The characteristics of media goods and the media economics structure essay

Media is, to a large extent, a complex industry covering comprehensive areas, ranging from business operation to creative ideas. However, at a fundamental level, the study of media economics mainly focuses on the main players of the industry: companies, consumers as well as the environment. That is to say, the media economy can help us analyze and understand the relations among the producers, viewers, advertisers, government and community. This essay will be divided into three aspects: characteristics of media goods, characteristics of media market and the structure of media industry.

Characteristics of media goods

According to Doyle (2002), Media goods are also known as the cultural products. Media goods have the non-material essence that the value of media products is not a one-time use. When the media and cultural products are bought and sold, the value of the products is the content that is immaterial and will not be consumed. For example, when a DVD is purchased as an object, the demand of consumer is the music or film that is a non-material signal conveyed by material. Doyle (2002) also claimed that media good could also be considered as the public goods because the content of media products will not be consumed and reduced. The same content will be provided over and over again to other consumers. These kinds of media products do not meet the scarcity of media theory (Doyle, 2002).

On the other hand, personally speaking, some products meet the scarcity of media theory. According to Picard (2005), there are two main types of media products and services based on the media content creation that are single creation products and continuous creation products. Single creation products are always one-off distinctively designed content and the creativeness is the core value of them. If the consumption of media products to consumers is a single creation products, the consumer generally does not require re-exchange once the meaning has been transferred. The more the media product is sold, the more the audience will understand the content of goods so that its novelty will be reduced.

Stimulating and fresh elements of these sales will be reduced as well, and then the audience will be gradually bored and not willing to buy such media goods. Once the media goods that the main content targets at the dissemination of information, such as daily news, weather broadcast, etc., have been sold, they will lose the initial consumption of originality. This is also reflected in short-lived nature of media products. It could be seen like fresh flowers which is a value-losing products in themselves because the freshness only last in a very short period of time. It will directly result in product sales crisis so that media companies have to sell products within the possibly shortest time and realize the maximal value of them.

Characteristics of media market

1. Media market is a dual market that “ media firms often sell their wares simultaneously in two separate and distinct sorts of markets” (Doyle, 2002, p11). There are two types of commodities that produced by media companies. The first one is the content, for example the articles in newspapers or the programs of TV channels. The other one is the audience. The media companies attract audiences through the content, and then sell

the audiences to the advertisers in order to gain profit. Therefore, the audience is the lifeblood of the media industry. Another point was claimed by Doyle (2002) is that advertising revenue is the primary source of income of the media industry so that the media industry is closely linked with the macroeconomics. Ups and downs of the overall economic situation have a crucial impact on the media industry.

2. According to Doyle (2002), the main commercial motivation of a company is the pursuit of profit maximization. But many media companies are multi-purposed, especially the pursuit of political and public influence. Diverse motivations rather than revenues drive many media company's business practices, such as in cultural, artistic, public services aspects (Picard, 2005).

3. Albarran (2002) pointed out that policies and technology also have a great impact on the media industry. These impacts could lead to positive or negative results. For example, when the cinemas in the United States changed film projection to digital devices, the annual exhibition cost for one cinema saved about 1 billion dollars (Picard, 2005).

The structure of media market Even though mixed and various factors have influences on media market, according to the market structure analysis tool presented by Albarran (2002), five important criteria are important and helpful in studying the market structure:

1. Concentration of the market:

According to Albarran (2002, p30), " a market is concentrated if it is dominated by a limited number of large companies". For example, Hollywood film industry is heavily concentrated (see Table 1) because the total market share dominated by Big Six has exceeded 80%.

At the same time, he also claimed if a few companies play overwhelming roles in a market and individually they account for comparable market share ratio, this market is characterized by oligopoly (Albarran, 2002). This definition is also perfectly proved by the share ratio in the Table 1 – averagely, the percentages are similar. Therefore, supported by concentration ration analysis, the structure of the Hollywood film industry is oligopoly. In reality, oligopoly is an attribute of media market. The result of this structure is that the fewer the number of producers exist, the stronger market power owned by each media company.

2. Product differentiation

Doyle (2002) pointed out that economies of scope are usually adopted by media companies in order to enrich and diversify products. Re-packaged and reformatted products, actually based on the same content, could be sold to different consumers according to their various preferences. The advantages of exploiting economies of scope are reducing the total production cost as well as failure rates of products. Moreover, it could differ from other companies that offer similar products.

3. Barriers to entry

There always are barriers to entry for the new media firms mainly due to the oligopoly structure. International and domestic leading companies have already occupied a considerably large percentage of the market share so that they have the decisive impacts on the pricing, information, public ideas, popular culture and political attitudes. Comparatively, smaller and new companies will be very difficult to enter the market without supporting regulations and technology innovations (Albarran, 2002).

4. Cost structures

Doyle (2002) argued that in media industry considerably low marginal costs determine that the companies could profit when they have the economics of scale. The marginal costs of the reproduction of media goods associated, to some extent, are virtually zero. For example increasing the viewers in the existing transmission capacity of TV channel, the program will not increase production costs. As well as online transmission, the additional costs are almost zero. In other words, the high output of products will reduce the average costs of products. So, when output continually increases to a large scale, the average costs falls down and thus the higher profit has been made. This is a widespread economic feature in media filed owing to the characteristics of media goods. However, the initial cost of the original media goods is relatively high and Picard (2005) pointed out that media is somewhat a high-risk and high-return industry. (see table 2).

5. Vertical integration

According to Albarran (2002, p31), “ vertical integration occurs when a firm controls different aspects of production, distribution and exhibition of its products”. Vertical extension of the media industry is related to the scale of sales and productions, which can result in cost advantage. It also has the advantages of maintaining the copyright owners, while reducing market risk.

The expansion of media companies contains both in supply chain and distribution channels in order to obtain control of the market.

In conclusion, media industry has its own unique economic characteristics such as non-material, low reproduction cost and high-risk. These characteristics determine the media industry's structure models. In fact, the major media companies have led to the contraction of media market competition. According to Doyle (2002), if the media industry is dominated a few large companies, a growing number of homogeneous products will be provided, the more demand of audiences will be ignored and more creative cultural products will lose their existing space.