of the official statistics on the free information press in France) the turnover of this press increased every year: +170 per cent, +100 per cent, +94 per cent, +27 per cent and +14 per cent (the increase in 2007 compared to 2006). The turnover amounted to 10 million current euros in 2002 and about 159 million in 2007. During the same period the advertising income of the national information press was quite stagnant and the advertising income of the local information press declined (in current euros). In 2007 the advertising income of the free written press represented 27.3 per cent of the advertising income of the national information press (only 1.6 per cent in 2002).

Our analysis shows that the low-cost model offers quite a good explanation of the success of the free press in France. However it should be noted that the issue concerning the replacement of old media by new media is not a straightforward one. A study (CNDI, 2008) considers that the competition from the Internet and the free press in the field of information is not a serious explanation for the erosion of circulation in written press titles in France. According to this study, there is no significant relationship between the recent evolution of the readership in the paid daily press and the rise in Internet use. Concerning the free written press, the study develops the argument that 'the effects of the free press compensate: on the one hand, it could divert fragile readers (who would have probably left in any case), but on the other hand it would give new readers the habit and taste to read a daily' (CNDI, 2008, p. 3; our translation). The dominant variable which

would explain the evolution of the readership in the traditional press would be the judgement of the readers and non-readers concerning editorial contents. Such a conclusion, based on a serious study of the daily press in France, tends to indicate that there will be no straightforward substitution between the French old and new media in the future.

So we define the business models in the media as essentially dynamic. We have integrated the product life cycle approach as a factor of these dynamic business models. There is no pure model which will remain relevant in the long run. The dominant business model of the US press at the beginning of the nineteenth century was very different from the dominant business model of the twentieth century. Similarly, the dominant business model of the twentieth century has become exhausted for a few years while a new model appeared. In France, the declining trend of the traditional written press has accentuated during recent years while there has been a development of the free press.

However, in the same way, the low-cost model which has been the solution of the very early twenty-first century will perhaps no longer be the best solution in years to come.

5.3 Modelling the dynamics of the press: towards blended media

We propose now a simple model to describe the dynamics of the press. The first model (model A) includes only the traditional press. Then, in model B, we add the free press and the Internet (online news). We will show that the expansion of the Internet and of the free press has introduced complexity into the media system; segmentation and media market instability can be analysed by drawing some further lessons from innovation theory. Finally we will speculate about the emerging models which could be based on versioning and blended media.

5.3.1 Model A: only the traditional press (the paid press) is taken into account

We propose a first very simple model of the economy of the press. This model could be adapted without difficulty to all forms of media. The main characteristics of the press have largely been presented through the 'two-sided' model. The revenue of the paid-for press (noted below RP) is made up of advertising revenue (denoted RPP) and the revenue related to payments by readers (denoted RPL):

$$RP = RPP + RPL \tag{5.1}$$

(revenue of the paid-for press = advertising revenue + revenue related to the readership)

However, equation (5.1) is not so simple since obviously the revenue from advertising is dependent upon the readership, and more precisely the readership of the paid-for press which will be denoted LP.

Equation (5.1) is thus written:

$$RP = RPP + RPL = f_1(LP) + h_2(h_1(LP)) \quad (5.2)$$

(the revenue of the paid-for press is a direct function and an indirect function of the readership)

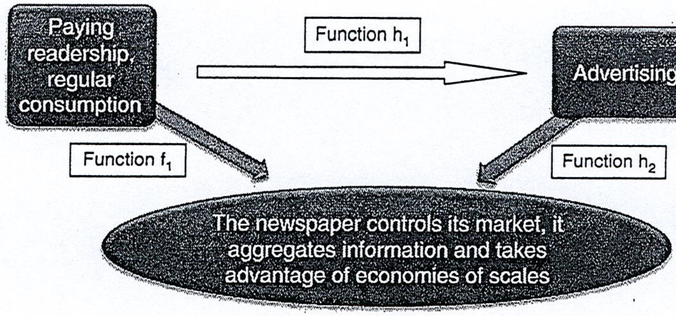

Figure 5.8 Diagram A: The traditional model of the press

5.3.2 Model B: the free press and Internet (online news) coexists with the paid press

Now let us introduce the emergence and the development of the free press into the model. Let us specify immediately that thereafter we will speak of free press, or more largely free information goods. It will be considered, without reconsidering this point, that the Internet, and thus online news, or more generally online information, belong to the free press. We also integrate into this category the free advertisement press (however, the latter remains very specific and has been available for a long time; we will not look further into this aspect). The revenue of the free press is primarily due to advertising:[9]

$$RG = g_2\ (PUBG) \quad (5.3)$$

(revenue of the free press = advertising revenue)

However, equation (5.3) is not so simple, since, obviously, the advertising-related revenue is dependent upon the level of readership, more precisely the readership of the free press which will be noted LG.

$$PUBG = g_1\ (LG) \quad (5.4)$$

Equation (5.2) thus becomes:

$$RG = g_2\ (g_1\ (LG)) \quad (5.5)$$

(the revenue of the free press related to advertising is a function of the readership of this free press).

Those simple equations show that we are beyond the 'two-sided' model; we have a two-step model: advertising is not a completely independent market but constitutes an indirect market. The key to this market remains, of course, the readership. The total revenues of the press are written:

$$RT = RP + RG = f_1\ (LP) + h_2\ (h_1\ (LP)) + g_2\ (g_1\ (LG)) \quad (5.6)$$

This equation shows that the press has a single target but at least three different issues to be faced:

How to attract a paying readership?
How 'to sell' advertising thanks to this paying readership?
How to have readers of free news in order to sell advertising?

So, with the free press we are switching from a two-sided model to a three-sided model. But this 'three-sided model' is characterised by complex and indirect 'consumption' functions. Let us specify that, in this precise case, consumption is particular since it is the readership. For television, the former CEO of TF1, the first French television channel, Patrice Le Lay, started a controversy in 2004 by indicating that his company did nothing but sell available time of brain: 'There are many ways of speaking about television. But from the business point of view, let us be realistic: at the base, the trade of TF1, it is to help Coca-Cola for example, to sell its product. (…) What we sell to Coca-Cola, it is available time of human brain'[10] (our translation). In 2004, Le Lay's assertion was considered shocking. It actually only highlights the 'natural' objectives of large private media firms. In the context of the 'information society', Information and Communication Technologies (ICT) are changing the face of the media landscape; the rise of new media is done undoubtedly from the point of view of profit for the new players.

Admittedly, Le Lay's formula is a brutal one, although it merely corresponds to the reality of the market. Ultimately it is indeed the reader, the listener or the televiewer whom the media seek to attract.

Now, with the appearance of the free press and the Internet the diagram A is changed completely. Diagram B below illustrates the relations at stake.

The dark-grey and horizontal ellipse in the lower part of Figure 5.9 symbolises the 'low-cost model' which is able to conquer part of the free readership and part of advertising and the corresponding free press.

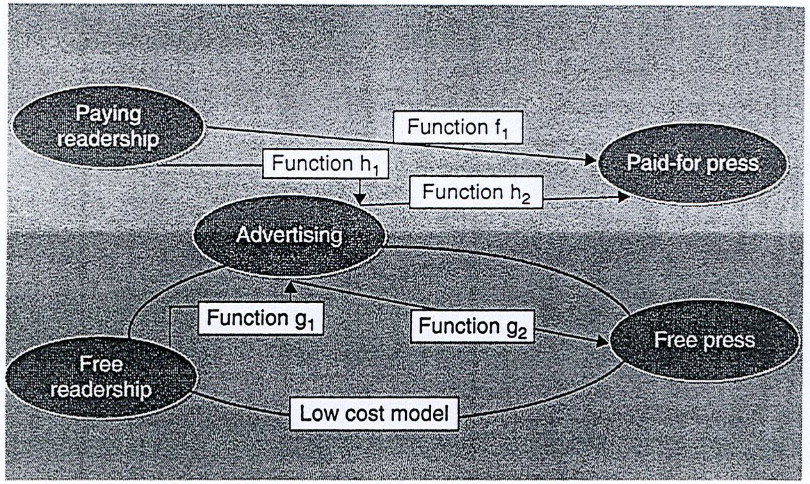

Figure 5.9 Diagram B: Coexistence of free press and paid-for press

5.3.3 Complexity, segmentation and media market instability: second lessons from the innovation theory

However, further thought needs to be given beyond the preceding diagram. The arrival of the Internet and the free press has introduced much complexity. This complexity is illustrated in Figure 5.10.

First the direct and indirect functions of the readership appear. It should be noted that the readership related to the emergence of the free press (including online free press) can partly be a new readership which so far has not been interested by the paid-for newspapers. We could consider that the total readership (LT) is the sum of the paid-for press readership (LP) and the free press readership (LG). However, obviously some readers simultaneously consume free newspapers and paid-for ones; they will be denoted $(LG \cap LP)$. The readers who consume only paid-for newspapers will be denoted $\underline{LP}$ and those who consume only free newspapers will be denoted $\underline{LG}$. Hence:

$$LT = \underline{LP} + (LG \cap LP) + \underline{LG}$$

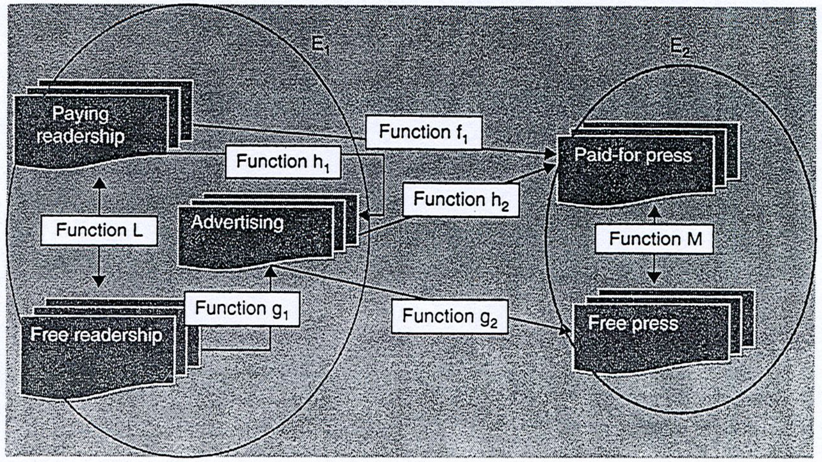

Figure 5.10 Diagram C: Complexity of the press system (with free and paid-for press)

The issue is to know up to what point the appearance of the free press widens the readership, and contributes (or not) to the reduction in the paid readership. In fact, it is the function L, symbolised in diagram C, which is affected. Which redistributions of readership and advertising revenues are caused by the development of the free readership? Obviously, there is an interrelationship between function L and function M which establishes the dividing lines between the paid-for press and the free press.

But a second element plays a part. The markets of the free and paid-for press, the readerships (paid or free), as well as advertising are measured on segmented, although strongly interdependent markets. There would be thus as many functions to write in order to carry out a complete modelling! Advertising concerning the segment i of the readership would be interdependent with all of the other advertising market segments. The market of the free press would be interdependent with all of the other markets of the free press and the paid-for press ...

In order to understand the rupture which is currently occurring in the media system following the arrival of the Internet, it appears useful to us to resort again to the innovation theories. The life cycle theory and, more particularly, the works of Abernathy and Utterback describe the first stages of an innovation in the following manner.

A market appears as the result of an innovation. When an innovation is established, generally only one innovator has the monopoly, as the result of his innovation, for a certain time. So, initially there is no competition, but a monopoly of the innovator and this company monopolises the profits. However, in particular when the patent no longer protects the innovator, many competitors appear and position themselves on this new and profitable market. Competition becomes increasingly intense up to a maximum point. A kind of normal curve illustrates this dynamics. Such a curve was revealed for many industries and it constitutes a kind of law concerning the evolution of competition in a given sector. In the first phase competition does not exist (there is a monopoly), in a second phase competition reaches a maximum with a large number of companies in the sector, then the product moves towards the end of its life cycle and the market remains controlled by a limited set of firms. An oligopolistic situation prevails in a relatively stable market.

In other words, innovation theory indicates that, when an innovation appears, initially it benefits a first innovator (and by extension a first group of innovators). It is the case of the free press, the Internet and the underlying low-cost model. There is an opportunity for the new entrant to control a new market.

But once past this first phase, on the one hand the level of competition on this market intensifies (the rise of free newspapers is an illustration) and on the other hand the market becomes destabilised. Then we enter a second phase and the market must concentrate in order to become more stable.

This idea can be better understood through a consideration of Figure 5.10: the market becomes extraordinarily unstable because of the multiplicity of interdependent markets controlled by distinct firms on segmented markets. With regard to this instability, it is advisable to organise new standards. These new standards will probably provoke an integration of the markets (see the ellipses E1 and E2), reinforced by a new and major characteristic of information: versioning.

5.3.4 The emerging models: versioning and blended media?

Shapiro and Varian (1999) have set down the bases of economics of information and in particular defined the idea of versioning:

> It means offering your information product in different versions for different market segments. (Shapiro and Varian, 1999, p. 54) ... In many ways, selling information on-line and off-line is like selling physical products through two separate channels of distribution [...] the key question to ask yourself is whether the on-line version is a complement or a substitute for the off-line version. If it is a substitute for the off-line version, then you'll want to charge for it, recovering costs through fees or advertising or version it so that it doesn't directly compete with your off-line version. If it complements your off-line version, then you want to promote it as aggressively as possible, since it adds to the bottom line by encouraging sales of the off-line product. (Shapiro and Varian, 1999, p. 66)

The versioning strategy includes bundling: '*Bundling* is a special form of versioning in which two or more distinct products are offered as a package at a single price ... bundling makes sense if it reduces variation in willingness to pay' (Shapiro and Varian, 1999, p. 73).

We think also that a versioning strategy may be based on branding: 'Fundamentally, a brand is a name, term, sign, symbol, package design, or combination of these elements intended to identify and distinguish a product or a service from its competitors' (Chan-Olmsted, 2006, p. 58). For example, some old media, particularly in the general information press, have benefited for a long time from some brands which have represented both sociopolitical choices and editorial quality. If such brands are extended to new versions of products on new channels, the new versions should be associated with the images of trust and quality. Then consumers will identify easily the source of the news and this will help to gain a new market. But, of course, new versions of a product have to be adapted to new channels and perhaps new consumers.

Let us also note that customisation is another aspect of versioning.

With the Internet and the free press it is obvious that the business models of the media industries, and in particular that of the press, are substantially modified.

The old model of the press was characterised by strong economies of scale (as a result of the very high capital costs), with a situation of local monopoly where the law of proximity was fundamental, with a logic of quasi-fordist production. In France, this model was accompanied by the state for the general information press (subsidies).

On the contrary, the new model will be based on versioning, in a context where the economies of scope will be fundamental. Indeed an integration of the markets makes it possible to exploit at most the profitability of a production on various segments.

Figure 5.11 illustrates the situation. What is expensive is to produce information itself; but it can be reproduced on another support at a very low marginal cost: 'Information is costly to produce, but cheap to reproduce' (Shapiro and Varian, 1999, p. 3).

On the Internet the markets are unstable, even transient: between Eldorado and the flying Dutchman (the mirage of a market) the step is

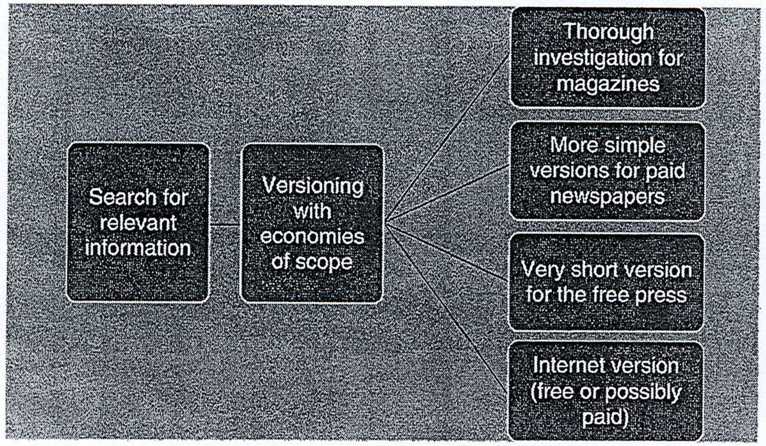

Figure 5.11 Versioning and media markets

quickly crossed. The new markets have presented a godsend, a windfall. But this windfall will become increasingly difficult to maintain. Exacerbated competition will reduce the shares of the new players. The new strategy will rest on versioning as indicated in Figure 5.11. It will consist of a multimedia strategy: one not only internal to the press but concerning various media (press, radio, television, television on IP, etc.).

Of course, the concrete strategies of media firms will be various according to different economic and social environments. Probably some firms will merge, some others will disappear, some will develop. And there will be different categories of blended media (we do not study here blended media models which include television, radio...).

We are moving from fordism in the press industry towards versioning which in fact supports the continuous occupation of a multiplicity of market niches. This is what we term 'blended' media. It should be noted that in these new markets the quality of the production of information but also the capacity to propose various versions on various channels will be decisive. That also implies a relevant management of digital information: memorising and stocking information and the accessibility of various versions will be strategic.

So the business media models are not only dynamic but tend to be blended. It is no longer old media versus new media models: now we are witnessing the emergence of blended media models. In the future the

Table 5.1 Number of visits to the internet sites of French media groups (20 largest numbers)

No	Groups	Total number of visits December 2008	Evolution over November 2008	Mean duration of visit
1	Skyrock	209 415 040	−6%	00:22:55
2	Pages Jaunes	67 377 430	−10%	00:05:28
3	Lagardère Active	62 347 544	−6%	00:14:25
4	EoRezo	51 693 076	+14%	00:14:05
5	L'Equipe	50 932 556	−10%	00:20:46
6	Dreamnex – Sexyavenue	44 063 161	+8%	00:09:52
7	Internext	35 968 942	+2%	00:07:15
8	Rentabiliweb	35 918 320	−1%	00:09:12
9	France télévisions	31 862 668	+5%	00:14:50
10	Le Figaro	30 210 250	−15%	00:16:14
11	AdThink Media	15 286 135	+12%	00:09:13
12	Index Multimedia	13 541 745	−3%	00:47:16
13	M6	13 486 130	−10%	00:08:12
14	United Champions France	11 901 436	−39%	00:06:23
15	Seloger.com	9 279 435	−18%	00:12:31
16	Radio France	7 530 398	−15%	00:06:28
17	PAP	5 089 102	−23%	00:09:05
18	Mondadori France Digital	4 016 676	−5%	00:04:07
19	Métaboli	2 971 256	+31%	00:05:11
20	Moniteur	2 452 052	−22%	00:06:35

Source: Médiamétrie-eStat. The data are limited to the companies which are customers of Médiamétrie-eStat. They do not include all the French Internet sites, but the main media groups.

dominant business models will be blended media: how to use, with appropriate economies of scope, different media (traditional press – with payment, free press, the Internet with not only text but also audiovisual contents, and possibly other supports like TV or radio). The blended media firm will take advantage of the economies of scope while traditional economies of scale are less and less important. The best dynamic business model will be able to take advantage of any new way to diffuse and to reach 'consumers'/users (for example, to take advantage of social networks and so on).

We can observe the introduction of such a strategy through the following statement from Alain Weill, the forerunner of the low-cost model in France:

> Nextradio does not want to miss the future market of television on mobile phones. The mobile terminals of the future, as genuine Swiss pocket knives, will mix voice, images and data. [according to Alain Weill, that corresponds to many components of the group], which includes radio channels, a television channel and Internet sites. *'Now, we think as an integrated group and we are condemned to grow on all the supports'*, summarises Alain Weill. (source: *Les Echos*[11]; our translation)

We can also see this mix of old and new media when we observe the companies which are the most present on the Internet in France. Indeed among the 20 first groups in this classification (see Table 5.1) about half of them are 'old' media companies which have defined a strong strategy on the Internet.

5.4 Conclusion

We have the main bases of a model which could be generalised to the whole press, even to all media industries. The model shows that the main issue is not the replacement of the old media by the new ones. The emergence of the Internet and the free press has disrupted the old business model. We are moving towards a new business model in which the media which will impose themselves will not inevitably be the new media, against the old media, but those media which are able best to define their strategy. A gaining strategy (strategies of niches will always exist) will be founded on economies of scope, versioning and blended media. The blended media model is defined by the capacity to exploit in a continuous way the same information according to a multimedia differentiation and the most powerful possible versioning.

Notes

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2. Of course, there are many definitions of a business model but they all insist on financial flows which can ensure business operations. See, for example, in the case of the media the following definition: 'According to Afuah and Tucci (2001), a business model is the method by which a firm builds and uses its resources to offer its customers better value than its competitors and to make money doing so. It describes how a firm makes money now and in the long term. A business model combines potential environmental factors and a firm's capability, and it combines the sustainable recipe to offer competitive products or services with a relevant revenue logic' (Sääksjärvi and Santonen, 2002, p. 3).
3. Bertrand Le Gendre, 'Tous journalistes!', *Le Monde*, 29 May 2004, p. 17. For another point of view, see P.-Y. Badillo, D. Bourgeois, J.-B. Lesourd and C. Peyron-Bonjan, Plus personne n'est journaliste, *Médiamorphoses*, 24, October 2008, pp. 79–85.
4. http://www.journaldunet.com/cc/06_publicite/epub_marche_mde.shtml.
5. http://www.usatoday.com/news/world/2008-06-02-newspaper_N.htm.
6. See, for example, the online article of BBC's technology correspondent, Rory Cellan-Jones on BBC News about Obama's inauguration: http://www.bbc.co.uk/blogs/technology/2009/01/inauguration_were_you_new_or_o.html.
7. Badillo and Bourgeois (2008).
8. Source: Carat, reported in: http://www.journaldunet.com/ebusiness/publicite/actualite/internet-va-devenir-le-troisieme-support-publicitaire-en-2008.shtml.
9. It should be noted that we do not study newspapers which rely on subsidies or donations.
10. In Collective of authors, preface by Ernest-Antoine Seillère, *Les dirigeants face au changement*, Paris: Éditions du Huitième Jour, 2004, pp. 92–3.
11. La presse écrite devient un média de luxe, *Les Echos*, no. 19546, November 23, 2005, p. 9.

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6

The Dynamics of Media Concentration: The American Experience

Eli M. Noam[1]

6.1 Introduction

For many years, observers have expressed concerns about the concentration of private power in the media. The deepest fear is of a media mogul with a political agenda: in America, a William Randolph Hearst who used his newspapers to help start a war and who promoted himself for mayor, governor, and president. Or in Italy, a Silvio Berlusconi, who leveraged his media holdings to gain political power. Or in Australia, where Rupert Murdoch affected national elections. Or in Brazil, Mexico, and Germany, where the Marinho, Azcarranga, Mohn, and Springer families exert influence. And today, with electronic media becoming smart, powerful, and pervasive, and with the regular announcement of media mergers, the same fear is expressed more acutely than ever before; in the end there will be only a handful of media companies remaining in the world, and running the world.

Recent years have witnessed the expansion of large media firms in the United States. This development has led to fears that the US communications media are increasingly controlled by an ever-shrinking number of firms, and that those firms are capable of affecting public opinion, democracy itself, the national agenda, and global culture. Other countries, too, are watching the debate closely, not only because of the global role of US communications firms, but also because US tendencies are often indicators of future developments elsewhere.

When it comes to concentration, views are strong, theories abound, but numbers are scarce. In America, to some commentators the sky has been falling for decades (Bagdikian 1983, 1987, 1990, 1992, 1997, 2004). Others, often from free-market Washington policy think tanks or from the libertarian Internet community, believe that market and