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What's fit to print: The effect of ownership concentration on product variety in daily newspaper markets

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Abstract

This paper examines the effect of ownership concentration on product position, product variety and circulation in the US daily newspaper market. The effects of consolidation in differentiated product markets cannot be determined solely from theory. Because multi-product firms internalize business stealing, mergers may encourage firms to reposition products, leading to more, not less, variety. Using data on the assignment of reporters to topical areas at 706 newspapers in 1993, 1999 and 2004, results show that both differentiation and variety increase with ownership concentration. Moreover, greater concentration increases variety over a range of topics and does not reduce readership.

JEL classifications: L1; L8

Keywords: Media; Newspapers; Ownership concentration

1. Introduction

Regulation of media markets in the US presumes that larger numbers of owners and products in a market lead to more variety. Limits on the number of radio stations in a market owned by a single firm, protection of newspaper joint operating agreements, a

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prohibition against cross-ownership of broadcast and print media products in a market, and antitrust enforcement against newspaper mergers all attest to this presumption.

Yet, it is not obvious that more owners give rise to greater variety. Media are differentiated products produced with large fixed costs and advertiser finance. It is well known that such markets can deliver too much, or too little, variety. Excess variety in the form of duplicative coverage can arise if revenue from capturing only a fraction of one consumer type covers fixed costs (Steiner, 1952). At the same time, markets can fail to provide specialized coverage when revenue obtained from targeting particular groups is less than the cost of developing new content (Spence and Owen, 1977). Because multi-product firms internalize business-stealing externalities, mergers can lead owners to eliminate duplicative products and change the content of others. Various production economies, as well as higher revenues, brought about by consolidation can also make new content viable. The effect of ownership concentration on content variety is therefore an empirical question.

This paper examines the effect of ownership concentration on product position, product variety, and readership in markets for daily newspapers. Newspapers provide a useful setting for studying the effects of concentration on variety for several reasons. First, policy interest in newspapers suggests the importance of understanding factors that lead to greater variety. Second, high fixed costs and other aspects of newspaper production limit to a handful the number of dailies produced in any market, raising the consequences of positioning decisions by individual firms. Newspaper owners also appear to have little scope for price discrimination that might otherwise allow for provision of content demanded by small groups.[1] Finally, the 1990s saw a sharp increase in newspaper mergers and acquisitions which aids empirical investigation of the effect of concentration on variety.

This study uses newspaper-level information on the assignment of more than 25,000 reporters and editors to different topics in 1993, 1999 and 2004 to characterize the separation between products and amount of content variety available in US newspaper markets. Using a simple distance formula and the number of unique topics to measure the degree of differentiation among papers in each market at each point in time, results show that a decrease in the number of owners in a market leads to an increase in separation between products. Moreover, the number of topics covered per market also increases with ownership concentration. Finally, there is evidence that the additional coverage brought about by consolidation does not reduce readership.

The paper proceeds as follows. Section 1 reviews relevant theory and literature. Section 2 outlines the data and content measures used in the analyses. Section 3 describes the empirical strategy and Section 4 presents results. Section 5 considers welfare and policy implications and concludes the paper.

2. Theory and literature

Several features of differentiated product markets complicate simple theoretical predictions about the effects ownership concentration. When products are somewhat substitutable for one another, they tend to divert or "steal" business from each other. With

[1] See Reddaway (1963) and Rosse (1970) for background on the newspaper industry. There is very little variation in newspaper prices across markets or over time, with approximately 80% of daily newspapers audited by ABC charging $.50 from 2000 through 2004. Increased ownership concentration is also not associated with higher cover prices. High fixed costs also seem to make the proliferation of tailored content through specialized newspapers very costly, since only the largest markets can support legal, industry, or business dailies.