European Economic Review 83 (2016) 243–261

Contents lists available at ScienceDirect

European Economic Review

journal homepage: www.elsevier.com/locate/eer

Paying positive to go negative: Advertisers' competition and media reports

Andrea Blasco [a,*], Paolo Pin [b], Francesco Sobbrio [c]

[a] *Harvard University, United States*
[b] *Università Bocconi and IGIER, Italy*
[c] *LUISS "G. Carli", Italy*

ARTICLE INFO

Article history:
Received 31 July 2014
Accepted 14 January 2016
Available online 4 February 2016

JEL classification:
L82
D82

Keywords:
Advertising
Commercial Media Bias
Competition
Media accuracy
Two-sided market

ABSTRACT

This paper analyzes a two-sided market for news where two rival advertisers may pay a media outlet to conceal negative information about the quality of their own product (paying positive to avoid negative) and/or to disclose negative information about the quality of their competitor's product (paying positive to go negative). We show that competition in the product market does not necessarily prevent the emergence of commercial media bias. Whether or not competing advertisers end up having negative consequences on news accuracy ultimately depends on the extent of correlation in the quality of their products; the lower the correlation, the higher the expected accuracy of the media outlet's reports. These findings provide a rationale to explain the observed differences in the extent of commercial media bias across seemingly similar industries or products, within the same media market. The results are robust to the presence of multiple media outlets and to asymmetries between the advertisers. Overall, the paper provides theoretical insights for media regulators and for the empirical literature examining the link between advertising and news contents.

> "The one area in which the case for a [Federal Trade Commission] agency is stronger than previously suggested is where no seller has an incentive to furnish correct information [...] An example is cigarettes [...] Apart from sellers of other tobacco products, for whom a campaign of disparaging cigarettes would involve a palpable risk of being hoist with their own petard, no seller or group of sellers could anticipate a marked rise in sales as a result of a reduction in smoking. There is therefore no competitor with an incentive to supply information on the relationship between smoking and health that cigarette companies naturally try to withhold." (Posner, 1969, p. 68).

1. Introduction

The relationship between advertisers and media outlets may go well beyond simple sales of advertising space. More than just raising awareness of or curiosity about their products, advertisers may seek to specifically control the editorial content of a media outlet to influence the consumption decisions of its viewers.[1] In some instances, this relationship has evolved to

* Corresponding author.
E-mail addresses: ablasco@fas.harvard.edu (A. Blasco), paolo.pin@unibocconi.it (P. Pin), fsobbrio@luiss.it (F. Sobbrio).

[1] A recent survey of 27,000 individuals in 55 countries pointed out that, prior to choosing an electronic product, 57% of consumers read products' reviews. Similarly, 45% and 37% of individuals consult reviews before choosing a car and a software package, respectively. Source: Nielsen "Global Trends" June 2010.

http://dx.doi.org/10.1016/j.euroecorev.2016.01.005
0014-2921/

the point that many observers have accused advertisers of being responsible for a *commercial media bias* in news reports; interfering with the breadth and accuracy of media content to sway public opinion away from news that could reduce their profits (Herman and Chomsky, 1988; Baker, 1995; Bagdikian, 2004; Hamilton, 2004; Ellman and Germano, 2009; Germano and Meier, 2013). In the US, for instance, tobacco advertisers had successfully and for many years pressured the media to not disclose any information about the health-related risks of smoking (Chaloupka and Warner, 2000).

Yet, this view seems at odds with common experience showing that media frequently report news stories about product defects, i.e., news which are potentially harmful to the reputation and revenues of the firm whose product appears in such news reports.[2] Therefore, it is somewhat puzzling to observe that advertisers' influence on media contents has negatively affected the accuracy of news reports in some cases, but not in others. Under what conditions might commercial media bias arise? How to explain the observed differences in commercial media bias across industries within the same media market?

In addressing these broad questions, we focus on the role played by advertisers' competition. We contend that firms who pit themselves against each other in the product market are also likely to compete in the advertising market, as a means of obtaining news reports that will work out favorably for their products, and unfavorably for those of their rivals. We investigate to what extent this kind of competition may prevent the negative effects of advertisers' influence on media editorial content. To this end, we analyze a theoretical setting where two rival producers can influence via advertising fees the information that a media outlet will provide to its viewers about the quality of their products. We further consider what happens when product quality is positively correlated across firms. In such a case, advertisers have to make strategic decisions knowing that the disclosed information about one product can inform consumers about the quality of the other.

The analysis shows that product-market competition does not necessarily translate into a competition over the media outlet's editorial content. Our results indicate that whether or not competing advertisers end up having a negative influence on news accuracy ultimately depends on the extent of correlation in the quality of their products: the lower the correlation, the higher the expected accuracy of the media outlet's reports. And the reason is that high levels of correlation push advertisers to coordinate their actions to protect sales from *any* bad news that might convince consumers to leave the market, rather than to compete against each other to reveal news concerning the low quality of the rival's product. Another important finding is that the relationship may be *non-monotonic* because advertisers might not achieve the intended coordination when the correlation is sufficiently high, given that they face an incentive to free-ride associated with the positive externality of keeping *any* product defect, or issue, secret.

To put it differently, our approach suggests that when product quality is highly (positively) correlated across firms, advertisers may want to cooperate in order to influence media contents so as to keep *any* negative information about the quality of products (either their own or their rival's) secret. That is, even a high quality producer – competing in the downstream market with a low quality one – may not be inclined to offset any commercial media bias. In this case, competition over the media outlet's editorial content breaks down, and it culminates in a public good decision from the point of view of the advertisers: someone must pay the media outlet to keep any negative news out of readers' sight. Things stand quite differently when product quality correlation across firms is sufficiently low. In this case, showing evidence about the low quality of a rival's product can be only beneficial to sales, and advertisers will be competing with one another to induce the media outlet to hide any information about their own product defects while disclosing any bad news on the rival's product.

The following example illustrates the basic intuition of our theoretical model. Suppose there is a magazine that specializes in reviewing computer products (e.g., laptops). The magazine first collects evidence on the quality of two *ex-ante* symmetrical products made by two competing brands (e.g., Acer and Toshiba), and then decides what to report to its readers. In doing so, the magazine takes into account how the reported news will affect not only its reputation among its readers, but also its relationship with the two producers, who are valued as potential advertisers. Suppose one firm's product is found to be of low quality: it has a defect. To protect its sales, that firm may decide to try to persuade the magazine to suppress this damaging information by increasing its advertising expenditures. If the magazine has a lower concern for its reputation relative to the potential increase in advertising revenues, then the attempt will succeed, and the magazine will conceal the information about the product's defect. This decision may result in some consumers buying a low-quality product even when there are better products on the market. Suppose now that the rival firm is selling a high-quality product. This firm anticipates that it may be losing revenues due to a commercial media bias created by its rival. So it decides to offset the rival's influence by increasing its advertising expenditure as well, but with the intent of revealing the full information about the quality of the rival's product ("Paying Positive to Go Negative").[3] As a result producers will end up competing over the media outlet's editorial content through advertising.[4] Somewhat remarkably, we find that this kind of

[2] Recent examples are the news coverage of Boeing 787 Dreamliner Fuselage issues, the presence of horse-meat in Findus and Ikea's food products, Toyota's malfunctioning car accelerators, the iPhone 4's signal reception issues, and Toshiba's over-heating laptop series.

[3] We provide a link (http://goo.gl/NEUAuy) with a few examples consistent with the rationale of *"paying positive to go negative"*.

[4] Even though in the model advertisements do not provide any information *per se*, advertising expenditure may, then, end up representing an implicit payment aimed at: (*a*) compensating the media outlet for the expected dent to its reputation from misreporting information to its readers; and/or, (*b*) obtaining a "negative advertisement" in the editorial content of the media outlet (i.e., the disclosure of negative information about a competitor's product by the media outlet). Of course, there are other ways in which a producer can exert pressure on a media outlet, for example, through ownership. However, these other forms might be less flexible and more costly than advertising. So we maintain the underlying assumption that advertising would be preferred as a relatively more efficient way to influence the media.