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Media Economics Research: Methodological Perspectives and Areas for Future Development

Summary

This paper offers a commentary, and not an exhaustive summary, of the research methodologies used in media economics research, and discusses the need for improvement and development of better tools for analysis and research approaches. As media economics scholarship continues to evolve and develop in Colombia and the South American regions, perhaps some of the efforts made by scholars in other parts of the world can be beneficial to scholars in this rapidly growing region. Likewise, the research completed by Columbian scholars, and efforts to develop methodological approaches specific to the needs of studying media economics in Columbia and other South American nations, will help to benefit the field.

Key words: media economics research, market, concentration.

Resumen

Este artículo ofrece un comentario, no un resumen exhaustivo, de las metodologías empleadas en la investigación sobre la economía de los medios, y discute la necesidad de incrementar y desarrollar mejores herramientas para el análisis y las aproximaciones a la investigación. Mientras el conocimiento en este campo tiende a evolucionar y a desarrollarse en Colombia y en otras regiones de Suramérica, probablemente varios de los esfuerzos hechos por académicos en otras partes del mundo puedan resultar beneficiosos para los investigadores en esta región de rápido crecimiento. Igualmente, la investigación completada por estudiosos colombianos, y los esfuerzos por desarrollar aproximaciones metodológicas hacia las necesidades específicas del estudio en la economía de los medios en Colombia y en otras naciones de Suramérica, contribuirán al beneficio de este campo.

Palabras clave: Investigación en economía de medios, mercado, concentración.

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It is a professional honor to provide this paper for *Palabra Clave*, and I appreciate the invitation from Professor Germán Arango to address Columbian scholars and students interested in the field of media economics. It is exciting to see the field of media economics gaining interest in Columbia and the South American region. As media economies grow and prosper in South America, it is important for scholars in countries such as Columbia to be prepared to analyze and discuss the region's evolving media economy.

In terms of a topic, I have decided to focus on research methodology, as this might prove to be useful information to readers engaged in the study of Columbia's media economy. In the following pages, I will offer some insights in to some of the primary methodological areas used to date in the field of media economics, and some suggestions on how scholars might expand the use of methodological tools in the future.

Media Economics: Areas of Focus

Media economics involves the application of economic theories, concepts and principles to study mass media companies and industries. There have been three main areas of research focus: macroeconomics, microeconomics and the political economy (critical) tradition. This paper addresses the first two areas, as these are of most concern to traditional media economics scholarship.

Macroeconomics examines the whole economic system, and is primarily studied at a national level. Macroeconomics includes topics such as economic growth indices, public policies toward the economy, and national production and consumption. Thus, macroeconomic studies could look at the entire country of Columbia in terms of its economic growth and development, government policies towards business and industry, and production and consumption, or on the entire South American region.

Microeconomics centers on the activities of specific components of the economic system, such as individual markets, firms or consumers. Microeconomics tends to focus on market structure, conduct and behavior. Again, such studies might examine individual media companies, the markets in which they compete, or the demand for media products by consumers.

Of course, regardless of the area of focus, good research should always be theoretically grounded. There are a number of theories applicable to the field of media economics. Among the most useful are the industrial organization model (IO), the theory of

the firm, the principle of relative constancy, demand theory, and numerous other potential applications.

It is important to recognize that media economics is a relatively young area of study, having originated in the 1950s. Miller and Gandy (1991) identified 351 articles published from 1965-1988 in several communication journals that focused on "some economic aspect of communication (p. 663)." Given the increasing consolidation and globalization of the media industries, media economics emerged as an important area of study for academicians, policy makers and industry analysts. Media economics literature encompasses a variety of methodological approaches as discussed in the next section of the paper.

Methodologies Used in Media Economics Research

Media economics research utilizes many different types of methodologies to answer research questions and investigate hypotheses. However, much of the existing literature tends to use one of four methodological approaches: trend studies, financial analysis, econometrics, and case studies. Each of these areas is discussed in more detail below.

Trend Studies. Trend studies compare and contrast data over time. Therefore, researchers need to be aware of the data sources they have access to and should be confident that the data is "good" and not altered or fabricated in any way. Trend studies tend to use annual data as the unit of analysis. Trend studies are useful due to their descriptive nature and ease of presentation, and aid in analyzing the performance of media companies and industries. Representative trend studies in the literature include Dimmick and McDonald's (2001) review of network radio, Greco's (1999) examination of book publishing mergers, and Lewis' (1995) study of changes in newspaper pricing and subscription costs.

Financial Analysis. Financial analysis is another common methodological tool used in media economics research. Financial analysis takes many different forms and utilizes different types of data. It is helpful to have some basic understanding of accounting techniques and principles, as the source of data tends to be information derived from financial statements, and the use of various types of financial ratios. Increasingly, company and industry specific information for many countries can be located via the Internet, although some web sites require a subscription fee to access their databases. Libraries are always a good source of reference material for financial data.

In the United States, all publicly traded companies must file various types of financial documents regularly with the government's Securities and Exchange Commission. Individual companies also distribute annual reports to shareholders that financial statements and other data. Financial analysis is challenging to conduct with privately held companies who are not required to disclose any financial information. It is important for researchers to become aware of what financial data sources exist in the country and region from both the public and government sources, as a starting point for research.

Econometric Analysis. Econometric analysis involves the use of statistical or mathematical models to examine economic research questions, hypotheses and theory. Econometrics is more common in general economic literature, because most media

economics researchers functioning from communication or journalism backgrounds lack the mathematical knowledge to pursue econometric modeling. Studies by Kennert and Uri (2001), and Miller (1997) represent research involving econometric analysis.

Case Studies. Case studies offer another useful methodological tool for media economics research. Case studies are popular because they allow the researcher to combine different types of data as well with different methodologies. Media economic case studies are normally very targeted and focused examinations. Some representative case studies include McDowell and Sutherland's (2000) analysis of branding, Nye's (2000) review of litigation in music publishing and Gershon and Egen's (1999) case study involving retransmission consent in the U. S. cable television industry.

Methodologies used in media economics research are not confined to trend studies, financial analysis, econometric analysis, or case studies. Other methodologies can be found within the literature. Two worth mention are policy analysis and historical research. Policy analysis looks at the impact of governmental regulatory policy and their effect on media markets and industries. Historical research tends to examine developments over time, and could incorporate a number of perspectives such as trend studies, policy analysis, or case studies (Wolfe & Kapoor, 1996).

Assessing the Future: The Need for Better Methodological Tools of Analysis

As a field of study, media economics needs improvements in both theoretical development and methodological tools of analysis. This is not to suggest that all methodological tools used in media economics research are not adequate. But there is a need for greater refinement. This section considers different areas examine that needs more attention, beginning with measures used to assess market competition and concentration.

Measures to assess competition and concentration have primarily relied upon one of two available tools: descriptive concentration ratios or the Herfindahl-Hirschman Index (HHI) (see Albarran, 2002). Concentration ratios provide a simple way to measure concentration, using either the top four firms or the top eight firms in a market. If the top four firms control more than 50% of the market revenue, or if the top eight firms control more than 75% of the revenue, the market is considered to be "highly concentrated." While concentration ratios are useful, they fail to address the inequality that can exist among market shares. For example, using the four-firm ratio, one could discover one firm dominating the market with 45% of the revenues, while the other three firms held a combined 10%. In such a case, one would conclude the market is concentrated, but it fails to offer a complete picture.

The HHI index, used in antitrust examinations by the U. S. government, is a much more rigorous tool. The HHI is calculated by squaring the market share for each firm in the market, and then generates a total number for all the firms. Here lies one of the key problems with the HHI. The research must have data on every firm in the market in order to calculate the index. Often, researchers lack access to data from all the firms, as well as the lack of data from privately held companies. Further, if there are a large number of firms in a market, calculating the index can be unwieldy.

More problematic to both of these measures is the fact that they are designed to measure concentration *within* a market segment. There are no generally accepted measures available to assess concentration *across* markets (see Albarran & Dimmick, 1996), yet the reality of the contemporary marketplace clearly indicates that is an area of key concern. Companies like Time Warner, Disney, Viacom, News Corporation and other media giants may have limited shares within individual market segments, but no tools exist to measure their combined influence across markets. With multi-product firms engaged simultaneously in many media markets, developing measures to assess within-industry concentration and competition are badly needed.

Media economics research must grapple with the evolving definition of what constitutes a media market, a critical issue given the growing convergence across the media industries. Markets can no longer be defined cleanly in many industries. In reality, media companies offer (supply) products and goods in many different markets, in competition with other suppliers/providers. Yet the tendency among policymakers and researchers is to still treat markets under traditional labels, be it television, newspapers, or motion pictures. This approach fails to recognize the realities of the existing media marketplace, and can lead to inaccurate assumptions over which firms dominate or influence a particular market.

An answer to this dilemma may be to consider the *functions* of a media firm rather than just the final product. For example, if we consider Viacom as a company owning multiple brands engaged in content creation and distribution, it perhaps offers a clearer interpretation of what the company is truly about and how it seeks to be a leader in many different markets: network television, program syndication, cable networks, radio, etc. In the U. S. the company EchoStar is really a distribution company, and the leader in direct-to-home satellite subscriptions, competing with the likes of Comcast, Cox and Time Warner in the market to capture multichannel households. Conceptually, this makes much more sense than to say Comcast is the leading cable operator, while EchoStar is the leading satellite provider.

The need for a better understanding of the market is a need to expand or redefine the theory of the firm. Media economic scholars have attempted to work within the three categories routinely found in the mass media: monopoly, oligopoly and monopolistic competition (Albarran, 2002). Yet other types of structures are evolving. Duopoly, a market with two primary firms, is becoming more common in media markets. Examples include the market for new national satellite radio services in the U. S, XM Radio and Sirius (Albarran & Pitts, 2001), and the market for Internet browsers, involving Microsoft Internet Explorer , Netscape and free browsers such as Mozilla.

But what is really happening in many media industries is the formation of a two-tiered market structure, with a limited oligopoly of firms (between 3 and 5) controlling between 75-90% of the revenue/market share, and a number of smaller firms on the other tier fighting for a small percentage of the remaining market share. Media industries representative of this type (based in the U. S.) of evolving structure are the motion picture, recording, television network, radio, consumer book publishing and magazine publishing (Albarran & Dimmick, 1996).

Finally, another area where more work is needed is in regards to the analytical tools used in the study of media economics. Tools of analysis include two areas that are critical to better scholarship. The first involves statistical methods. Media economics research has historically been highly descriptive. One reason is the fact that communication scholars studying media economics often lack the rigorous mathematics and methodologies like econometrics used by traditional economists. As such, much of the literature has dealt with information that can be easily analyzed and interpreted.

Second, the way we define key concepts like “market” and “industry” in the field are subject to re-examination and clarification. Scholars need better means to analyze media markets and industries under rapidly changing conditions. In the transition from divergent to convergent industries, it is critical to understand the many inherent changes in the media marketplace--and adapt scholarship as needed. In short, better definitions of the key variables used for analysis is encouraged, as well as examining trends and phenomenon at multiple levels of analysis (e.g., individual, societal, nation-state, global).

Better refinement of methodologies will enable researchers to do a better job answering complex questions and hypotheses. Other areas which need more attention are new ways to define and measure markets, new approaches to understanding market structure, and how to quantify intellectual property and assess its value to firms in a completely digital environment.

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