INDEX

Preface 29

Editorial Note 31

Public Social Communication Policies in the Information Society 33
By Augusto Santos Silva

Part I The Media Challenges and New Platforms 35

Cost and Capability Drivers of Differences Between Old and New Media 37
Steven S. Wildman | Carol Ting

Abstract 37

1. Introduction 37

2. Overview comparison of offline and online video service structures and costs
    A. A (highly-simplified) sketch of cable TV structure and costs 40
    B. Structure and costs for a server-based video service 42

3. The economics of program acquisition and retention for cable-like services 43

4. The economics of program acquisition and retention for an online video service 46

5. Summary and further discussion 50

References 51

Hollywood Players: Film, Video Games and Sony’s Synergistic Strategies 53
Robert Alan Brookey

Abstract 53

Columbia Pictures and the PlayStation 55

Sony’s Licensing Double Play 57

sony’s synergy 59

Conclusion 61

Endnotes 64

References 65
Hollywood at the Digital Crossroad: New Challenges, New Opportunities

Alejandro Pardo

Abstract

1. New media, new consumers: the “iPod-generation”
2. The new digital economy: relevance of “long tail” markets
3. “Net-Hollywood”: synergies within the industry
4. Hollywood and the Internet: tentative business models
   4.1. Movie download: a new window for commercial exploitation
   4.2. Hollywood and the IPTV
   4.3. Video-on-demand (VoD): the new Apple revolution
   4.4. Business models: what did go wrong, what should be right
5. Hollywood at the crossroad of new media: SWOT Analysis
   5.1. Strengths
   5.2. Weaknesses
   5.3. Opportunities
   5.4. Threats

References

Mobile Distributing Consumer Media Venturing

Min Hang | Baoguo Cui

Abstract

1. YouTube: The Emergence and Development
2. The Mobile Distributing Consumer Media Venturing in YouTube
3. Theories and Empirical Findings
4. Summary and Implications

References

Part II Competition, Concentration and Media Consolidation

A Measure of Overlap for Diversified Media Companies:

Diffuse Competition in a Ten-Firm Cohort

John Dimmick | Alan Albarran | Zhan (James)

Abstract

Introduction

The Media Companies

Hypotheses

Results

Conclusions and Discussion

References
Free newspapers in Spain: a partial success

Alejandro Armesto | Juan P. Artero | Alfonso Sánchez-Tabernero

Free newspapers in the European market
Free newspapers in Spain
Light and shadow of free newspapers in Spain
References

Media Economics: Main Forces and Mechanisms -
Towards increasing concentration

Patrick-Yves Badillo | Jean-Baptiste Lesourd | Dominique Bourgeois

Abstract
1. Introduction
2. Media Economics: Main Forces and Mechanisms
   A. Long and Evolutionary Tendencies
   B. Deregulation Forces
      The deregulation of the media in the United States
      Regulation and concentration: the French case
   C. Technological Changes and "Digital" Media:
      Towards a new business model?
   D. Economies of Scale and Economies of Scope in the Media
      The economic logic of concentration in the media:
      economies of scale, economies of scope
   E. Financial Mechanisms and Emergency of "Conglomerates"
      The case of France: a process of concentration-deconcentration
      An accelerated process of concentration in the United States: from fifty
      groups to the "Big Five"
   ans Measures of Concentration
      A. The French Press: A Typology
      B. Measures of the Concentration in the French Press
4. Conclusion
References

On motives for acquisition activity in the media sector -
Understanding actions through contextualisation

Lotta Häkkinen | Niina Nummela | Saara L. Taalas

Abstract
Introduction
M&A activity in the media sector
On acquisition motive theories
Acquisition cases

Case AlmaMedia: The basic setting 165
Case AlmaMedia: The process 166
Case AlmaMedia: Considering acquisition motives 168
Case News Corporation: The basic setting [Summarised from Hang (2007) and Kumar (2006)] 169
Case News Corporation: Considering acquisition motives 171
Discussion 172
References 174

Main Media Trends and Prospective: The Portuguese Case 179
Paulo Faustino

Abstract 179
Introduction 180
1. Media Present and Future 183
2. Literature Review and Scientific Background 184
3. Research Methods and Objectives 188
4. Results and discussion 193
   Technology as business driver 193
   New qualification needs 194
   Gender differentiation in the Communication sector 195
   Perception of trends by media professionals 196
   Perception of trends by media product consumers 197
   Consumer perception of media concentration 199
Summary and Conclusions 207
References 214

Part III Regional and Global Developments in TMT 217

Telecommunication flows in the Mediterranean region and the audiovisual perspectives 219
Cinzia Colapinto | Benedetta Prario | Giuseppe Richeri

Abstract 219
1. Introduction 220
2. Teledensity 222
   2.1. Public phone accessibility 223
   2.2. Telephone subscription costs 224

2.4. The penetration of mobile phones and their growth

2.5. Telephone consumption

2.6. Revenues of tlc services

2.7. Internet penetration

2.8. How many years to fill the gap in the tlc sector between the different countries?

2.9. The impact of mobile telephony in the development of the countries

3. International telecommunication flows in the Euro-Mediterranean area

3.1. The role of the Mediterranean area in international telephone traffic

3.2. The degree of auto-referenciality of the international telephone traffic in the Mediterranean area

3.3. The main attraction area of the international telephone traffic

3.4. The main communication axes

4. The content sector: Euro-Mediterranean projects

References

The television production sector in Italy and the challenges of globalization

Flavia Barca | Andrea Marzulli

Abstract

Introduction

1. Globalization and television production: the format concept

2. A brief overview on the regulation of the production sector in Europe and its effects on the Italian market

2.1. The Directive “TV Without Frontiers” to support a European Market

2.2. The Italian legal framework for television production

2.3. The effects on the market and the rise of TV Drama

2.4. The duopoly market structure and the negotiating weakness of producers

3. The effects of globalization on the television production sector in Italy

3.1. The economic dimension of the sector: weakness and fragmentation

3.2. Italian television’s dependence on imported formats and the import/export budget

3.3. The limited internationalization of Italian production companies

4. The first cracks in the television set: new media

Conclusion: the risks and opportunities of globalization

References

A Comparative Study of the Third Generation Mobile Markets in Japan and Korea

Seonmi Lee | Sangwon Lee | Sylvia M. Chan-Olmsted

References
## INDEX

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abstract</td>
<td>269</td>
</tr>
<tr>
<td>Development of 3G Mobile Markets in Japan and Korea</td>
<td>271</td>
</tr>
<tr>
<td>Analytical Framework</td>
<td>274</td>
</tr>
<tr>
<td>3G Mobile in Japan</td>
<td>276</td>
</tr>
<tr>
<td>3G Mobile Market in Japan</td>
<td>276</td>
</tr>
<tr>
<td>Policy Factor</td>
<td>279</td>
</tr>
<tr>
<td>Industry Factor</td>
<td>280</td>
</tr>
<tr>
<td>Technology Factor</td>
<td>280</td>
</tr>
<tr>
<td>Consumer Factor</td>
<td>282</td>
</tr>
<tr>
<td>ICT Factor</td>
<td>283</td>
</tr>
<tr>
<td>3G Mobile in Korea</td>
<td>284</td>
</tr>
<tr>
<td>3G Mobile Market in Korea</td>
<td>284</td>
</tr>
<tr>
<td>Policy Factor</td>
<td>286</td>
</tr>
<tr>
<td>Industry Factor</td>
<td>286</td>
</tr>
<tr>
<td>Technology Factor</td>
<td>287</td>
</tr>
<tr>
<td>Consumer Factor</td>
<td>288</td>
</tr>
<tr>
<td>ICT Factor</td>
<td>288</td>
</tr>
<tr>
<td>Discussion and Conclusions</td>
<td>289</td>
</tr>
<tr>
<td>References</td>
<td>291</td>
</tr>
</tbody>
</table>

### CD - Exploring the creation of urban media clusters in the creative city

Erik Hitters

Summary

Introduction

Defining creative and media clusters

Theoretical approaches to spatial clustering

Significance and added value of media clustering

The case of the Lloyd Quarter in Rotterdam

Concluding comments

References

### CD - International Cultural Industries in a Local Context Music Majors in the Netherlands 1990-2005: a First Analysis

Miriam van de Kamp | ERMeCC, Erasmus Centre for Media, Communication and Culture, Erasmus University Rotterdam

Abstract

The international music industry

Global music products by major music companies

Advantages in scope and scale
Role of the local subsidiary

Conceptual framework
- Organisation culture (corporate culture)
- Market perception
- Structure
- Strategy
- Dealing with the local context

Methodological approach
- Dutch popular music market 1990-2005
- Sound carrier market
- Main players
- Competition
- Policy
- Developments

Case study 1: Universal Music Netherlands (preliminary results)
- Organisation culture
- Market perception
- Structure
- Strategy
- Operation in local context

Case study 2: Warner Music Netherlands (preliminary results)
- Organisation culture
- Market perception
- Structure
- Strategy
- Operation in local context

Conclusion

Bibliography

Appendix I

Appendix II

Part IV Sources and Effects of Innovation in Media Industry

CD - Business Innovation and New Media Practices in Documentary Film Production and Distribution: Conceptual Framework and Review of Evidence

Florin Vladica | Charles H. Davis

Abstract
1. Introduction
2. Current context of documentary production
3. Business innovation in documentaries: a conceptual framework
4. Offerings: documentaries as an experience good
5. Customers: the search for understanding about audiences
6. Processes: new media practices and business models
7. Presence: digitization and commercial distribution
8. Concluding comments

References

Media Management & Innovation: Disruptive Technology and the Challenges of Business Reinvention

Richard A. Gershon

Abstract

Introduction

Why is Innovation Important?

Developing countries account for a major portion of all wireless subscribers

What is Innovation?

Product Innovation

Process Innovation

Business Model Innovation

Why Companies fail to Innovate?

The Innovator’s Dilemma

The Innovator’s Dilemma and Product Life Cycle

The Tyranny of Success

Organizational Culture

Lengthy Development Times and Poor Coordination

Risk Averse Culture

Discussion

Lessons Learned — Strategies Going Forward

developing a Culture of Innovation

The Value of Partnerships and Collaboration

Open Communication and Keeping Everyone Involved

Keep the Project Review Process Flexible

The Value of Customer and New Employee Insights


Zvezdan Vukanovic

Abstract
1. Introduction: Size and Scope of the Media Economics/Business
2. Strategy of the Top Five Media Conglomerate Firms
   2.1. Content and Distribution Leveraging/Repurposing
   2.2. Vertical Integration
   2.3. Vertical Expansion/Acquisition
   2.4. Media Diversification
       2.4.1. TOP 5 Media Conglomerates and their Holding
   2.5. Large Numbers of Shareholders
3. Further Suggestions and recommendations: IPTV and Mobile/Cellular TV as New Challenges to Cable, Satellite, On-line and Print Media
   3.1. Global Market Potential and Positioning of IPTV
   3.2. Global Market Potential and Positioning of Mobile/Cellular TV
4. Future Research Directions in Global Media Management
References

Part V Corporate Control and Performance of Media

Industry and Firm Effects on Performance: Evidence from the Online News Industry in U.S.
J. Sonia Huang

Abstract
Introduction
Theoretical Background
   IO's industry effects
   RBV's firm effects
Objective of the Study
   Industry effects on performance
   Firm effects on performance
   Relative effects on performance
Methods
Measures
Survey
Secondary data analysis
Statistics
Results
   Industry effects on performance
   Firm effects on performance
   Relative effects on performance
Conclusions 350
Contributions 351
Limitations 352
References 354

CD - Successful Strategic Management within the Media Firm
A Proposed Framework and a Case Study

Christian Scholz | Uwe Eisenbeis

Abstract
Starting Point
Literature Overview
Suggested Framework
   The first function: Media (companies) create reality!
   The second function: Media (companies) create markets
   The third function: Media (companies) create value(s)
   The interrelation of the functions
Example Apple and the iPod
Tentative Conclusions
References

Corporate goals in the media industry: An analysis of
German media companies' annual reports 357

Uwe Eisenbeis

Abstract 357
Need for Research 357
Assumptions about Corporate Goals and the Goal Systems 358
Methodology 360
Sample Description 362
Empirical Results
Discussion 374
Limitations 375
Conclusion 376
References 377

CD - Multitasking – new way of communication and
media consumption among young people

Levente Szekely | Agnes Urban

Abstract
Introduction
The multitasking phenomenon
Frequency of multitasking
Ways of multitasking
Conclusion
References

Part VI People and Management in Media Organization

Learning Culture features of middle staff employees in media companies
George Tsourvakas | Paraskevi Dekoulou | Eugenia Petridou

Abstract

A. Literature Review
   Definition of organizational culture & its vital significance
   Collaborative organizational culture a decisive contribution to learning
   Organizational learning climate
   Learning culture a contributor to innovation and human resource policies
   Learning culture in knowledge-based economies
   Learning culture in media companies

B. Research Questions

C. Methodology
   Data Collection
   Questionnaires Procedure

D. Results
   Learning Cultural features in media companies

E. Discussion and conclusions

References

CD - Leadership Styles and Conflict Management Strategies of Prominent US Female Cable Industry Leaders
Chin-Chung | Louisa Ha

Abstract

Literature Review
   Leadership Styles – Transformational and Transactional Leadership
   Previous Studies of Female Leadership and the Glass Ceiling Effect

Research Question
Method
Findings
   Female Leadership Styles and Strategies
   Experiences of Overcoming Discriminations and Barriers

Discussion and Conclusion
References

The rising of the journalist-managers: changing institutional logics in the field of French journalism? Leads to analyze the change of the French daily hard news press business model

Matthieu Lardeau

Abstract

Paper

Some outcomes of studies on newspaper and newsroom management

The French turmoil of the hard news press

1. Insights of the French daily hard news press business model
   1.1. The relevance of the concept of media firm business model
   1.2. The case for an extensive approach of business model for the French hard news dailies
   1.3 Implications of the extensive concept of business model

2. Theoretical and conceptual framework: the neo-institutionalist approach
   2.1. The core elements of the neo-institutional approach
      2.1.1. The relevance of neo-institutional framework
   2.2. Institutional logics, managerialization, actor-focused approach, and change process
   2.3. Hypotheses and research design
      2.3.1. Basic hypotheses
      2.3.2. Research design and methods

3. First findings: strong patterns and routines that constraint an institutional change
   3.1. The French hard news press and the political field:
      a strong interdependence
   3.2. A traditional model of journalism
   3.3. Particular economics of French daily hard news press

4. Discussion and conclusion
   4.1. The journalist-manager, driver of managerialisation process
   4.2. Implications for theory and practice in media studies

References

CD - “Objectivity Does Not Exist”: A Preliminary Editorial, Managerial and Strategic Assessment of France 24

Ghislain Deslandes

Summary

Are the large international news channels merely a modern form of democratic propaganda?
France 24: the only alternative to the Anglo-American model?
The case of Al-Jazeera: the first antidote to Western influence
in the international
news sector
"A French Perspective on World News"
Looking for the "French touch"
A French CNN?
"Beneath the News"
All the sources
Total convergence
Suggestions for future research and conclusion

References

CD - Media Executives’ (USA) Assessment of the Changing World:
A Brief Review of Media’s Impact on the Information Society
Teresa Jo Styles
Abstract
Growth of Corporate Blogs
New Media’s Impact on Mainstream Press
Role of Entertainment in a Changing World
What is Evolving?
References

CD - Corporate Governance in Russian Media Firms: Results of the First Study
Elena Vartanova | Mikhail Makeenko | Sergey Smirnov | Marianna Blinova
Introduction
Corporate governance in Russian media firms
Conclusion
References

Part VII Revenue Choices and Business Models

The Influence of the Media on an Economy: A Case Study of Eleven Nations
Alan B. Albarran | Fang Liu
Abstract
Macroeconomics and the Media Industries: A Review of Literature
The Eleven Nations
Macroeconomic Concepts
Media Variables 447
Data 447
Discussion/Conclusions 452
References 454

The Fragmentation of Advertising 457
Francisco J. Pérez-Latre

1. Introduction: advertising-funded industries in transition 457
2. The paradigm shift in advertising 458
3. The rise of online video and social networks 462
4. Social networking: Markets as conversations? 464
5. How media shares are changing 465
6. Summary 469
References 471

CD - Changing strategies of Russian Business Press 475
Katja Koikkalainen

Abstract
Introduction: Changing operational environment
Paths and models of first-wave and newer publications
Kommersant as pathfinder
Vedomosti and other rivals
RBC: new entry strategy
Discussion: Entry models and current trends
References

Part VIII Factors in Success of Firms and Technologies 477

Value of the Content and Value of the Channel: Movie Rerun on Television 477
Marco Gambaro

Abstract 477
1. Introduction 477
2. Roles of Reruns and Related Literature 478
3. Empirical Test, Data and Descriptive Statistics 480
4. Results of the Empirical Test 485
5. Concluding Remarks 487
References 489
Packaging a movie project - a resource based perspective

Bjørn von Ramscha

Abstract 491

1. Introduction 491

2. Resource based view 494
   2.1. Characteristics of resources 495
   2.2. Identifying resources 497

3. Content resource 497
   3.1. Content as resource 497
   3.2. Securing content resources 498
      3.2.1. Professional reading 498
      3.2.2. Market research 498
      3.2.3. Common plot structures and patterns of storytelling 500
      3.2.4. Familiarity 502

4. Personnel resource 503
   4.1. Personnel as resource 503
   4.2. Securing personnel resources 504
      4.2.1. Long term contracts 505
      4.2.2. Motivation and principle-agent issues 506
      4.2.3. Salaries 507

5. Funding resource 508
   5.1. Funding as resource 508
   5.2. Securing funding resources 509
      5.2.1. Studio in-house funding 509
      5.2.2. Private funding 510
      5.2.3. Public funding 510

6. Conclusion and outlook on strategy implications 511

References 514

Business Strategies of City TV Stations in China - The Cases in the Area of Pearl River Delta

Li-Chuan Evelyn Mai

Abstract 523

Introduction 523

Literature Review 526
   City TV Station in China 526
   The TV market in the Pearl River Delta 527
   Business Strategies in TV stations 529

Research Methods 530
Research Questions 530
Findings and Discussion 531
Changes of the TV Market Structure in Pearl River Delta 531
Business Strategies of City TV Stations 534
Conclusion 537
Reference 539

Part IX Influences on Content in the Media Products 541

Diversification and Source Usage in U.S. Newspaper Chains 543
Angela Powers | Soontae An

Abstract 543
Diversification 544
Content 548
Summary 551
References 554

Part X Public Policies for the Media Sector 557

Framing Media Economic Policy: A Social Economics Approach 559
Benjamin J. Bates

Abstract 559
Information and Social Economics 561
Social Economics and Political Economy 567
Example: Framing Copyright 569
Summary 572
References 574

The internet and digitization of public library services: Impact on universal access in local communities 577
Krishna Jayakar | Ashley Sims

Abstract 577
Public libraries and internet access in minority communities 580
Consequences of digitization of library services 586
Illustrative Case Studies 592
Conclusions 595
References 597
Understanding the Economics of Online Privacy

Laurie Thomas Lee

Abstract
Early Economic Analyses
Later Economic Studies
Economic Analyses in the New Millenium
   Criticisms
   A Market for Privacy Protection
   Negotiable Privacy
   Markets for Information and Privacy
   Behavioral Economics Studies
Conclusions
References

Indicators for media pluralism in the EU Member States – towards a new media management approach

Mike Friedrichsen | Wolfgang Mühl-Benninghaus | Eric Karstens

Executive summary
1. Risk management, society and political attention
2. Risk-based regulation and the European context
3. Current challenges to media regulation policies
4. Ethical fundaments and future media systems
5. The role and challenges of risk management
6. Pluralism indicators in media-related law
7. Indicators for competition in media economics
8. The pragmatics of journalism and media business
9. Working towards the measurement of media pluralism

General Interest and Specialized Newspapers’ Business Models and their Impact on Print and Online Content

Nikos Leandros | Vaia Doudaki

Abstract
1. Introduction
2. Greek newspapers in cyberspace
3. Research questions and methodology
4. Results
   Revenues and strategies concerning the print edition
   Internet specific features, Interactivity, Customization
   User generated content
Multimediality – Hypertextuality
Service information
5. Discussion on the findings – Conclusions
Bibliography

CD - Television and youth press as a medium carrying the value of popular culture
Beata Kosmalska | Marek Ejsmont
References

CD - Theorizing the Paradigm of Market Failure in the Media - The Case of Media as Public Goods
Paul Murschetz

Abstract
1. Introduction to Theories of Market Failure – Some Fundamentals
   1.1. Market Failure Theory – Two Central Caveats
   1.2. Are media markets failed markets?
2. 'Public Goods Theory' – A Literature Review
   2.1. Classifying Public Goods – A Typology
   2.2. Public Goods Theory and the Media – A Critical Note
3. Conclusions and discussion
References

Part XI Media Market and Strategic Options

CD - Newspaper publishing in four major European markets – current status and trends
Tom Björkroth | Mikko Grönlund

Abstract
1. Introduction
2. Newspaper publishing in four major markets
3. Structure of markets
   Advertising
   Role of Digital content
4. Economic indicators and competition
   4.1. Intermedia and intra-media competition
   4.2 Employment related and financial measures
5. Competition, Commission and the competition law
   5.1. Mergers and competition policy
   5.2. Market definition in mergers and joint ventures
5.3. National competition authorities and Inter-media mergers

6. Summary and Conclusions

References

CD - The Development of Advertising: Difficulties of Empirical Measurement and Implications for Media

Gabriele Sieger | Nathan Thomas | Ulrike Mellmann

Abstract

1. The I/P Matrix: a theoretical model for the analysis of advertising

2. Fields of the I/P Matrix

2.1 Field 1.1: Mass Advertising Without Editorial Context

2.1.1 Advertising Formats and Advertising Vehicles

2.1.2 Typical Advertising Process, Involved Actors and Spending

2.2 Field 1.2: Target Group-Specific Advertising Without Editorial Context

2.2.1 Advertising Formats and Advertising Vehicles

2.2.2 Typical Advertising Process, Involved Actors and Spending

2.3 Field 1.3: Target Person-Specific Advertising Without Editorial Context

2.3.1 Advertising Formats and Advertising Vehicles

2.3.2 Typical Advertising Process, Involved Actors and Spending

2.4 Prototypic Field 2.1: Mass Advertising With Editorial Context, but Clearly Separated from It

2.4.1 Advertising Formats and Advertising Vehicles

2.4.2 Typical Advertising Process, Involved Actors and Spending

2.5 Prototypic Field 2.2: Target Group-Specific Advertising With Editorial Context, but Clearly Separated from It

2.5.1 Advertising Formats and Advertising Vehicles

2.5.2 Typical Advertising Process, Involved Actors and Spending

2.6 Prototypic Field 2.3: Target Person-Specific Advertising With Editorial Context, but Clearly Separated from It

2.6.1 Advertising Formats and Advertising Vehicle

2.6.2 Typical Advertising Process, Involved Actors and Spending

2.7 Field 3.1 and 3.2: Mass and Target Group-Specific Advertising Integrated in the Editorial Content

2.7.1 Advertising Formats and Advertising Vehicle

2.7.2 Typical Advertising Process, Involved Actors and Spending

2.8 Field 3.3: Target Person-Specific Advertising Integrated in the Editorial Content

2.8.1 Advertising Formats and Advertising Vehicle

2.8.2 Typical Advertising Process, Involved Actors and Spending
3. The Empirical Investigation of the I/P Matrix
   3.1 Data Required for the Empirical Investigation of the I/P-Matrix
      3.1.1 Data Needed on the Level of Advertising Formats
      3.1.2 Data Needed on the Structural Level
   3.2 Available Data and Their Sources
      3.2.1 Available Data on the Level of Advertising Format
      3.2.2 Available Data on the Structural Level: Advertising Revenues
   3.3 Fit Between Data and Research Interests Based on the I/P-Matrix

4. Conclusion

5. Reference

CD - Transaction Costs and Their Influence on Institutional Arrangements in the Swedish Printing Industry
Thomas Mejtoft | Sven Packmohr

Abstract
Introduction
Research Objective
Theoretical Framework
   Vertical Integration / Hierarchy
   Market
   Cooperation and Strategic Alliances / Hybrid
   Critics against Transaction Cost Theory
Methodology and Study Design
Results
   Company A
   Company B
   Company C
   Company D
Discussion
   Theoretical Implications
Conclusions
Further Research
Acknowledgements
Literature Cited

CD - Cooperation and Resource Flexibility as Competitive Strategy:
The Case of the Commercial Printing Industry
Thomas Mejtoft | Åsa Nordin

Abstract
Introduction
  Research Objective

Theoretical Framework
  Strategic Flexibility
  Resources
  Cooperation and Strategic Alliances
  Trust, Commitment and Control
  Cooperetion

Methodology

Results
  Printing House A
  Printing House B
  Printing House C
  Printing House D
  Printing House E
  Printing House F
  Printing House G
  Printing House H
  Printing House I
  Printing House J
  Printing House K
  Printing House L
  Printing House M
  Summary of Cooperation and Competition

Discussion
  Cooperation is Important
  Cooperation Increases Resource Flexibility
  Using Trust for Keeping the Cooperation Together
  Cooperation and Competition
  Managerial Implications

Conclusions

Acknowledgements

Literature Cited

CD - User Generated Content as a Strategic Option for Media Companies
Mania Strube | Christian-Mathias Wellbrock

Abstract
1. Introduction
2. Changes in the Media Landscape through UGC
2.1. Differentiation, constitutive characteristics and definition
2.2. Types and Platforms
2.3. The special relevance of communities
2.4. UGC – a strategic threat for media companies?

3. UGC as a Part of Business Activities of media companies
   3.1. Positive Effects of Integration
   3.2. Risks of integration
   3.3. Strategic Options

4. Conclusion

References

Epilogue

The 2008 World Media Economics Conference

Dr. Alan B. Albarran
   A Brief History of the WMEC
   The Value of the WMEC

8th World Media Economics and Management Conference

The media and political and economic powers in a changing environment

Estrella Serrano

References
Free newspapers in Spain: a partial success

Alejandro Armesto | Juan P. Artero | Alfonso Sánchez-Tabernero

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The development of free newspapers constitutes one of the most remarkable pieces of news on the international communications market. During the last decade, this sector has grown rapidly as a result of the following features: free newspapers are available for readers in public places; news presentation and briefness make them user-friendly products; they summarize the most relevant news; and they are cost-free (Schorr y Seltmann, 2006).

On the other hand, during the same period, paid newspapers have become stagnant. On a daily basis, 439 million newspapers are sold in the world, which implies an estimated readership of 1,000 million people, similar to the readership of the first years of the current century. Only those markets with very low purchase rates of daily newspapers have shown a remarkable growth. Thus, during the last five years, paid newspaper circulation in China and India has grown by 26% and 14%, respectively, whereas in the United States, Japan and the European Union it decreased between 2.5% and 0.5% in the same period (World Association of Newspapers, 2007).

For publishing houses, the most negative aspect is not referred to the sale of issues, but to the participation in the advertising market. For example, in 1985 the newspapers of the 15 oldest countries of the European Union monopolized 43% of advertising investments in mass media, while in 2006 they were of less than 30% (Advertising Association & the European Advertising Tripartite, 2007).

The contrast between the evolution of paid and free newspapers poses two basic questions: the first consists of uncovering whether free newspapers, i) replace, ii) do not affect, or iii) favor in the medium term paid newspaper reading. The second refers to the kind of competition of this two business models in order to attract advertisers.

In order to clarify these issues it is necessary to better understand the free newspaper sector, which, due to its newness, has not been sufficiently analyzed. In the first epigraph of this article, the development of free newspapers in Europe is studied. Then the Spanish case is analyzed, where free newspapers have already a larger circulation than paid ones. Finally, reasons behind this success are discussed. In addition, the likely evolution of the free newspapers sector is assessed, as well as its influence on paid newspapers.
FREE NEWSPAPERS IN THE EUROPEAN MARKET

The most developed free newspaper market is the European Union, where 28 million newspapers circulate every day, which represents a 20% of the whole European market. Within this rapid growth context, the Spanish and the Italian case stand out. In Spain free papers have a wider circulation than paid ones; in Italy free papers cover almost 50% of the market (World Association of Newspapers, 2007).

In almost all European countries free newspapers have shown a significant growth since 1995. In France, one out of four published newspapers is free. Other markets where free newspapers hold more than 25% of the daily newspaper sector market share are Austria, Greece, Sweden, Croatia, Switzerland, Portugal and Czech Republic.

The European countries where free newspapers have a larger presence in the market—including free and paid newspapers—are Denmark and Iceland. The latter is a clear example of a place where paid newspapers have been replaced by free ones, which reach an 80% of the total newspaper circulation ratio. In Denmark some substitution is also occurring, though less than Iceland: free newspapers hold 65% of the market. Both countries have an extraordinary distribution system: free newspapers are also home delivered.

On the other hand, Germany and the United Kingdom hold extremely low figures. In Germany free newspapers represent just a 2% of the market, whereas in the United Kingdom this percentage is barely over 10% (World Association of Newspapers, 2007).

The replacement of paid newspapers by free ones—as a generalized phenomenon—seems to be unlikely. Most free newspaper readers are whether new readers, or both paid and free newspaper readers.

The newspaper market share depends on the circulation of paid newspapers. In markets with a high consumption of paid newspapers, free newspapers must produce a lot of copies in order to obtain a high newspaper market share. Moreover, if citizens are used to receiving paid newspaper offers at home, they will be less interested in reading free newspapers, since, at least to a degree, one product replaces the other. For this reason, in addition to the free newspaper ratio in relation to the newspaper total circulation, it also interesting to know: i) the total circulation figures of free newspapers, and ii) the penetration (or circulation in proportion to each market population).

By the end of 2007, Spain had the highest free newspaper distribution ratio of the European Union: one out of seven European free newspapers was delivered in Spain that year. The daily circulation of free newspapers is of 2,661,000 in France and of 2,370,000 in the United Kingdom. However, in both markets—with populations of over 60 million inhabitants—the penetration is lower than in Spain or Denmark. In France, free newspapers spread over the main cities of the country, though with a larger presence in Paris, whereas
in the United Kingdom they concentrate almost exclusively in London, with the exception of the newspaper Metro, published by Associated Newspapers, also distributed in other important cities.

Most of the free newspapers in Europe are published by groups that manage paid-for newspapers and magazines. They are also frequently present in other communications sectors, such as television, the internet, movies, publishing, videos, and DVDs, as it is the case of the Norwegian group Schibsted. Metro Internacional is a kind of exception to this rule, since it keeps namely an exclusive free newspaper business. Its newspapers are published in ten countries of the European Union. In France, Groupe Bolloré deals exclusively with the free newspaper business while publishing DirectSoir and MatinPlus.

In a sense, the development of free newspapers in Europe is a result of the lack of innovation in the paid newspaper sector (Erbsen et al. 2007). In the daily newspaper sector there are huge initial obstacles: publishers have to make a large investment in order to purchase the production tools. But the main difficulty of displacing household names comes from the link between the newspapers and the public: readers tend to get used to a certain way of telling the news (Cho et al., 2006).

The sector’s initial obstacles are the reason why the European newspaper companies have focused on the efficiency of operations, and have not featured an innovative approach (Martin, 2003). In fact, in many cases there have been very few significant changes concerning aspects as relevant as news concept; dependence on most powerful institutions (banks, corporations, governments, political parties, etc), which are still the main journalists’ sources; selection, education and remuneration systems of employees; or price policies, marketing and distribution systems (Van der Wur, 2005; Boczkowski, 2005).

The stagnation of paid newspapers has coincided with other circumstances that have favored the development of free newspapers in Europe: a reduction in printing costs; distribution improvements, that make it possible to send pages by satellite to production centers; larger urban concentrations in almost all countries; a larger interest of readers in brief, visual, easy-to-understand messages; and a strong growth in advertising investment.

This last aspect has been key for publishers to establish business models that can do without the money coming from readers: the axiom that links an increase in advertising to a larger competition and market diversity is once again confirmed (Gustafsson, 2006).

Though year after year the total revenue of free newspapers grows sensibly, the average profitability of this sector is still low. Depending on the publishing group, there have been both profit and loss periods, normally due to the increase in market rivalry and to the strategy of each group. The two largest publishers of free newspapers in Europe -Metro International and Schibsted- have not yet obtained profits from their investments in this sector.
As it happens in the television market, free and payment offers are mainly addressed at
different publics: free newspapers and channels aim at satisfying advertisers, and do not
care that much whether readers and viewers value the contents they receive or not. On the
other hand, paid channels and newspapers are forced to obtain a high degree of satisfaction
from viewers and readers, and so the advertisers' claims come in second place.

The public's assessment of free newspapers has not been sufficiently studied. Even
when consumption figures are known, there are few data referred to the satisfaction degree
or to the likely reaction of readers if free newspapers became paid products. To the
contrary, there are several empirical evidences that show that only the most educated
citizens and high-income earners react favorably to an increase in the perceived quality if
this implies an increase in the newspaper price (Sick et al., 2006). These studies seem to
confirm the elasticity of the demand for newspapers, typical of those products that citizens
deem dispensable or replaceable by similar product offers.

From the point of view of price, historical circumstances explain why newspaper
consumption is remarkable different from television consumption: in the latter case, paid
channels have had to persuade their subscribers that it was reasonable to pay for an offer
similar to the one they were used to receive for free. Meanwhile, free newspapers can take
advantage of an opposite situation: readers tend to accept a free offer for a product that
has traditionally had an economic cost.

FREE NEWSPAPERS IN SPAIN

The growth of free newspapers in Spain is due to favorable European circumstances and
to the singularities of the Spanish market: low distribution of paid papers, absence of
popular papers and strong growth of the advertising sector.

In 2006 the average estimated distribution of Spanish paid newspapers was of
4,138,000 issues. The distribution of daily information newspapers for the same year was
of 3,077,000 copies a day, which implies a 2.4% decrease in relation to the previous year
(AEDE, 2008). The distribution of paid newspapers is divided in almost equal parts into the
national newspapers (El País, El Mundo, ABC, La Vanguardia, El Periódico and La Razón) and
the regional newspapers. Sports newspapers declined by 1.4% in 2006, with a daily average
of 762,485 copies a day, whereas the distribution of economy newspapers grew by 29.1%,
with 136,954 copies a day. As shown in table 1, these figures place Spain in the penultimate
place within Europe's newspaper circulation ratio, with 94 newspapers sold per 1,000
inhabitants, only ahead of Portugal.
Table 1 - European Union newspaper circulation ratio (first 15 countries)

(Copies sold per 1,000 inhabitants)

<table>
<thead>
<tr>
<th>Country</th>
<th>2002</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>446</td>
<td>423</td>
</tr>
<tr>
<td>Sweden</td>
<td>418</td>
<td>390</td>
</tr>
<tr>
<td>Austria</td>
<td>269</td>
<td>285</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>311</td>
<td>266</td>
</tr>
<tr>
<td>Germany</td>
<td>291</td>
<td>256</td>
</tr>
<tr>
<td>Luxemburg</td>
<td>276</td>
<td>248</td>
</tr>
<tr>
<td>Netherlands</td>
<td>278</td>
<td>235</td>
</tr>
<tr>
<td>Denmark</td>
<td>278</td>
<td>234</td>
</tr>
<tr>
<td>Ireland</td>
<td>152</td>
<td>190</td>
</tr>
<tr>
<td>Belgium</td>
<td>153</td>
<td>157</td>
</tr>
<tr>
<td>France</td>
<td>142</td>
<td>122</td>
</tr>
<tr>
<td>Greek</td>
<td>62</td>
<td>113</td>
</tr>
<tr>
<td>Italy</td>
<td>105</td>
<td>95</td>
</tr>
<tr>
<td>Spain</td>
<td>104</td>
<td>94</td>
</tr>
<tr>
<td>Portugal</td>
<td>55</td>
<td>59</td>
</tr>
</tbody>
</table>

Source: AEDE & OJD (2007)

However, the number of daily newspaper readers grew in 2006 to 13.71 million (a 12.1% increase in relation to the previous year); and revenues grew by 2.3%, reaching 2,733 million euros. The gradual increase of operating revenues is especially noticeable in gross advertising sales, which grew by 8.6% in 2006. This increase produced an after-tax profit of 280 million euros, 4.6% over the previous fiscal year (AEDE, 2008).

The data above confirm a trend of the last decade: in Spain, paid newspapers sell fewer and fewer copies, but produce increasingly higher profits. This paradox is due, among other reasons, to favorable economic circumstances, higher efficiency of publishing companies, and the increase of advertising cost in paid newspapers.

The acceptance of free newspapers in Spain is also due to the absence of popular newspapers. To the contrary of the situation in northern Europe, “tabloids” have never been consolidated in this market. The low daily newspaper reading ratios in Spain are due, among others, to the following reasons: citizens are little interested in in-depth analyses, and as a result of either feeling satisfied with the free information provided by radio and television, or the purchase of popular magazines. Thus, free newspapers have placed themselves in a market niche which probably did not exist in countries with a large development of paid popular newspapers.

In 2006, advertisers spent 127 million euros on the free newspaper sector, 42.5% more than in the previous year. Despite this remarkable increase, the advertising investment on free newspapers in Spain represents a 2% of media investments, in comparison to the spending on paid newspapers, which—with a slightly lower circulation—receive 26% of total investment (Noticias de la Comunicación, 2007).
The most reliable studies (AIMC, 2007) indicate high readership figures for the four free newspapers, namely: 20 Minutos, 2.3 million readers; Qué!, 1.8 million; Metro, 1.6 million; ADN, 1.1 million. The readership of these four newspapers would amount—if there were no duplications—to 6.8 million readers, which doubles the readership estimated for all the Spanish free newspapers.

The comparison between circulation and readership of free and paid newspapers is also significant: with circulation figures of around four million copies in both cases, the readership of paid newspapers is of 13.6 million readers, four times higher than that of free newspapers (AIMC, 2007).

Spain follows a distribution model similar to that in France: free newspapers are delivered in most province capitals, though a large part of the copies are distributed in Madrid and Barcelona. These cities hold more than 50% of the total circulation. However, in the case of paid newspapers, Madrid and Barcelona hold just 20% of national circulation.

Free newspapers find their markets in the big cities. Urban concentrations make it possible to distribute newspapers in public places, which implies operational efficiency and a high volume of advertising impacts. However, each market has its own characteristics, as it can be proved on analyzing the cases of Great Britain, France and Spain, both concerning free national and regional newspapers.

London has seven million inhabitants, its urban area more than nine million, and its metropolitan area between twelve and fourteen million. As seen, British free newspapers concentrate in London, where 1.7 million newspapers are delivered every day. This represents one copy every four inhabitants. The main free London newspapers are: Metro, of Associated Newspapers, with 747,000 copies; thelondonpaper, of News Corp., with 496,000 copies; London Lite, also published by Associated Newspapers, with 401,000 copies; and City AM, with 100,000 copies (ABC, 2007).

Paris has 2.1 million inhabitants, and 12 million including its metropolitan area. The circulation of free newspapers is of 1.2 million copies, which means a copy every two people or a copy every ten people if the population of the metropolitan area is included.

In Paris four free newspapers are delivered. Metro, published by Metro International, of which TFI holds a 34% share, comes in the first place of the circulation ranking with 778,000 copies; 20 Minutes, owned by Schibsted and Ouest-France—with a 50% of stocks each—follows it closely with 754,000 copies; Groupe Bolloré publishes Direct Soir, with 468,000 copies; MatinPlus—in which the publishing group Le Monde also has a share—is the newspaper with the lowest circulation: 411,000 copies (OJD, 2007).

Unlike the British market, in France free regional newspapers have a quality comparable to that of free Paris ones, among them LillePlus (owned by the publishing house La Voix du Nord), MarseillePlus (Groupe Lagardère), LyonPlus (publishing group Le Progrès),
MontpellierPlus (which belongs to companies owning Midi Libre and Le Monde) and BretagnePlus (Groupe Bolloré).

In Madrid 1.3 million copies are daily delivered for 3.1 million inhabitants, or for 5.5 million if we include the metropolitan area. Therefore, in Madrid the penetration of free newspapers is larger than in London or Paris. Newspaper ownership has a structure similar to France's. 20 Minutos and Metro are foreign capital companies. 20 Minutos belongs to the Norwegian company Schibsted, though the group Zeta has taken a 20% of equity capital since 2005. To the contrary, Metro fully belongs to the Swedish company Metro International.

In 2005, the group Recoletos, later absorbed by RCS, launched the newspaper Qué!. In 2007, Unedisa publishing house –publisher of El Mundo- purchased Recoletos, but left Qué! out of the purchase operation. The free newspaper integrated into the group Vocento, of Spanish capital, and owner of ABC and twelve regional newspapers. With the purchase of Qué!, Vocento intends to achieve synergies and economies of scale in operational aspects such as printing, distribution, paper purchase and advertising sales, as well as exploring formulas that make it possible to turn Qué! readers into future purchasers of its paid newspapers.

The group Planet has implemented a similar strategy, though with a more defensive approach. This company, which owns Madrid newspaper La Razón, as well as publishing houses, radio stations and television channels, launched in 2006 the fourth free newspaper of the market: ADN. To make the project feasible, it has associated to other regional newspaper groups, leaders in their corresponding geographical areas: La Voz de Galicia, Grupo Joly (Andalucia), Diario de Navarra, Heraldo de Aragón, La Gaceta Regional de Salamanca and Grupo Serra de Baleares.

ADN publishers aim at experimenting with a new business and improving the operational efficiency of their companies. But they have also built a defensive barrier that hinders the arrival of new paid newspaper competitors. In this sense, the capture of regional advertising is the main obstacle for new competitors (Intermedios, 2007). The advertisers of each regional market have a privileged relationship with the owners of paid newspapers, who have launched the regional edition of ADN, and who offer lower fees for their free newspapers than for their paid ones.

Along with the four big free newspapers of Madrid, all of them published at least in twelve other Spanish cities, during the last three years there have appeared free “niche” newspapers, also called “second generation free newspapers”, or “free papers 2.0”. The launching of free newspapers specialized in economy, sports or health is a result of the market's maturation. Since it is difficult to compete against household names, the promoters of these projects modify the business model: they specialize in certain contents, give up
mass communication and expect that the homogeneity and common interests of their readers allow them to attract advertising investments.

As shown, the phenomenon of free newspapers is closely linked to urban areas, where public transport is frequently used. According to a study made by Ipsos Media and Orange Media (2007), around 60% of free copies are delivered at metro and railway stations and bus stops. Without this urban structure it would be impossible to reach potential readers with such a low distribution cost.

Free newspapers are read mainly by young people. 45% of the readers of free Spanish newspapers are less than 35 years old (in comparison to 34% of paid newspapers). The free mode also corrects the unbalance between men and women, typical of paid newspapers: 49% of the readers are men, against 64% of paid newspapers (AEDE, 2008).

Publishers try to convince advertisers that, even when the product is free, readers feel attracted by the advertising in them. 20 Minutos describes its readers' profile in the following way: "51% women, 42% aged 14 to 34, 76% belonging to the high, medium-high and medium-medium social class" (20 Minutos, 2007). According to Metro International, its readers are typically "young people, interested in fashion, owning money, but with little time" (Metro, 2007).

Therefore, free Spanish newspapers have become an alternative to the other media, both for readers and advertisers: the former have welcomed an easy-to-read product, available at the most convenient time and cost-free; the latter have happily received a new advertising support, which provides an interesting commercial target, with a cost per reader much lower than that of paid newspapers.

LIGHT AND SHADOW OF FREE NEWSPAPERS IN SPAIN

The growth of free newspapers in Spain has been both fast and unexpected: very few businessmen and analysts of the communications sector could have foreseen that, in just one decade, the circulation of free newspapers, which had a marginal presence in the market ten years ago, would be higher than that of paid newspapers, and that they would reach the highest circulation figures in the European Union.

The reaction of paid newspapers publishers reflects this surprising success. At the beginning, they considered that the new free newspapers did not deserve being considered competitors. In Spain, they even pressed both the government and newsagents to hinder their circulation. Finally, they accepted the consolidation of this new market offer as unavoidable, and in some cases made investments in this sector.

However, the success of free newspapers seems difficult to emulate in other markets,
especially because the "Spanish paradox"—characterized by an economic development that does not impede underdevelopment in regard to newspaper consumption—is not found anywhere else. In 2006 newspaper penetration was of 36.6% of citizens; moreover, paid newspaper reading by young people is diminishing. In 1997 readers aged 14 to 19 were 7% of total readers, but in 2006 that figure diminished to 4.7% (AEDE, 2008).

The low ratios of newspaper readership, especially among the youngest citizens, raise doubts in regard to the potential growth of free newspapers in Spain. As shown by graph 1, among readers aged less than 44, the penetration of online newspaper versions is already higher than that of newspapers published in paper.

Graph 1 - Penetration of traditional and digital newspapers

![Graph showing penetration rates](image)

Source: AEDE & EGM, 2007 (percent figures).

The number of readers of both free and online newspapers has undergone a rapid increase, though in both cases there are more failures than successful businesses. To the contrary of online newspapers, which continue growing (see graph 2), free newspapers have become stagnated, after increasing their annual circulation by 33.6% from 2002 to 2005.
Free newspapers have slightly pushed up the newspaper reading rate in Spain: they have enabled the newspaper penetration ratio to grow by 8%. This percentage is not higher –despite the high circulation of free newspapers- due to the high number of duplications in free newspapers, and also in free and paid newspapers.

The fear of paid newspaper publishers after the appearance of free newspapers has not come true: there are no significant migrations from paid to free newspapers; in fact, the appearance of free newspapers has increased the number of readers of paid newspapers in weekends, since free newspapers are not published on Saturdays and Sundays. Thus, the habit of reading printed supplements has grown (Lizárraga, 2007). However, there is still a lack of empirical evidence to assert that free newspapers will boost the circulation of paid newspapers in the long term.

In a short time, the publishers of free newspapers have gone a long way in Spain: they have produced attractive products for the public, and counteracted the negative image traditionally associated to free newspapers. In addition, the four newspapers that lead the market -20 Minutos, Metro, AND and Qué!- have reached circulation figures of more than one million copies per day.

Now the main challenge for publishers lies on increasing their revenues. They must be able to persuade advertisers that their number of impacts, the socio-economic characteristics of their readers and their moderate fees turn them into a particularly attractive support option.

Their profit and loss statements could also improve if their operational efficiency grew.
Publishers must assess which publications and editions are not profitable, and how to increase the average number of readers per copy delivered, which currently is lower than one. They have partially started to implement this policy: for instance, they have recently reached an agreement with RENFE—the company that owns the Spanish trains—so as to place shelves where to leave newspapers in the stations, so that other train users may read them.

To sum up, free newspapers based their competitive advantage on their free character and easy availability. But this model—which accounts for its extraordinary growth in the Spanish market and in many other countries—also features a significant weakness: since readers do not have to make an effort to get them, they do not easily recognize their quality or remain loyal to a specific newspaper.
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