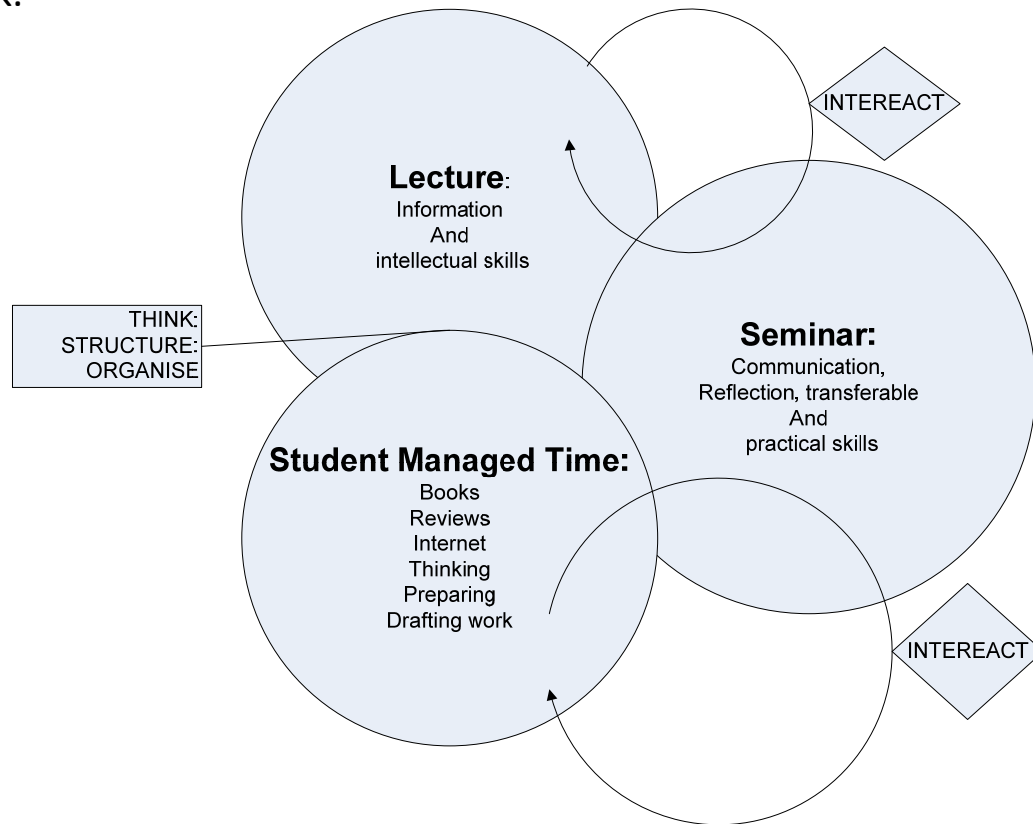


European Media in the digital Age:

Chapter 3 Understanding EU media through
economics

Pedagogy

- The teaching (pedagogy) recommended with this material is often known as 'open circuit learning', whereby the lecture, the notes and PowerPoint highlights, and the seminar work need to be backed up by reading and reflection: most of all refer back to the work boxes in the book.



Essentials

- Media products both in the public and private sectors need to be paid for by one method or another. In that sense whether by licence or price and consumption the media is a part of the study of economics. Due to some relatively recent pioneering work both in the USA and Europe the study of media economics is increasing and becoming an important part of media analysis.
- As with other disciplines the concepts used are often hotly debated, often amended, and form the basis of a lively discussion (sometimes in research we use the words 'critical review') of the media for the contemporary era.

Classification of economic activity

- The fundamental classification of economic activity into production and distribution and finally consumption are of course only pointers to the way in which any economy works. But in media terms we can see it is useful.
- There are producers of the media in all its forms: films; television programmes; music; which then needs some form of distribution. For example there is analogue or digital broadcasting, the internet, radio and mobile phones, the converging worlds of the audiovisual through multi-screen 'video' (see chapter seven).
- Finally, there are the media outlets, such as shops or download sites, leading to the supreme arbiter of choice, the consumer.

Supply and demand

- In simple terms a market is driven by both the supply of and the demand for goods.
- Goods could mean fuel and food, but also a media product such as a film. As we shall see later, factors of consumption (audience factors for example) are almost like hierarchies of choice (c.f. Maslow's hierarchy of needs) perhaps transforming the goods on offer into a selected range of goods from essentials to luxuries?
- Different societies may have different priorities and this is reflected in the choices they make, including their media preferences. For example, some societies will prefer soap operas over documentaries, sport over news. Nonetheless, in the Western world, including the EU, there are broad tendencies which show some convergence of choices.

Market definitions

- No matter the arguments about the media being a 'special' case, economists are trying to develop EU market definitions for legal and competition practise (see study and case boxes in chapter) so that we may judge how media products compete with each other.
- This is especially important in the EU market relying so heavily on cross-national trade for wealth creation and employment.

Economies of scale

- Media production is often characterised by 'economies of scale' an increased in the volume of production can result in lower average costs. The golden age of Hollywood was characterised by large studios using their expensive lots (sets and sound stages) and equipment intensively to produce films at relatively low cost.
- Of course there may be limits to this process. These are often referred to as 'diseconomies of scale'. In theory, enlarging an organisation it can become bureaucratic and less responsive to the market. This is a particular problem in the creative industries. This together with technical change has meant that today many films are produced outside the traditional studios. But because of the system of distribution of films and the ability to spend on advertising and promotion the large studios still dominate the film market.

Comparative and competitive advantage

- In modern economies, comparative advantage based as it is on the idea of competition based on price, is inadequate for the products of today where price is only one factor among many influencing demand. This is particularly the case in service industries which are so important in modern economies, for example media production and success is often associated with social imagination and creativity.
- Thus a more widely defined competitive advantages will derive from society more generally, their populations (workers and consumers) education, skills, creativity, culture, etc.

Profit

- Producing profit, based on its products and services, is the lifeblood of markets, but equally the general well-being of the global, international, European and national economies is important too.
- The media industry like so many parts of the modern economy is interrelated and interdependent.
- The overall economy, levels of employment, spending-power (e.g. household spend), economic growth, inflation, capitalisation, entrepreneurial culture, are just one of several aspects of the general economic factors which impact on the media industry.

Risk

- The degree of risk in the market can of course be cushioned by the 'wealth', or investment, innovation, successful branding, strategy of the big 'private' players.
- It does not mean global players are bound to succeed, bad management and tactics can always lead to failure, but being able to spread their financial risk and rely on cross-media provision can help them survive.
- The message appears to be: the digital age and new technology can help if companies diversify and develop their product range.