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MASS MEDIA INDUSTRIES: THE ECONOMIC GAME

Economics is essentially about resources. As a consumer of mass media messages, your key resources are money and time. Every day, you give up your time and money to various media businesses in exchange for entertainment and information. Our expenditures of resources for media exposures increases each year and now has reached an average of almost \$1,078 per person and over 3,500 hours per household per year (U.S. Bureau of the Census, 2013).

Are you average or above average in terms of how much of your personal resources you exchange for media exposures each year? To answer this question, take a few minutes to complete the inventory in Applying Media Literacy 4.1 to estimate how much money you give to the media each year, both directly and indirectly.

THE MEDIA GAME

Economics is best viewed as a game where the players bring their resources to a market and negotiate with other players in resource exchanges. The goal of the game is to leave the market at the end of each day with resources of greater value than the resources you brought to market at the beginning of the day. If your end-of-day resources are of greater value, you are a net winner for that day.

Learning Objectives

After reading this chapter, you will be able to do the following:

1. Apply the game metaphor to organize your knowledge about media economics.
2. Identify the role of advertising in the mass media economic game.
3. Describe the three major strategies mass media businesses use to be successful.
4. Develop a plan to help you increase your ability to play the economic game more successfully.

Estimating How Much Money You Spend on the Media

1. Before you go any further, stop and make a general estimate about how much money you spent on all forms of the media over the past year. Write your estimate here:

\$ _____

2. Now, let's itemize those expenditures. Think back a year from today and try to remember how much money you spent on each of the following over the past 12 months. If you want to do this accurately, get out your checkbook register and credit card receipts.

\$ _____ Cable subscription (take monthly bill and multiply by 12)

\$ _____ Magazine subscriptions

\$ _____ Individual issues of magazines

\$ _____ Newspaper subscriptions

\$ _____ Individual newspapers

\$ _____ Textbooks

\$ _____ Other books (pleasure reading, gifts, reference books, etc.)

\$ _____ Movie theater admissions

\$ _____ Rental and downloading costs of movies

\$ _____ Radios, TVs, DVD players, MP3 players, etc.

\$ _____ Repairs on media equipment

\$ _____ Computer hardware and peripherals (printer, game controllers, etc.)

\$ _____ Computer software and/or manuals

\$ _____ Computer services subscription (Internet service provider [ISP], website access, etc.)

\$ _____ Musical recordings

\$ _____ Video or computer games

\$ _____ Video games at arcades

\$ _____ TOTAL (sum of all the figures down the column)

3. How close are your figures in #1 and #2?
4. Does the amount of money you spent surprise you? Why?

The Players

In the mass media economic game, there are four types of players: (a) you, the consumer; (b) the advertisers; (c) the media companies; and (d) the employees of media companies. Each type of player brings a different set of resources to the game.

We are the consumers, and our resources include not only our money but, even more importantly, our time. We seek to exchange our money and time for entertainment and information. We, as consumers, are the largest group with over 330 million people in this country and over 7 billion people worldwide. We have the greatest amount of resources. If we pulled out of the game entirely, the game would collapse. However, our resources are dispersed over so many people that no one individual feels he or she has that much power in playing the game. This feeling is a mistake. While no one individual has a significant amount of power to change the overall game, each of us has the power to alter the game significantly for ourselves. If we play the game well, we continually increase the value of the entertainment and information we get in return for our time and money. But playing the game well requires that we keep track of our resources as well as our changing needs and that we negotiate better exchanges of resources. If we don't play the game well, we will make poor economic exchanges and continually get shortchanged on our expenditures of time and money.



► How much time and money do you spend on media each year? Turn to the Applying Media Literacy exercises in this chapter to find out.

The advertisers are a second group of players. Advertisers bring money to the game. They negotiate an exchange of their money for time and space in the media to present their ads to their target audiences. Advertisers want to get access to their target audiences for the lowest cost possible. So they look for media **vehicles** that have constructed the largest assemblages of the audience members they want without also including other kinds of audience members they do not want. For example, sellers of tennis rackets want to get their ad messages in front of as many people who play tennis as possible, but they do not want to pay a lot of money to get access to a large audience that might also include toddlers, invalids, and people who hate tennis. So they look for media vehicles (such as particular sports TV shows, Internet sites, and magazines) that have constructed an audience of only tennis players and negotiate a good ad price to get access to that smaller, **niche audience**.

The media companies are the third group of players. These businesses bring money, messages, and audiences to the game to compete in three different markets simultaneously. First, each media business competes in the talent market for the services of the best writers, journalists, actors, directors, musicians, website designers, and so on. Second, media businesses compete in the audience market—that is, they present the messages produced by their talented employees in such a way to attract the greatest number of people within certain types of audiences. In the media industries of magazines, newspapers, cable, and Internet, those companies sell subscriptions, so they want to maximize their revenue by attracting as many subscribers as possible. Media



Press Association via AP Images

► Taylor Swift has challenged the current music industry model by withholding her album *1989* and then removing all her music from Spotify, a digital music-streaming service.

companies also sell messages in the form of books, musical recordings, and DVDs. Third, media companies compete in the advertising market. When media companies have constructed quality niche audiences, they have something valuable to offer advertisers who want to get their messages in front of certain types of consumers.

The media employees comprise the fourth group of players. Employees bring their time, skills, and **talent** to the game. Talent has less to do with artistic ability than with the ability to attract large audiences. Sometimes, the two conceptualizations of talent are the same, but more often the two are very different. For example, Miley Cyrus and Justin Bieber have shown a demonstrated ability to attract huge audiences although their singing ability is no better than millions of other people. Also, there are many TV stars who are not particularly good actors yet they are in high demand by TV producers because these actors can attract large audiences. The celebrities who can attract the most attention are paid the most (see Table 4.1).

Another elite set of employees are the media company managers, who are often also partial owners of the companies. The talent of these managers is to oversee the construction of messages and their distribution so that those messages are experienced by the greatest number of targeted consumers. In essence, the talent of managers is to construct these audiences by attracting consumers and maintaining those audiences over time by making the exposures continually rewarding to the audience members. These media managers also have a talent that is in short supply so they are also paid very well (see Table 4.2). While you may recognize a few names on this list, most people who have created and who run the large media companies are not known to the general public. Only a few are famous, but notice that their economic value is often far greater than their very famous employees (compare the money columns in Tables 4.1 and 4.2).

The Goal

For all four types of players, the general goal is to maximize the value of the exchange for themselves. However, value is computed in very different ways for different players. For the media businesses, employees, and advertisers, value can be computed quantitatively—numbers of dollars. But for consumers, value is regarded as satisfaction, and that's difficult to quantify, so they do not carefully analyze the economic game in order to determine whether they are a **net winner** or **net loser** in their

Analysis

Think about your own personality. What abilities do you have to attract various audiences?





Table 4.1 Annual Income of Highly Paid Media Celebrities

Millions	Person	Profession
\$620	Dr. Dre	Music Producer
115	Beyonce Knowles	Singer
105	Floyd Mayweather	Boxer
100	The Eagles	Musicians
100	Steven Spielberg	Director/Producer
95	Howard Stern	Radio Personality
95	Simon Cowell	TV Personality
90	Glen Beck	TV Personality
90	James Patterson	Author
86	Mark Burnett	Director/Producer
82	Bon Jovi	Musicians
82	Oprah Winfrey	TV Personality
81	Bruce Springsteen	Musician
80	Justin Bieber	Singer
80	Cristiano Ronaldo	Soccer Player
77	Dr. Phil McGraw	TV Personality
75	One Direction	Singers
75	Robert Downey Jr	Actor
72	LeBron James	Basketball Player
71	Paul McCartney	Musician
70	Tyler Perry	Director/Producer
70	Ellen DeGeneres	TV Personality
66	Rush Limbaugh	Radio Personality
66	Michael Bay	Director/Producer
66	Calvin Harris	Musician

Figures in left column represent 2014 income in millions of dollars

Source: The Highest Paid Celebrities (2012).

Table 4.2 Salaries of Media Managers

Name	2013 Pay	Company, Job
Sumner Redstone	93.4	Viacom, Chairman
Leslie Moonves	66.9	CBS, Chairman & CEO
Philippe P. Dauman	37.2	Viacom, CEO
Robert A. Iger	34.4	Walt Disney, Chairman & CEO
Brian L. Roberts	31.4	Comcast, Chairman & CEO
Rupert Murdoch	28.9	21st Century Fox, Chairman & CEO
Marissa Mayer	24.9	Yahoo, CEO
Jon Feltheimer	12.6	Lions Gate, CEO
Reed Hastings	4	Netflix, CEO

Note: Pay figures are in millions of dollars and include total compensation including base salary and bonuses paid in 2013.

Source: Shaw & Maglio (2014).

Evaluation

Can you assess the talents of your friends and make a judgment about which friend has the most talent to attract a particular kind of audience?



economic exchanges. As long as consumers feel some satisfaction, they will continue accessing the same types of messages. In contrast, the other three types of players continually focus their attention on how well they are playing the economic game. Businesses can compute the value of their exchanges by performing the simple calculation of adding up all their revenue and then subtracting out their expenses, thereby determining their **profit**. If they are able to make a profit, they are a net winner because their revenues (what resources take in) exceed their expenses (resources they give up). And if the size of the profit continues to grow each year, those businesses become more powerful because they amass more resources.

As consumers of media messages, we play this economic game every day. So we need to ask ourselves this: If most media businesses are net winners, who are the

net losers? Am I a net loser—that is, am I giving up more valuable resources than I am receiving back? The more you understand the game, the better you will be able to position yourself to be a net winner in these economic exchanges.

Advertising Is the Engine

Advertising is the engine that drives the growth of the media industries. The cost of doing business in the United States has greatly increased as advertising continually becomes a stronger economic force. In 1900, about \$500 million was spent on all forms of advertising. By 1940, it was \$2 billion, so it took 40 years to multiply four times. In 1980, it was \$60 billion, or a growth of 30 times in those 40 years. By 2012, it had increased to more than \$245 billion with 27.4% going to online advertising, which was a bigger share than all advertising money spent on TV (broadcast and cable) and radio combined (Screenwerk, 2014).

Why is advertising so important to our economy? There have been some dramatic changes of the economy of this and other Western countries over the past 100 years and especially over the past 50 years that have worked in combination with advertising to increase both the sale of goods and services as well as the importance of advertising. First, there has been a decline in the proportion of farmers and blue-collar workers and an increase in the proportion of white-collar workers. This means that people are not as self-sufficient and must buy their food and clothing. Second, there has been a high level of employment, which gives people the resources to buy goods and services. We have more discretionary income, which makes it possible for us to purchase things at a point well beyond the mere subsistence level. Over time, the standard of living has steadily increased as people's earning power increases and their expenditures for food, clothing, automobiles, housing, media, and luxuries have all increased.

Advertising has been the engine for this growth. Advertising makes it possible for new goods to enter markets and let us know immediately that they are available. With more product successes, more and more companies are willing to introduce an even wider range of new products. These companies fuel advertising agencies with money, which is passed through to the media. As the media grow, they offer more information and entertainment to us. More of us spend more time with the media,



► Facebook provides an opportunity for advertisers to reach targeted audiences based on location, age and gender, interests, or connections and also to track the effectiveness of advertisements.

Abstracting

Can you explain why advertising is so important to the economy in 25 words or less?



thus generating many more audiences, which the media rent out to advertisers. The money cycles from us to products, to the manufacturers of those products, to those companies' advertising agencies, to the media. Advertising drives this cycle faster and faster each year. If we stopped buying advertised products, the cycle would slow down and eventually stop.

MEDIA INDUSTRIES' STRATEGIES

The media industries have developed some general economic strategies over the years that make them successful at playing the economic game and achieving their goals. Three major strategies are illuminated in this section: maximizing profits, constructing audiences, and reducing risk.

Maximizing Profits

Almost all mass media are profit-oriented enterprises. As businesses, they are run to make as large a profit as possible. Profit, which is the difference between a company's revenue (total income) and expenses (total costs), is the payoff or reward for doing business. There are two ways of increasing profit: increasing **revenue streams** and decreasing expenses.

INCREASING REVENUE STREAMS A major strategy employed by media businesses to maximize their overall revenue is to increase the number of revenue streams. Given the way audiences have been fragmenting into smaller and smaller slivers, the level of revenue that can be generated by any one audience has been decreasing. So to work around this problem of fragmenting audiences, media businesses have had to develop multiple revenue streams. One way to do this is to try to develop several ways to generate money from the same audience. For example, a film studio will develop an action adventure movie to attract a certain kind of audience to buy tickets at a theater when the movie is first released. Although movie studios typically spend \$50 million advertising a film, they know that many films will not earn this much at the box office. So the studios sell the movie on DVDs and through downloads from Internet sites. They also lease the movie to foreign distributors, and this adds another revenue stream. They lease the film to the airlines for showing during flights. They also sell downloads of the music from the film. Often, they try to produce toys, clothing, or other artifacts from the film and sell those to the public. They sometimes hire writers to turn the movie into a book. Or they could hire someone to translate

the movie into a comic book format. And they also sell product placements in the films. All these revenue streams increase the total revenue and thus give the film more of a chance to be profitable. This strategy is not limited to film but applies to all the media industries.

This strategy of increasing revenue streams can also be seen in all the merger and acquisition activity across the media industries. When a media company becomes a conglomerate, controlling the distribution of messages in many media channels can easily market a single message across many channels and thus quickly create multiple revenue streams for that one message.

MINIMIZING EXPENSES One of the largest expenses across all the media industries is personnel—especially for what is called **above-the-line employees**. These are the people who have the talent to attract audiences. In contrast, other employees (such as receptionists, secretaries, ticket takers, etc.) are called **below-the line employees**. Because the talent of above-the-line employees is at a premium, media companies must pay huge sums to hire this talent. To compensate for this increasing cost of talent, companies are pressured to keep the below-the-line costs down. Most of the positions in the media industries are fairly low-level jobs that entail routine assignments that can be done by many different people with little training. These are the secretaries, receptionists, ticket takers, and low-level craftspeople. A bit higher than this are the assistant producers, camera operators, disc jockeys, and the like. Some of these people have special talent and quickly move up to the top of their industry, but most of them do not.

The media pay the people with a lot of talent a lot of money because these people are required for a company to generate large revenues. To counterbalance the large payments to talent, companies reduce expenses by paying clerical people as little as possible. Because the supply of potential workers for entry-level positions is so much larger than the demand, media companies can pay near minimum wage and get good workers.

The media reduce expenses through **economies of scale** and **economies of scope**. Economies of scale exist when marginal costs are lower than average costs—that is, when producing an extra unit of a product decreases as the scale of output expands. Large production runs are good because they spread out the start-up expenses over many units; thus, with each additional unit manufactured, the per-unit cost continues to go down (Doyle, 2002). To illustrate, let's say you are a magazine publisher and your cost of operation (cost of paying all your reporters, editors, salespeople, office staff, rent on building, depreciation of all your equipment, supplies, phones, other utilities, etc.) is \$60,000 per week. This is your fixed cost. If you print only one copy of the magazine each week, you will have to sell it for \$60,000 just to cover your fixed costs.

If you print two copies, you would have to sell each for \$30,000 to cover all your costs; your average fixed cost per copy is cut in half. If you print 60,000 copies, your average fixed cost per copy is only one dollar. Thus, your average fixed costs keep going down as these costs are spread over more and more copies.

However, when you print more copies, the cost of paper, ink, and distribution increases; these are your variable costs because they vary according to how many copies you print. The more copies you print, the more paper and ink you will need, and the price you pay for a roll of paper or a gallon of ink will go down because you can buy these materials in bulk and get big discounts. Although your total cost for ink and paper will go up when printing more copies, your *average* variable cost for these will go down. This is known as economies of scale. The bigger the scale of your business, the more likely your costs will go down either through the ability to demand greater discounts or because you are able to operate more efficiently beyond a certain point.

The media companies, like any business, want to keep their expenses down, so they will find the point at which the combination of both their average fixed costs and their average variable costs are lowest. Beyond this point, distributing more copies only serves to increase unit costs and thus reduce profit. So newspapers, magazines, books, and recordings each seek the point where their average total costs (the sum of average fixed costs and average variable costs) are lowest.

With economies of scale, broadcast television, radio, and websites are different from the other media. They have no variable costs, only fixed costs. For example, with radio, there is no cost to the station of adding an additional listener to the audience. Listeners pay for their own radio receivers, and they pay for the electricity to run them. The station has no distribution costs other than the electricity of the broadcast signal, and the power used to broadcast a station's signal is the same whether 100 or 100,000 sets are tuned in. It is fixed. With no variable costs and with a very high first-copy fixed cost, radio stations keep dropping their average total costs with each additional audience member added. For this reason, the broadcast media (both radio and TV) are strongly motivated, more than any other medium, to increase the size of their audiences. The same pattern holds with websites.

Economies of scope also serve to reduce a firm's expenses per unit. Economies of scope are achieved through multiproduct production—that is, there are variations on the product produced. Recall the previously given example about a movie company generating many revenue streams for a single movie. As the revenues increase for each new revenue stream, the expenses remain relatively low—that is, once you have produced the movie, it is relatively inexpensive to record it on videocassettes and DVDs. By increasing the scope of distributing the same product, very little additional costs are incurred, and yet the potential for revenues increasing is great.

Digitization has made economies of scope even more attractive, because it creates little cost to retransmit a message in many different channels. Also, digitization allows for compression of greater amounts of data or more layers of content to be packed into a product. Now you can buy a DVD with an entire movie. It also can have interviews with the writer, director, and stars; outtakes; director's cut; alternative endings; and so on.

Grouping



Can you compare and contrast the techniques that achieve economies of scale with techniques that achieve economies of scope?

Constructing Audiences

Because advertising is the principal source of revenue for most of the commercial media throughout the world, media companies are in the business of constructing desirable audiences and renting them out to advertisers. Because the cost of building an audience is high, mass media businesses need to condition their audiences for repeated exposures so the businesses can recover those costs over time.

ATTRACTING PEOPLE TO NICHE AUDIENCES The radio and magazine industries have been very successful for years in attracting people to a niche audience. Recall from the previous chapter that radio was displaced by TV as the dominant medium in the middle of the last century. In order to pull itself out of a decline and adapt, radio switched from a quantitative to a qualitative audience strategy, and each radio station developed a certain sound to appeal to one kind of listener. For example, one station will use rap music to attract urban youth, whereas another station will use golden oldies to attract the aging baby boomers. The audience for each of these stations is relatively small compared to the audience for radio during its peak years, but if a company owns several radio stations, then each of those small audiences can add up to a large total.

Relatively small, highly targeted audiences have great value to many advertisers, because special groups of people have special needs. Businesses that are marketing products for a special audience will pay a premium to the media vehicles that attract that special audience. For example, joggers as a group have a special need for information on running practices, equipment, and training techniques. They support several magazines that publish nothing but this type of information. Manufacturers of jogging equipment pay a premium to place ads in these magazines, knowing that the buying of advertising space in these magazines is a very efficient purchase, because the ads placed there will be reaching their most likely customers.

This niche orientation is called long tail marketing, which was introduced in the previous chapter. The market for products of all kinds as well as media messages is

Induction

Can you see a pattern in the way
your favorite websites attract
your attention?



now much less concentrated on a few hits and is much more spread out across thousands of alternatives, each of which generates a small amount of sales. Our economy has shifted away from a focus on relatively few hits (mainstream products) and is moving toward servicing the needs of thousands of tiny markets forming a long tail. To illustrate, the recording industry used to focus on signing only those musical groups that could produce gold records (at least 500,000 sales) and platinum records (at least 1 million sales). But then with the introduction of MP3 players in 2001 and the widespread use of music-sharing platforms on the Internet, the recording industry moved much more into long tail marketing; by 2006, there were 8 million unique song tracks being sold and shared.

Long tail marketing relies on aggregators, which are platforms that bring together buyers and sellers of all kinds of products and services. Anderson (2006) says there are five kinds of aggregators: physical goods (Amazon, eBay), digital goods (iTunes), advertising services (Google, Craigslist), information (Google, Wikipedia), and communities/user-created content (Facebook, Bloglines). These aggregators rely on recommendations to direct users to the products and services they are most likely to buy. These aggregators make filtering decisions so that users can have a more efficient buying experience and not have to slog through all the hundreds of thousands of choices.

What makes long tail marketing so successful is the widespread use of technologies that many people can use to create products and messages, the removal of limitations in bottlenecks of distribution, and limits on product lines in stores. The cost of reaching those small niche audiences has fallen dramatically. Now everything is available. Now it is easier than ever to create media messages in many forms (print, musical recordings, video) and make them widely available (blogs, Amazon, iTunes, YouTube, Facebook, etc.)

We are now in the middle of a major retailing shift away from brick and mortar stores to web-based stores. Brick-and-mortar stores have limited shelf space and can only offer a small percentage of products, but virtual sites on the Internet can offer a much more extensive selection of products. For example, of the more than 200,000 films, TV shows, documentaries, and other video that have been released commercially, the average video brick-and-mortar store carries only about 3,000. Thus, web-based movie rental services are better than even the largest brick-and-mortar stores. For example, 138 million Americans shop at Walmart each week, making Walmart the biggest single seller of music in the country, accounting for 20% of all records sales, but 99% of music albums available today are not in Walmart. Web-based retailers, such as Apple iTunes, offer 40 times as much selection

as Walmart; and eBay offers thousands of times as many products as even a large department store (Anderson, 2006).

CONDITIONING AUDIENCES Once a mass media business has constructed an audience, it needs to keep that audience so it can continue to rent it out to advertisers. The mass media businesses are not especially interested in providing a message for a single exposure, like a rock concert promoter might. The mass media want to stay in business over the long term and this requires that once they have been able to attract an audience that they hold on to it for repeated exposures. Therefore, they must condition their audience members so that they develop a habit of exposure.

Reducing Risk

All businesses face risk. About 90% of new businesses fail shortly after being founded, and venture capitalist firms that finance new businesses for a living are happy when 20% of their investments are successful. Risk is especially high with new media businesses, like with Internet start-up companies and even with established companies that must continually develop new messages, like Hollywood films. Very few Hollywood films earn enough at the box office to cover their initial production costs, and less than 2% of films released each year in the United States account for 80% of box office returns (Schumpeter, 2011).

How do media companies reduce the risk that their messages will fail to attract a large enough audience to recover their initial costs of production? Media businesses have shifted their thinking toward something called the **marketing concept**. Instead of beginning with messages then trying to find audiences for those messages, media businesses begin with audience needs then construct messages to meet those needs. With the marketing concept, managers conduct research to identify particular niche audiences and then find out what the unmet needs are for those audiences. Then the media develop messages to meet those previously unmet needs. Beginning with research first and product development second reduces risk of message failure once the messages are released into the market.

This procedure is used frequently by the media industries. Researchers analyze what works, and then they develop shows that are sequels or spinoffs of successful shows. Hollywood is fond of sequels because they reduce risk. This is why the number of sequels increased each year until 2011: They reached an all-time high when a sequel of a major Hollywood movie was released every other week (Lussier, 2011). For example, *Spider-Man 2* cost \$200 million to produce, which is a huge investment risk. However,

Induction



Can you see a pattern in the way your favorite websites condition you to want to keep coming back for repeated exposures?

it earned back all that investment in the first several weeks at the box office and then went on to earn a total of over \$370 million from all its revenue streams over the next few years. Based on this success, the producers made *Spider-Man 3* with a budget of \$258 million and that movie earned even more money (Sammy, 2012).

INCREASING MEDIA LITERACY

Now it is time to ask yourself this: Am I a net winner or net loser in the economic game I play with the mass media every day? To arrive at a good answer to this question, you need to consider the value of your resources—that is, how do the costs of the resources you give up compare to the benefits from the resources you receive? Your main resources are your time and money. Earlier in this chapter, you estimated your expenditure of resources of money and time. These are your costs.

Now let's analyze your benefits. The benefits received from exposure to media messages are typically the resources of information and entertainment. So you need to think about the degree of satisfaction from the information and entertainment you have been receiving from the mass media. The task of clarifying these benefits is more difficult than the task of inventorying your costs because they are difficult to quantify. With costs, it is relatively easy to list hours of exposure and dollars spent. But with benefits, the "yardstick" you must use to measure them is much more personal and subjective. Of course, there may be some areas where quantification is possible. For example, perhaps you spend a lot of time on Facebook with the goal of increasing your number of friends; so if your number of friends constantly increases, then you are constantly increasing the benefits of your exposure. Another example is the playing of computer games where your scores constantly improve as you spend more hours and money playing. However, with most media exposures, there is no quantifiable yardstick; instead, we all need to use our subjective judgment and answer two questions. The first question is this: Am I generally satisfied by what I get from all my media message exposures? To answer this question, you need to think about your general standards for media messages and compare your pattern of exposure to those standards. If you conclude that your general patterns of media exposure deliver the right amount of information and entertainment than you typically expect, then you believe that the exchange of resources is fair—that is, you are getting what you wanted from your media exposures. If you conclude that you are getting more than you expected, then you regard yourself as a net winner. But if you feel you are constantly getting less than you expected, then you are regarding yourself as a net loser—that is, you keep giving up your valuable time and money when you continually feel that you are not getting back sufficient value in return. Of course in our everyday lives, we all feel shortchanged from time to time. We cannot win every exchange, so we cannot

worry about that. However, if you feel that there is a long-term pattern of being shortchanged, then you need to consider doing something different.

Our economic analysis is not yet complete. We need to ask a second question, which is this: How good are my standards? If your standards are too low, then everything you encounter will meet those standards and typically exceed them. In this case, you may be regarding yourself as a net winner, but this perception would be faulty because you are selling yourself short.

The key to being a net winner starts with valuing your resources well in this economic game. For example, let's say you find something in your parents' attic that you think may be valuable. You take it to an antique dealer to sell it. The dealer offers you \$60 for it. Should you accept the \$60 and sell it to the dealer? If you have no knowledge of antiques and no idea about how rare the piece is, you are operating in the dark. You might think you are savvy negotiator and ask for \$100, then settle for \$80, feeling good that you "got the dealer to raise her offer" by \$20. But maybe the piece is worth \$1,000. If you don't have a good operating knowledge about what your resources are worth, you will continually fall into one of two traps. One trap is to *overvalue* your resources, and no one will want to enter into exchanges with you. The other trap is to undervalue your resources, in which case you make lots of exchanges, but you continually are shortchanged. When you have little self-awareness of the value of your resources, you can only play the game to lose.

Now let's return to the cost-benefit analysis. As for costs, think beyond financial resources and also consider what your time is worth. If your time is worth nothing, then anything you receive in return for giving up that time is a bonus! But if your time is valuable, then think about how you could spend your time to match—or exceed—that value. As for benefits, think in terms of how valuable the information is that you get from the mass media. Is it credible? Is it simple to understand? Is it useful for your personal needs? Then think about how valuable the entertainment is that you get from the mass media. Is it exciting and involving, or is it boring? Do you look forward to these exposures, or do you engage in them simply to pass the time? Think about the range of your media exposures. Have they grown narrower each year? Or are you expanding your exposure to a wider range of media platforms; a wider range of music; a wider range of types of movies; and a wider range of magazines, newspapers, and websites as you search for a wider range of information?

The more you think about those expenditures and the value of what you are receiving in return, the more you are thinking from a media literacy perspective. If you are happy

Evaluation



Can you assess how good your standards are—that is, make a judgment about whether or not your standards for media messages are high enough to prevent you from wasting your time and money?

Synthesis

Now that you have learned more about the economic perspective, can you construct a personal plan to increase the value of your exchanges and become more of a net winner with the media?



with your answers and come to realize that you are a net winner in these exchanges with the media, then this media literacy perspective has helped you appreciate the media—and yourself—more. If, instead, your answers have led you to realize that you are a net loser in these exchanges and that the media have conditioned you to fulfill their goals rather than your own, then this media literacy perspective has helped you see a problem that you have been overlooking—a problem that has likely been making you unhappy.

In your overall cost–benefit analysis, however, it is not likely that your answers have been all positive or all negative; instead, you are likely to have reasoned that with some of your exchanges you have been a net winner and with others you have been a net loser. In this case, the media literacy perspective has helped you see a difference; therefore, you need a strategy to protect your exposures that result in you being a net winner and grow your winnings while developing another strategy to negotiate more from those exposures where you have been a net loser. In developing new strategies to overcome past problems, think about how you can increase your benefit streams while reducing your costs. Think about how you can find those messages that satisfy your personal needs better. And think about how you break the media’s hold on your habits that have been conditioned to satisfy their needs rather than your own needs.

KEY IDEAS

- Media economics can be viewed as a game where the major players (you, the consumer; advertisers; the media businesses; and employees of the media businesses) negotiate exchanges of their existing resources for other resources that they value more.
- The businesses in the media industries engage in tough competition with each other to acquire limited resources, play the high-risk game of appealing to audiences, and achieve a maximum profit.
- The media businesses are very successful at playing the economic game because they follow three strategies:
 1. They maximize profits by increasing revenues and decreasing expenses.
 2. They construct niche audiences and then condition audience members into habits of continual exposures.
 3. They reduce their risks by using the marketing concept.

- Advertising is the engine that keeps the game going and increases the exchange of resources.
- As consumers, we exchange our resources of time and money in order to receive information and entertainment.
- In order to become more media literate, we need to evaluate our resource exchanges periodically to make sure that we are getting full value for the resources we give up.

FURTHER READING

Albarran, A. B. (2010). *The media economy*. New York, NY: Taylor & Francis. (202 pages with index)

The author covers a lot of ground in this relatively short book. He includes chapters on theories, technologies, regulatory issues, globalization, and labor issues.

Anderson, C. (2006). *The long tail: Why the future of business is selling less of more*. New York, NY: Hyperion. (238 pages including index)

Anderson convincingly shows that marketers of media messages—as well as all products—have moved away from depending on hits for generating all their sales and instead are now mining sales

from thousands of non-hits, each of which has low sales but added together generate huge revenue.

Vogel, H. L. (2011). *Entertainment industry economics: A guide for financial analysis* (8th edition). New York, NY: Cambridge University Press. (655 pages including appendices, glossary, and index)

This textbook presents a wealth of details about the economics of each of the media industries in 15 chapters. It presents a lot of facts and figures (rather than anecdotes and insider stories) about the economic history and current nature of the entertainment industries primarily in the United States.

KEEPING UP TO DATE

Advertising Age (http://adage.com/datacenter/article?article_id=106352)

This website provides lots of information about the leading media companies.

Forbes (www.forbes.com/forbes-400)

This website provides stories on economics and rank ordered lists of wealthy people.

 **SAGE edge™**

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