Abstract:

Technological innovation is transforming media markets, facilitating competition, multiplatform distribution of content, and time and media shifting. As such, media are increasingly unable to rely on the basic value of content to attract audiences or extract value [premiums. In effect, these changes are creating three highly valued sources of added value: choice (having a wider range of content options available), control (the ability to control the time and means of consumption), and convenience (the ease of finding and consuming desired content). This paper will address how such added value affects audience demand and media product markets.
Consuming Choice:
Audiences and Added Value in Media Products

Media markets are undergoing a radical transformation. Advances in digital technologies, computing, and telecommunications are not only creating new media and markets, but also drastically impacting production and distribution costs in older media markets (Anderson, 2006; Bates, 2005; Benkler, 2006; DeLong & Froomkin, 2000; Low, 2000; McKnight & Bailey, 1997; Sampler, 1988). Established media systems, which used to be secure in their markets behind significant barriers to entry, now find themselves facing significantly more competitive markets for consumers as those barriers erode and new media develop. Not only that, they are finding that the old passive mass audience demand structure is also undergoing a major transformation (Becker and Schoenbach, 1989; Neuman, 1991; Wirtz, 2001). As competition drives the price for basic information goods down, media must find other ways to differentiate products in order to extract at least some monopoly profits. This paper will focus on the potential of using distinctive media characteristics to take advantage of their added value to audiences.

Background
In the old analog universe, media markets tended to be discrete, and intellectual property rights provided a high level of monopoly power. Competitive pressures came from the presence of substitutes more than alternative suppliers of the same content. Economic efficiency in distribution networks also required that media and content forms be tailored to one another (Bates and Albright, 2006; Shy, 2001), in order to take advantage of particular characteristics of the information product and market. The relative economic advantages of particular media provided competitive advantages for certain uses, and media became niche products (Dimmick,
2003), and in analog and physical forms that were relatively expensive and/or difficult to convert from one form to another, in most cases.

The development and diffusion of digital technologies and telecommunications is radically transforming costs in the production and distribution of information goods and services (Bates and Albright, 2006; Benkler, 2006, DeLong and Froomkin, 2000, Low, 2000; Shy, 2001). Production and distribution costs have lowered, and intelligence in the system has made versioning and format shifting reasonably inexpensive. The generally declining costs, along with a general policy shift towards deregulation, are removing many of the old market barriers (Picard, 1998) and allowing migration of content across markets (Vogel, 1998).

The rise in competition is not quite as simple as adding a new firm producing the product. The breaking down of the old media market barriers and the rise of new digital media forms is, rather, creating what Lacey (2004) termed ‘fuzzy’ markets. Product differentiation, rapidly shifting (or evolving) market structures, greater diversity within consumers, and uncertainty about the value of media products can all make details of market structure difficult to define and measure (Sampler, 1998, Varian, 2000a). The ‘fuzzy’ nature of evolving media markets makes it difficult to predict impacts in any precise way, in part because there may be fundamental changes in structural aspects at work (Lacey, 2004).

In the emerging transformed media markets, the basic content of media will increasingly be distributed through and across multiple media and platforms (Tsakali and Kaptis, 2002; Wirtz, 2001). On the positive side, media firms and content owners are finding themselves able to translate and market content across multiple platforms and to find new markets (Feldmann, 2002; Vogel, 1998), which allows for a greater potential to exploit and benefit from the distribution and use of content and information goods and services (Lawson-Borders, 2003). On the other hand,
this capacity also increases the potential for competition and creates new options for consumers. The increased availability of basic content will inevitably drive down market prices, particularly since advertising and other nonmarket sources of value can subsidize apparent prices (Bates, 1987; Benkler, 2006; Albarran, 2002).

These trends are creating an environment that offers significant positive value for audiences and consumers (Benkler, 2006). The new cost structures offer the potential for significant savings, and the increase in competition is likely to make it more difficult for media to maintain their customary monopoly pricing (and profits) (Anderson, 2006). But perhaps even more significant in the long run is the potential that emerging media markets have for creating and delivering choice to audiences and consumers.

Technology continually offers consumers new levels of access, choice, and the ability to control their use of media content. Cable and DBS have rapidly expanded choice in television programming. VCRs, DVDs, DVRs and personal media players have rapidly expanded the ability of individuals to control their use of media content. Further, the rise of the Internet offers the potential for almost unlimited access, choice, and control of all forms of content, providing a range of possible ways to create added-value (Yakhlef, 1998). Intelligent networks combined with intelligent search agents are opening access to, and aiding discovery of alternative sources and content. Finally, the rapid diffusion and adoption of these technologies and systems would seem to suggest that consumers place a fairly high value on these abilities. Consumers are not likely to be eager to give up this value, restricting the ability of media and states from trying to recoup their old monopoly profits.

For media, choice is a problem; limiting access and availability provided media firms and content owners a degree of monopoly power, and monopoly profits. At first, old media seemed
to seek to confront their changing markets by enforcing the monopoly rights granted through intellectual property law. When that proved problematic, they sought to extend monopoly rights and their ability to enforce those rights. These efforts, however, face several serious long-term problems, as they ignore the fundamental realities of the new markets. It is a strategy that attempts to use policy to further distort markets, rather than to resolve market distortions. Another problem is that such a strategy seeks to re-impose the old passive audience model, removing from consumers the diversity and choice they crave, as well as their ability to control how they use content. Not only does this reduce the value of the use (and thus demand for the content), but is likely to be vigorously opposed. For these reasons, strategies based on seeking a return to old market structures is unlikely to be unsuccessful in the long term.

Some media, on the other hand, like the movie industry, sought to exploit the new markets, first in television and cable, then videotapes and DVDs, and now find that the new markets generate the majority of revenues and profits (at least for now) (Vogel, 1998). In addition, there seems to be an increasing awareness of the nonmarket sources values associated with networks and information (Bates, 1988; Benkler, 2006; Kingma, 2001; Shapiro and Varian, 1999; Shy, 2001). And media are beginning to also realize that they can exploit their distinctive characteristics as they discover which deliver added value to audiences (Dimmick, 2003).

In the long term, media firms must come to grips with the reality of increased competition, both within and across markets, and with a changing demand structure for their goods and services. Their success, and possibly survival, requires that they seek out and exploit new

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1 There are four main problems: first, enforcement is costly and also alienates potential consumers, reducing demand; second, most of the “violations” concern uses which are (or are believed to be) fair uses; third, that many media are not the primary holder of these rights; fourth, that technology makes violation easy and inexpensive.

2 This can be seen in the efforts of the WIPO and WTO to extend intellectual property rights terms and coverage. In particularly expansive move, the proposed WIPO Broadcast Treaty seeks to extend monopoly rights to broadcasts (independent of existing copyright and performance rights).
sources of value. Some of this can be achieved by developing new markets; although these new markets will face the same competitive pressures in the long term. It would seem that a better strategy would be to determine possible sources of added value associated with media and content, and seek to exploit the ability to extract that value. The next section looks at where such value may lie.

**Basic and added value in content and media**

As noted briefly above, the basic value in media resides in content, and the basic value of content is its usefulness (Bates, 1988, 1990; Becker and Schoenbach, 1989; Kingma, 2001; Napoli, 2003; Vogel, 1998). However, content may be useful to multiple parties, in multiple ways, with the result that media are often considered as multiple goods operating in multiple markets (Albarran, 2002; Bates, 1987; Low, 2000). Further, value can exist in both market and nonmarket aspects of media and its content (Bates, 1988, 1990; Benkler, 2006; Kingma, 2001), allowing firms to take advantage of opportunities to cross-subsidize in pricing (Dyson, 1995; Shapiro and Varian, 1999). The value of information goods and services is also highly contextual, and highly uncertain (Anderson, 2006; Bates, 1988, 1990; Benkler, 2006; Kingma, 2001).

These characteristics have provided a foundation for the argument that media and information markets are imperfect or distorted. The shifting costs structure exacerbate things, and have led some to proclaim that the “new economics” of media in the digital age prohibit markets from functioning (DeLong & Froomkin, 2000). But the problem is not that the old models were necessarily wrong, but the problem arose from the fact that they tended to ignore certain costs and values (Bates, 1988, 1990; Benkler, 2006). In many of the older media markets, those
nonmarket aspects were not significant, or could be partially included through the ideas of dual products and/or of media as public goods, or addressed through public policy.

However, the relative importance of these aspects shifts with the digital revolution. As production and distribution costs decline, the relative proportion of these other aspects of cost and value increases. In addition, it seems clear that the Information Revolution is creating greater awareness of, and valuation, of the non-physical aspects of information goods and services (Anderson, 2006; Benkler, 2006; Dyson, 1995; Harris, 1998). Consumers, as they are experience greater choice, accessibility, and control, are clearly coming to value those aspects of digital media (Becker & Schoenbach, 1989; Neuman, 1991; Webster, 1986).

While content is the primary source of value in media (Bates, 1988, 1990), that value is both highly individual and highly contextualized. Particular media systems embodied characteristics (convenience, quality, etc.) that impacted on the perceived value of the content.³ The relative economic advantages of particular media provided competitive advantages for certain uses, as media became niche products (Dimmick, 2003).

For example, Rubin & Bantz (1989) found that the VCR created both new uses and values, and brought out the fact that consumers were willing to pay for certain value-added aspects linked to the information good (in this case, the ability to control the time of viewing). Shapiro and Varian (1999) discuss the potential of versioning information goods and services, which takes advantage of the potential for quality and immediacy differences, and convenience to extract added value from consumers. Feldmann (2002) noted the rise of convenience, interactivity, and personalization driving demand for mobile services. Looking more broadly at the impacts of media convergence, Wirtz (2001) noted two major changes in audience

³ Economic efficiency in distribution networks also required that media and content forms be tailored to one another (Bates and Albright, 2006; Shy, 2001), in order to take advantage of particular characteristics of the information product and market.
preferences: an increased demand for personalization and for integration of content and services. This supports Anderson’s (2006) emphasis on the value of search systems to identify potentially valuable media products in expanding markets. These demand-side drivers have increased cross-sector demand, fostering further convergence and market integration on the demand side. They illustrate some of the potential for seeking added-value from media use and consumption

Sources of Added Value in Content and Media

A number of major sources of added value in media and content can be grouped under the general concept of choice. As the audience value of media content is highly individualized, providing access to a wider range of content provides consumers with the ability to maximize their individual return from media use (Raban, 2004). The ability to timeshift can lead to greater consumption, as it allows users to shift consumption to times when opportunity costs are less. Versioning goods contributes to choice, and allows firms to exploit individual differences in valuation (Varian, 200b)

Many of the perceived sources of added value are tied to interactivity and various aspects of intelligent networks. Interactivity and intelligence have been cited as sources of added value in electronic books (Wearden, 1998), online news sources (Jankowski and Van Selm, 2000), marketing communications (Stewart and Pavlou, 2002), and media websites (Bates, 2000). Kaser (2002) and Anderson (2006) noted the value of intelligent networks and search agents in helping consumers find media products, with the added value of enhancing demand for content. Personalization is also considered to be a strong source of competitive added value. Feldmann (2002) noted it as a competitive advantage for mobile internet markets. Studies by Ihlstrom and Palmer (2002) and Schoder et al. (2006) found features such as personalization, archiving, and versioning to be attractive strategies for revenue generation by online newspapers.
The ability to personalize media use is a major motivation for personal media, such as MP3 players (Vlachos and Vrechopoulous, 2003)

Todreas (1999), while focusing on television, makes an important point about the value of branding in media and content. Branding can reduce uncertainty by developing stronger expectations of the value of new content, increasing perceptions of expected value.

Wirtz (2001) suggested that firms could take advantage of convergence and shifting demand by integrated value-added components at various stages of the value chain. However, it is unclear whether media firms are exploiting these opportunities. For example, Jankowski and Van Selm (2000) found that early online newspapers and TV news websites rarely incorporated interactive features.

**The Transformed Media Market**

The relative importance of the base media content value as opposed to the added value potential of associated characteristics shifts with the digital revolution. As production and distribution costs decline, the relative proportion of these other aspects of cost and value increases. In addition, it seems clear that the Information Revolution is creating greater awareness of, and valuation, of the non-physical aspects of information goods and services (Benkler, 2006). Consumers, as they are experience greater choice, accessibility, and control, are clearly coming to value those aspects of digital media. Still, much of the growth in added-value attributes discussed above lies in these non-traditional aspects that are difficult to measure. We know that we value choice and control, but can we place a pecuniary value on it directly? Thus, media markets seem more problematic because proportionally larger aspects of cost and value lie outside what has traditionally been considered as part of the marketplace. Thus, not only are the monetary values shifting, we are recognizing the existence and growing contribution
of other sources of costs and values (Benkler, 2006). For example, Pekka Himanen, in *The Hacker Ethic* (2001), notes the value placed on recognition and contributions to reputation by open source software programmers. Similar arguments can be made for academics and creative artists (Bates, 1988; Dyson, 1995).

The indeterminant nature of many of these additional aspects of value for media goods and services makes it difficult to include them explicitly in market models (and is the primary reason they have not traditionally been explicitly considered). However, one can still be aware that these aspects exist, and their impacts on value and costs can be roughly estimated through their impacts on markets and behaviors. And while difficult to measure precisely, they can and do contribute to the perceived value of media goods and services to audiences (Napoli, 2003), and thus can justify price discrimination. It just requires a new way of thinking about media products and markets.

Thus, it is vital, in the digital age to approach market economic analysis and strategic media management in a new way, perhaps in two stages. The first stage is based on the older traditional model of explicit costs and values. It is vital to note the impacts of the digital revolution here: the declining costs of replication and distribution, the disintegration of market boundaries between media and over distance, the increasing ease of market entry and exit, the declining costs of production technology, and the ready availability of substitutes (both in terms of competing goods and competing delivery systems). While firms can take advantage of declining costs, and the ability to enter new markets and repurpose content, they are also faced with increased competition and a reduced ability to control prices. They face an uncertain future, for it is likely that revenues will also decline as their ability to extract monopoly profits declines.
and they face increased competition from the expansion of substitutes competing for limited audience time and money.

However, remember that I mentioned that this is only the first stage of market analysis. Recall that there is at least a second stage, where the various alternative sources of value come into play. It is in this aspect of the market where various media can seek competitive advantage, by product differentiation and emphasizing potential sources of added value – by exploiting whatever competitive advantage their particular medium and technology offers, or whatever added value services they can link to the content and services. Product differentiation allows for a transition to what economists call monopolistic competition in markets, and retention of a degree of monopoly power and price discrimination in markets. That can be critical for media as competition increases.

There is another important aspect to this second stage of market analysis – the shift in demand structures. As markets expand and converge, treating demand as a simple uniform set of preferences is increasingly problematic. This suggests that this second phase of the market analysis should also take into consideration the greater variability in demand, and the opportunities for demand fragmentation and price discrimination for different demand segments. This reinforces the idea of product differentiation, and the versioning of products by offering different levels of added-value (Bates, 2004; Shapiro & Varian, 1999; Varian, 2000b). Offering content at different quality levels, at different times, or with different sets of usage rights can permit firms to expand market opportunities while taking advantage of price discrimination.

These factors become more important as digital markets begin to take advantage of the “long tail” phenomenon (Anderson, 2006). The long tail refers to the lower ranges of the demand curves for information goods and services. There are two ways of looking at the long tail. First,
that there is some level of demand for virtually every information good or service. With the shifting economics and expanding reach of digital markets, it becomes more and more possible to profitably serve low levels of demand.\textsuperscript{4} Since, increasingly, the largest proportion of the cost of information goods and services is in their production, any level of sales that covers production and distribution costs is beneficial. The second way of looking at the long tail is that information firms often have the alternative of marketing their product at a high price to a fairly small audience, or at a low price to a much larger audience. Broadcasting took advantage of this by offering “free” access as they competed for audience to sell to advertisers. But it also means that a record company may be able to make as much selling individual songs at 99 cents apiece as it would selling CDs at 15.99 (Anderson, 2004). In fact, the shifting market is making it more and more difficult for firms to extract the monopoly prices at the high end. Both aspects of the long tail suggest the value of shifting the marketing approach from marketing relatively few units at relatively high prices and profit margins, to one that focuses on extracting whatever value is available throughout all levels of demand.

Thus, what the new digital networks market structures suggests is that new approaches to media market analysis and behaviors are needed. On the producer side, it means thinking about the impact of non-financial costs and values of consumption decisions, and how these can be exploited to extract that added value, and being aware that multiple media exist for the distribution of almost all content. For distributors, it means thinking about how to differentiate your media or service from competitors and enhance demand by incorporating features or services that add value, utilizing aspects of technology that can add value and a competitive

\textsuperscript{4} This occurs for two reasons. First, the declining costs of reproduction and distribution make it easier to extract profit from even lower levels of pricing. Second, as markets expand, the absolute numbers of purchasers increase, to the point where even small proportions of the market can provide sufficient sales to recoup costs.
advantage (Feldmann, 2002), and considering how to take advantage of those non-financial aspects of value to add value to your service.

Conclusions

What this suggests for media managers is that they can no longer rely on being monopoly providers of desired goods and services – they are losing the ability to control their markets. In the short term, media may try to retain control through regulation and/or policy and greater enforcement. However, this is unlikely to be successful in the long term, as the emerging digital network market is too flexible and offers too many alternatives. Insisting on tough and costly legal enforcement of monopolies will also reduce demand and alienate consumers. Firms and industries that pursue that path are likely to lose market to legal and extra-legal alternatives, as well as find their monopoly profits eaten up by increased enforcement costs and reduced demand and sales.

A better strategy for the long term is to embrace these changes and look for the new opportunities they offer. Media managers and firms will increasingly need to compete in new markets; with new competitors and substitute goods; in areas other than basic content. They will need to expand their awareness of the sources of value associated with their products. They will need to recognize the shifts in costs and values brought about by technological advances in their markets, as well as in the emerging digital network marketplace. They will need to place more emphasis on the specific advantages and disadvantages offered by their medium and technology, and identify where they may have a competitive advantage, or can add value to their content and services. They will need to recognize that old media barriers are eroding, and that they face growing competition, not only from new media, but from older industries and related
markets. They need to consider new marketing, pricing, and sales strategies. And in doing so, they may well find themselves also expanding into new markets, new services, as well.

Successful firms and managers will be those flexible enough to shift their strategies to meet a continually changing market environment. In particular, those that embrace the idea that it is the content that has value, although the medium may add (or subtract) to that value by its impact on the consumption experience. Firms that embrace that notion, and look for ways to enhance the value of their service to consumers, will be successful in the long term.

How can they enhance value is likely to be one of the driving questions of this transitional period. We already have some indicators of added value – offering consumers greater choice and control over media consumption, for example. Still, there are likely to be other aspects, such as help in lowering the uncertainty of new products through branding (Todreas, 1999), or recommendation systems such as those offered by Amazon.com and others (Anderson, 2004). And there are always unexpected sources of value arising with new products and services that can exploited if initially priced low enough to encourage the experimentation that demonstrates value.
Bibliography


