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What do ads buy? Daily coverage of listed companies on the Italian press

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ABSTRACT

We match daily data on newspaper coverage of a sample of Italian listed companies with monthly data on the amount of advertising that a given company has purchased on a given newspaper. Controlling for time-invariant features of each newspaper and of each company – and for ownership links between companies and newspapers – we show that newspaper coverage of a company is positively and significantly related with advertising expenditure by that company on that newspaper. The magnitude of this correlation is quite large: when controlling for ownership links, a standard deviation increase in monthly ads expenditure (i.e. 75,000 euros) is on average associated with 8 additional articles per month mentioning that company. We also find that coverage of a company is higher the day after a press release, but especially in newspapers where more ads are purchased. This result on press releases is robust to controlling for time invariant features of each company–newspaper pair, i.e. for (company × newspaper) fixed effects.
Moreover, coverage is correlated with past day absolute return and trading volume, and this relationship appears to be steeper for those newspapers where more ads are purchased, especially in the case of *positive* returns.

1. Introduction

The media is the primary example of a two-sided market, whereas readers and viewers are sold valuable informative or entertainment content, while advertisers buy the attention of the former. However, advertisers could be interested not only in buying space on media outlets, but also in influencing what is featured in the "news hole", i.e. the space where news and editorial content appears (Ellman and Germano, 2009). This is the case, since consumers might be less receptive to ads if there are negative news or comments on advertised products. In fact, pieces of news that appear to be "objective" are likely to have a stronger persuasive effect on consumers than proper ads, so that there is a clear incentive to disguise ads as news stories. Ellman and Germano define this as the "regulatory view" on advertising. On the other hand, according to the "liberal view", advertising revenue has a positive influence on the quality of information provided by the media, as it decreases the probability of capture by the incumbent government (Besley and Prat, 2006) and/or by political parties (Gentzkow et al., 2006).[1]

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[1] Advertising can influence the editorial line of a newspaper also in more indirect and general way. Gabszewicz et al. (2001) propose a model where -in order to get larger advertising revenues- the publisher induces the editors to moderate the political message conveyed to readers, so that more readers may buy the newspaper. As a consequence of this process of convergence the variety of political opinions available to the reader shrinks. Strömberg (2004) follows a similar line of reasoning: according to his political economy model, media outlets find it optimal to give more coverage to topics that are of interest to larger and richer social groups. By the same token, in the case of European public television advertising revenues appear to push broadcasted content towards a growing commercial orientation (Gambaro, 2005).

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The regulatory and the liberal view of the media are not mutually exclusive, since advertising might entail social costs and social benefits at the same time. Thus, the most ambitious empirical goal would be to provide an overall assessment of these costs and benefits, but this is hardly feasible. Here we focus on a narrower question, which relates to the cost side of the issue: to what extent can companies influence media coverage through advertising? If ads have an influence on the news provided by the mass media, readers and viewers face a tougher signal extraction problem when they rely on them for information purposes.

In this paper we provide some answers to this question by investigating the link between advertising and media coverage by daily newspapers. The reason for this choice is twofold. First, in the case of daily newspapers any significant correlation between advertising and coverage is more likely to be driven by advertiser influence, as compared to the case of –say- magazines. Newspapers are typically general-interest outlets, which differ from each other according to the ideological stance and/or the geography of readers, but not on the basis of their tastes within the product space. On the other hand magazines are predominantly specialized in a given topic, and thus more prone to segment the market according to those product tastes. To the extent that readers of magazines are interested in both ads and articles about the specific products on which each of those magazines focuses on, any found correlation between ads and articles might be simply demand-driven. This is less likely to happen in the case of newspapers.[2] Second, the journalistic standards on the objectivity of coverage and the independence of the newsroom from the advertising department are generally stricter for newspapers than for magazines, so that it should be ex ante less likely to find evidence of advertiser bias in the former than in the latter.

More specifically, we investigate the daily amount of coverage devoted by 6 newspapers to a sample of 13 Italian listed companies during the period 2006–2007, as a function of the monthly advertising expenditure by each company on each newspaper. Controlling for time-invariant characteristics of companies and newspapers, we find that newspaper coverage of a given company is positively and significantly related with the amount of ads purchased on that newspaper by that company. The size of this correlation is quite large: when controlling for ownership links between newspapers and companies, an additional expenditure of 75,000 euros per month by a given company (i.e. a standard deviation increase) on a given newspaper is on average associated with an increase of about 8 articles per month that mention that company.

Companies themselves – through their public relations (PR) departments – are a primary source of information for the media and the public about anything newsworthy happening to them: even if we do not observe the informal relationships between PR officers and journalists, we have information on the exact date when sampled companies issue their official press releases. Not surprisingly, the coverage of a given company is much larger the day after a press release. But we find this increase in coverage to be systematically larger on newspapers where that company has purchased more ads the month before. This result is robust to a more demanding empirical specification, where we control for time-invariant characteristics of each company–newspaper pair, i.e. we solely exploit the *time* variation in media coverage, advertising expenditure and press release issuance.

Since press releases would only partially capture the flow of newsworthy events about the sampled companies, we add as a control the absolute value of the daily return of company stocks during the previous trading day. This variable should work as a high-frequency proxy for the presence of newsworthy events (Barber and Odean, 2008). Also, large movements in stock prices are newsworthy *by themselves*, irrespective of the presence of other newsworthy events that might have caused them. Moreover, the sign of the return should give a rough -but measurable- indication of whether the news environment on a given day about a given company is positive or negative.

We find that the coverage of a given company is positively and significantly correlated with past day absolute return. There is also some evidence that this relationship is steeper the larger the amount of advertising expenditure by that company on that newspaper. However, when distinguishing between positive and negative returns, only the interaction of ads expenditure with *positive* returns is mildly significant. In other terms, newspapers appear to be reacting more strongly to (positive) company-specific newsworthy events, the larger the purchases of ads by that company.

We also explore to what extent our results are robust to focusing on theoretically relevant subsamples of the original data, i.e. national vs. regional newspapers, and state-owned firms.

To our knowledge, there is little empirical evidence on advertisers' influence on media coverage, with some important exceptions. Reuter and Zitzewitz (2006) examine the correlation between mutual fund recommendations and past advertising expenditure on three personal finance publications and on two national newspapers, the *New York Times* and the *Wall Street Journal*. They find that, controlling for fund characteristics and other confounding factors, there is a significantly positive correlation between ads and positive mentions on the three personal finance outlets, but not on the *Times* and the *Journal*. Second, a recent paper by Di Tella and Franceschelli (2011) shows that there is a negative and sizeable correlation between the amount of ads purchased by the Argentinean government on daily newspapers and front page coverage of corruption scandals involving members of the incumbent government.

Rinallo and Basuroy (2009) investigate the link between advertising and media coverage on fashion magazines in a multi-country setting. They find that advertisers receive a preferential treatment in coverage, especially when publisher revenues are concentrated in a few industries. Moreover, large companies enjoy a comparative advantage in obtaining coverage.[3]

[2] Of course, this is just a *relative* statement, in the sense that demographic factors are less likely to segment demand for daily newspapers, but this does not imply that those factors are entirely absent.

[3] Gurun and Butler (2012) find that on U.S. newspapers there is on average a more positive slant in articles about local companies (as identified by the distance between the newspaper's and the company's headquarters) than about non-local ones. They offer some evidence that this slant is linked with local advertising expenditure.