

# ECONOMIC ASPECTS OF MASS-MEDIA AND THE CHANGES GENERATED BY THE ECONOMIC CRISIS

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## Abstract

*In this paper we intend to describe the economic implications of mass-media in correlation with the recent socio-economic changes generated by the economic crisis. We take into consideration the dual market on which mass-media evolves: the mass-media products market, and the advertising market, keeping in mind that the behavior of a mass-media institution on one market, can have direct implication on the other market. We analyze the relation between mass-media and the public (audience), the cost for creating mass-media products, the ways in which mass-media reduces costs and the ways of increasing their profits. As mass-media must always adapt to the social changes and to the public, we take our analysis further and we describe how the recent economic changes influenced the mass-media consumption trends and mass-media profits on all the main communication channels: TV, radio, outdoor, internet, newspapers/magazines. This analysis is performed at both a global and a local level, for Romania. In the end we predict how other key changes may affect the economic model approach of the mass-media institutions on short and middle terms.*

**Keywords:** mass-media, economic crisis, costs, profits, predictions

## Introduction

Our purpose in this theoretic paper is to present the complex economic mechanisms of mass media.

We consider important in this paper the fact that we also take into consideration the complex economic situation generated by the economic crisis and we analyze the evolution of mass-media in correspondence with the complex socio-economic modifications.

We rely our study on classic literature regarding mass-media but also on recent economic figures provided by research reports.

Media market is very diverse and complex, with some specific notes from other markets. With the industrialization of the nineteenth century, the press has passed from one entity that referred particularly to intellectuals, to an industrialized one, which creates products for mass consumption.

Media products are usually perishable goods. The news today does not become obsolete the day after, the programs or movies that are now enjoying success, tomorrow may be outdated, the football game has an impact when it is broadcast live and loses its importance when it is reran. Perishable product compels the media to continually create new content and not allow gaps in the provision of certain products. Providing the product is affordable for people and through an extensive distribution channel in order to reach a large audience in a short time.

Media market is closely related to public needs and preferences. Therefore, these needs and tastes are unpredictable and change very quickly. As a result, media institutions can not establish long-term production policy.

This makes prediction impossible for media institutions to be more vulnerable. Therefore, "media industry is more concerned than other industries, to limit production costs or find alternative financing on the one hand and constantly expand their distribution area on the other side" (Mihai Coman 2007, p. 46).

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Most of the times, the amounts invested to produce a media product, can not be recovered, if it is unsuccessful. Therefore, many institutions test their various shows, programs or products before they are broadcast, with the help of the marketing research. Also, often, a TV series is released after several pilot episodes, to test the public reaction to it and it continues if the reaction is positive. Many programs are stopped after a few appearances for the simple reason that it failed to attract sufficient audiences and production costs per program are greater than the resulted profit.

### **Costs**

To attain a product, media bears multiple costs. Broadly, we can classify these costs as production costs and distribution costs.

Production costs include: raw materials (paper, ink, tapes, etc.), energy, equipment, work force, information costs and cultural goods purchased, from specialized suppliers.

Through media development, the majority of costs have increased. For example, the price of paper has increased because it has been reduced the cutting of trees and the availability of raw materials declined, but the demand of the many publishers has increased. The technological evolution facilitated the appearance of the increasingly more efficient equipment and institutions, out of the desire to produce quality goods as valuable are increasingly turning to new technologies. Obsolescence requires a more rapid replacement of equipment and a range of investment and the next one came to be often less than the time needed to recoup the investment (estimates made for the press in Western Europe have shown that the investment required to launch a publication pays off in 3-4 years, and to launch a television channel in 8-10 years).

Human resources in the media industry are a highly qualified workforce and journalists have often enjoyed higher incomes than other professionals. This greater investment in staff is explained by its indispensability. In the history of the press there are few strikes, and employers know that any work interruption results in the loss of income-generating audience. Even if the media industry staff is more expensive for the institution, the costs are not very high. It represents 10% in the USA and 15% in France of the publication's budget.

Costs for information and cultural goods have also known a dramatic increase, due to the increase in production prices and prices related to copyright. Increased costs associated to information and cultural goods have led many media institutions to stop the production of these goods and to focus more on the distribution of goods that are produced outside their institutions. Information is often purchased by subscription or per production from multiple vendors. Statistics show that in the U.S., games or talk-shows cost about 120,000 \$ an episode of TV series with one-hour costs between 0.8 and 1.4 million \$. These figures vary depending on the success of those products an episode from a successful movie can reach or exceed \$ 2 million.

In the distribution of goods, costs vary depending on the type of media. The print media costs include: mailing, transportation, fees for news agents (kiosks or mail), market prospection, managing subscriptions, promotion, costs related to returns (materials not sold and sent back by the publisher). "For print media, distribution costs can go up to 50% of the total costs of the institution" (Toussaint - Desmoulins, 1992, p. 46), Netherlands 17%, 40-45% in Switzerland, France 36-40 %, 20-25% in Spain, Italy 20-23%, Germany 19% (J. Gabszewicz, N. Sonnac, 2006, p. 22).

For the audiovisual, distribution costs are those amounts of money paid to the operators to facilitate the broadcast of programs by radio, cable or satellite. If their distribution costs are much lower than production costs, the purchase rights to broadcast certain products or acquire the right to broadcast some events.

### **Ways to reduce production costs and obtain profit**

To reduce costs associated with the media process and for profit media institutions resort to different resources. Among these are: the association of producers in networks, trusts, retail sales,

sale / lease access rights, the sale of advertising space, alternative funding through grants, sponsorships, fee reductions.

The television network is an organization developed in parallel with the trusts. A network consists of several stations, which emit the same program simultaneously. Often, they are affiliated to a central station, which is responsible for the broadcasting. Among the advantages of networks are: sharing the costs of production between the different members of networks, increased revenue from advertising (each station provides its own audience, the audience is larger and the price negotiated for the advertising space is more profitable).

News media trusts represent the integration of the media institutions in a complex conglomerate. They are generated by the absorption of other institutions or voluntary association. Since the inception of the written press, there were organizations that by which institutions were putting together their information, materials and distribution networks.

The press group can absorb institutions tangent with their activity. The assimilation can be horizontal when they attract organizations that produce goods of the same kind (mass communication products - media print, radio, television, film, etc.) or vertically, by assimilating organizations that provide support to the main activity by auxiliary activities (production, raw materials, distribution, etc.).

Among the benefits of trusts are: reducing costs, the power to spread information on multiple channels simultaneously, optimizing management and administration by handling it in trust for all organizations and handling the tasks of a small number of employees, providing the best framework for professional training in the field through the audience than they have, a great advertising potential for customers advertising.

Among the largest media groups are: International News Corporation, Time-Warner, Disney-ABC, CapCities, Hearst, Gannett (USA), Matra-Hachette-Filipachi, Hers, Maxwell (England), Bertelsmann. In Romania, the most important media groups are: Media Pro Group, Group Ringier, Intact Group, Reality-Academy group Catavencu, ARBO Media, RPG, Sanoma-Hearst, WAZ, Truth.

With the joint trusts a number of risks occur. Among these, the most important is related to the monopole of a few groups. For example, in 1990 the media was controlled by 23 groups. In 1997, their number was 10 (J. Dominik, 1983, p. 196, BH Bagdikian, 1997, p. 13). These giant groups, thus become a great power of coverage and extensively directing the public's opinion. "Critics regard these trusts as structural enemies of democracy and accuse the employer's groups that they have hidden political interests (related to the promotion of economic interests); they consider that the pressure exerted by employers on the editorial board is the source of unilateral presentation of issues of general interest, the blocking of some aspects of reality, privileging some voices favorable to group interests and eliminate the opposite voices from the public sphere" (M. Coman, 2007, p. 56).

Another risk is the prospect for viability of the trusts, their desire to maximize profits. With mergers or acquisitions of new institutions, they are looking for new ways to reduce costs and often taking place the layoffs of journalists. The products of these trusts are suffering too and they change as they need to address and capture a wide audience. Therefore, they are simple products that can be easily understood by many people, that address to an average audience but large and/ or products that look for spectacular to interest and capture attention. At the same time the rush for audience neglects the function of education and culture of the media and gives a greater importance to the function of entertainment.

As a way of obtaining profit, retail sales are prominent in print media. Selling or leasing the access rights requires user's subscription to public radio and television programs, cable TV fee, pay-per-view fee paid for certain programs or special programs.

As advertising is concerned, for most press institutions it is the most important source of income. Advertising is a form of "ad aired by a commercial company or institution, public and private, in connection with a business transaction, a business, a job or profession, to promote the

input for a fee, goods or services” (<http://www.activision-advertising.ro/articole/5-publicitate---definitie>). To achieve this goal, the organizations listed are buying space from media institutions, which they use in their own interest.

Press institutions may appeal mostly to one of these mean or may use several simultaneously. For example, newspapers profit by retail selling, but also by selling ad space. Television benefits from broadcasting and the sale of advertising space. To reduce other assimilated costs, an institution may or may not, as I said, to be included in a trust.

To summarize, we see that the media operates on two markets: media’s own market (news, programs, entertainment, movies, etc.) and the advertising market. R. Picard (1997, p. 17) believes that due to this phenomenon, the media product „participates in two separate markets and the market's behavior affects the behavior on the other market”. The media institutions get their income from the sale of their own products (price embedded in the retail sale, in the case of newspapers, access fees for cable television services, etc.) and by selling advertising space.

The convergence point of these two markets is the audience. Advertisers, business men and politicians appeal to media to transmit their messages, the reason being that through it, it reaches a large audience, and costs per unit are low. In the case of advertising, media institutions are actually selling their audience and as a show has more viewers, the advertiser paid price is higher.

In Romania, the total amount invested in advertising in 2008, according to the media agents estimates amounted to a value between 530 and 607 million euro. According to Alfa Cont Media Watch data who are considering investments in ratecard, the first three companies among from 2007 are found on the same positions in 2008, that is Procter & Gamble at No. 1 with 335 million euro invested in 2008, Unilever with 187 million euro and L'Oreal with 176 million euro on the following positions. The media institutions obtain funding from other sources such as state companies, firms, foundations, individuals.

The state intervenes both directly and indirectly in financing. State contribution into the realm of public interest, thus understanding, to ensure equal and generalized to a public good (information or cultural values), regardless of the core where those values are concentrated or the financial capacity of each. The direct contribution of the state implies the endorsement of the state of the media institutions, by legal regulations and financial resources. The state can intervene to reduce costs (distribution and production). For these types of interventions the state uses resources from specific taxes (radio and television fees) or the global budget. The state participation in the public services budget is distributed uneven in different countries. The state direct intervention does not confine only to public television or radio. He can finance newspapers, magazines, books, movies, specialized institutions, provided that they address the public interest. In France, in 2004, the state supported the press by 1.3 billion euro (approx. 12% of the turnover of the press).

#### **A media market analysis during the economic crisis**

The media market is evolving in direct connection with society. Any social, economic, political disruption influences directly the media industry.

The period of economic crisis, which began in 2008 and still to continue in 2010 and in some countries in 2011, represents a good opportunity to do analysis to reveal precisely the relationship between the economic development of a society and economic transformation of media. .

U.S. market, where economic crisis began, decreased by 12.3% in 2009 to 125.3 billion euro, compared with the previous year, according to data provided by research firm Media Kantar.

The data provided by the same research company shows that in the last quarter of 2009, advertising expenses fell by six percent compared with the same period of the last year, this low decrease indicating a possible rebound.

The economic recovery is confirmed by the fact that the U.S the recession in advertising began to diminish in the last two months of 2009 and early 2010 (according to preliminary figures from the first quarter of 2010).

Looking to the average expenses recorded depending on the media, Internet display advertising expenditures rose by 7.3% in 2009, helped by investments in the telecom area auto and travel area. Television in the U.S. continued to lead the competition with other media and cable television declined by 1.4 percent in 2009. Print media has suffered a lot due to the withdrawal of advertising in publications, registering a decrease of 19.7% over 2009.

According to advertisers, in 2009, the top 10 advertisers spent cumulated 16,556.1 millions of dollars in measurable media, representing a decrease of only 0.9% compared to 2008. Procter & Gamble is again leading the way, spending 2714.3 millions, 15.6 percent less than the previous year. Verizon Communications has maintained the second position, a drop of just 6.9%. Despite a 30% drop in the sale of cars sold, General Motors, spent 1.3% more on advertising and managed to be the only car company in the top 10. Three of the advertisers have spent more in 2009: Wal-Mart has increased the budget by 35.4 percent, 32.7%, and Sprint Nextel rose 29.9%.

The investments of the top 10 categories in which advertising has been made decreased by 10.7% in 2009 and have made a total of 70,739.4 millions of dollars. The top rankings are Automotive, which has registered investment of 10,977.6 millions, 23.4% less than the previous year. Telecom is the category ranked second with an amount of 8606.8 millions registering a growth of 1.6%. Another two other categories that had increases were Food & Candy, which increased by 3.5% (\$ 6.261 millions) and Pharma by 3.9 percent (\$ 4751.8 millions).

**Globally**, however, is noticed an optimism regarding the rebound of the global economy, which is also reflected in the advertising industry, increasing budgets in the first quarter of 2010 for the first time in over two and half years (according to the report IPA / BDO Bellwether, cited by Brandrepublic.com).

According to the study, involving 300 companies, the marketing budgets for 21% of the respondents were raised in the first quarter of 2010.

In addition, marketers have shown optimistic about the economic development in 2010 and said that they would continue to increase the advertising budget.

Approximately 42% of executives said they were confident in the financial evolution of the companies that they control, while 31% affirmed their optimism on positive developments in their industry.

It should be noted that online advertising budgets have been increased for the third consecutive quarter, online medium with the highest growth rate.

### **Romanian advertising market**

Media market in Romania started to decline in October 2008, experiencing the financial crisis. Basically, decreases were recorded in all types of mediums (TV, radio, print, Internet, cinema, outdoor).

In 2009, media market fell by 37% to a level even lower than it was in 2006. The most affected medium was the printing (decrease of 55%), followed by the street advertising (down 40%), TV (34%), radio (28%), cinema and Internet (19%).

Television took from the share of the other mediums 3%, due to falling prices for television advertising, and because of various programs and stations and the tendency of people to spend more time watching TV during the economic crisis. The print market has declined in the audience, most shops and newspapers and declining circulation. Some titles have begun to focus on the online version, others were closed. The radio market had similar problems with the print media. Many local stations have closed and others have become more active on the Internet. Street advertising has been severely hit by the crisis, especially because there is no possibility of measurement of the audience and increased cost for larger sizes formats and specific locations. Street advertising operators have not increased the number of billboards displayed, their number remaining similar to 2008. The Internet has increased the rate compared to other communication mediums, with the smallest

decrease. This was due to the increasing number of users, the possibilities for existing customization and targeting and enjoyed greater confidence compared with the television and print.

The Initiative Media estimates show that the advertising market will continue to decline by 9% in 2010 compared to 2009. Despite lower investment in advertising, television and online site is expected to take the share of the other mediums. Print and street advertising will still be the most affected mediums (minus 27% and minus 17%) while the radio will drop less (minus 10%). TV will fall by 6% and the Internet is expected to grow by 12%. It is estimated that the print will lose share in favor of online and radio.

According to the ROADS study ("Online Advertising Romanian Study") conducted by the IAB and PricewaterhouseCoopers Romania Romania, Romania online advertising market in 2009 amounted to approximately 65.2 million lei (15.5 million), down 10 % compared to 2008. The market has been, however, an increase of 3% (first half of 2009 compared to second half of 2008). Despite a decline of 10% the online advertising market was in 2009 with 53% higher than in 2007.

Ruxandra Bandilă (Marketing, Communications and Business Development Director of PricewaterhouseCoopers Romania) believes that "The latest edition of the Roads study shows that online advertising market has exceeded the critical moment of the crisis and had a slightly upward trend in the second half of 2010, which is remarkable taking into account the general economic development."

However, if on foreign markets economic growth is real, instability in Romania will make tough the assessment of the economical growth and the media growth, any scenario is possible.

#### **Predictions regarding the media markets trend**

According to the latest report of the specialized group in technology, media and telecommunications (TMT) of Deloitte, the global recession and digitization are the main challenges facing media companies, new trends and anticipated events will change the balance of forces industry and even the prospects of other sectors. Deloitte's report is based on the opinions of companies and experts, the contributions of 7,000 partners and senior specialists of the member firms of Deloitte Touche Tohmatsu, and discussions with financial analysts, specialized analysts and various organizations specializing in the field.

Regarding the evolutive trends, it is considered that the use of television and radio will maintain its supremacy. In 2010-2011, most video and audio content will be consumed in the programs established by the media profile. Over 90% of the television and over 80% of the audio will be accessible through traditional channels. Furthermore, because of the acquisition of new TV equipment or launching new services ( high definition HD or 3D, special movie channels), such consumption type might even increase. Statistical figures show that the sales of televisions have remained relatively high in developing countries, where the progress of television is evident, amid a significant increase in ad revenue. In many countries, the penetration rate of the HD systems steadily increases.

Electronic Books and reading newspapers electronically begin to enjoy an increasingly high success. The success of books in electronic format is a challenge for writers and for publishing houses. While they are easy to purchase, the low price for such a book indicates a change of economic model. Low prices are no novelty for the publishing houses, but such practices have now been reserved for a small number of books, not for hundreds of thousands of titles. Perhaps the book industry will need a new model of income distribution. Also, a number of new technologies facilitates the sales increase of electronic books (eBook readers, personal computers, smart phones, etc.).

The Internet brings new features in terms of access to information. There are many discussions whether the access to online content of the newspapers and magazines to have a fee, but the chances for these discussions to be translated into real actions and outcomes are low. Deloitte specialists believes that only a small proportion of the world publications could implement such

models and much less could profit in this way. Even if there is a possibility that some online initiatives to apprehend a fee to obtain an important success, these will be few and the revenue for the online business will still come from advertising.

It is noted that the practice of putting the entire publication available online and free of charge appears to accelerate the decline in the number of subscribers to the printed version of the publications. In the future it is expected for the industry to intend to alleviate this continued migration of the existing subscribers of the printed version online.

It is expected that the largest media distribution platforms - Internet and television - will be filled increasingly more in the future. Advertising will be one of the largest recipients of simultaneous use of the Internet and television.

The value of the advertising market broadcasted on the TV is estimated at 180 billion dollars globally in 2010, while online advertising could reach 63 billion dollars.

Studies have shown that the combined use of online channels and TV channels can generate a 47% more interest in a brand than if the two channels are used separately. Advertisements on TV can immediately redirect users to related sites; this way, a product viewed in an advertising break can be purchased even before the program is resumed.

The success of last year's 3D film generated high expectations for a similar leap in television. In 2010 it witnessed a significant launch of 3D TV, including the launch of first 3D television channels in Europe and North America, the first 3D TVs and cameras. Even so, the debut will be hampered by significant challenges.

3D technology has a significant potential increase in television revenue, but the number of subscribers, revenues from subscriptions or sales of equipment as well as the available content could be neglected for another 1-2 years. A large share of the initial challenges will be due to consumer confusion, the main obstacle being the lack of a 3D unique standard TV. Thus, one of the immediate key objectives would be to establish and promote a single definition of the 3D television.

#### **Predictions regarding online advertising**

Online advertising budgets are expected to increase in value and at a pace much faster than the rest of the advertising market. Even if the recession has affected this segment too, the decline is much smaller than that registered by any other advertising category. In other words, even if the online medium had a negative growth, the market share continues to grow. It is estimated that online advertising will increase its share of the industry from around 10% in 2009 to 15% at the end of 2011.

The performance in the first half of the last year shows that traditional media markets most vulnerable to online sites are magazines and newspapers, followed by radio and outdoor advertising segment. Television seems to resist best in the face of this trend.

The risk is that the online offensive to affect the traditional advertising manner, which can result in an abrupt and permanent reduction in revenues and margins. In this case, the entire advertising and promotion ecosystem must be strengthened to control costs in a more aggressive and to identify new business models.

In Romania, taking into account the considerable difference between spending for online advertising in Romania and those recorded in other European Union countries, we believe that online advertising has a good growth potential. In fact, the current economic crisis could prove beneficial to bring about changes for the online advertising more and more advertisers are allocating a substantial budget for this. We must not forget that digital mediums offers increased efficiency with regard to a specific audience and allow more precise measurement of the impact of certain advertisements.

#### **Conclusions**

We have shown that mass-media market is very complex and very vulnerable to any socio-economic changes. In order to survive, a mass-media institution doesn't need only to reduce costs,

but also to keep an eye on new opportunities and market niches that may be explored. Further studies may approach the alternative income sources for mass-media and possible marketing niches, as well as the best strategies for dealing with them.

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