Online vs. Offline Media in the U.S.

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Focus

- Professionally produced copyrighted commercial media products

- A long term historical perspective

- Part of a broader project on economics of media development in the US and UK

Some questions

- **How is online media affecting…**
  - media industry revenues and employment?
  - the balance of advertiser vs. direct pay support?
  - the quality and variety of media products? ….**or**….is offline + online media a negative or positive sum game?

- **Some questions harder than others…..**

Overview

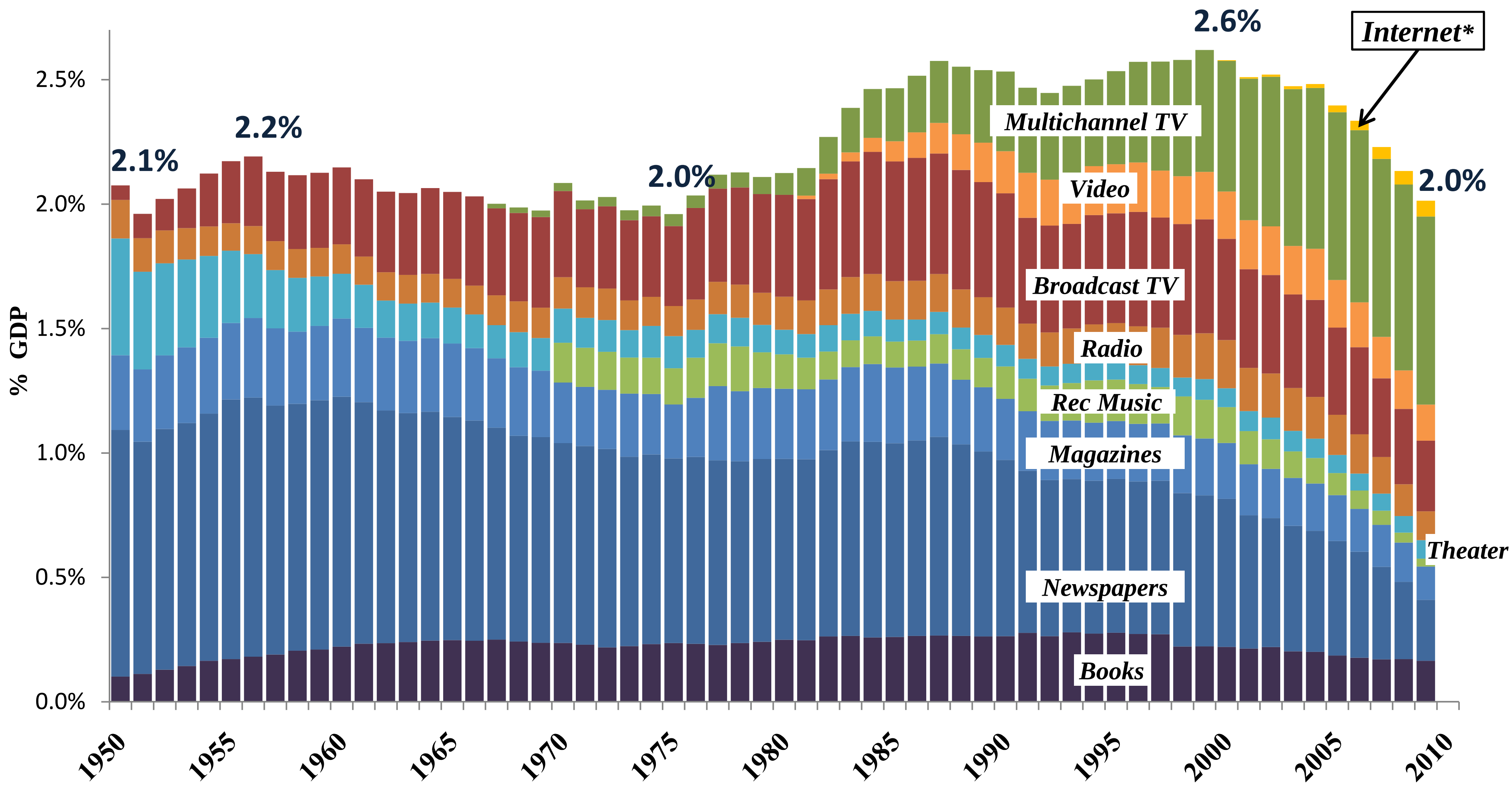
- **Overall, media revenues steadily declining since about 2000**

- **An increasing shift toward direct pay support**

- **Several possible reasons (*consumer habits, copyright issues, business models, greater efficiency*…)**

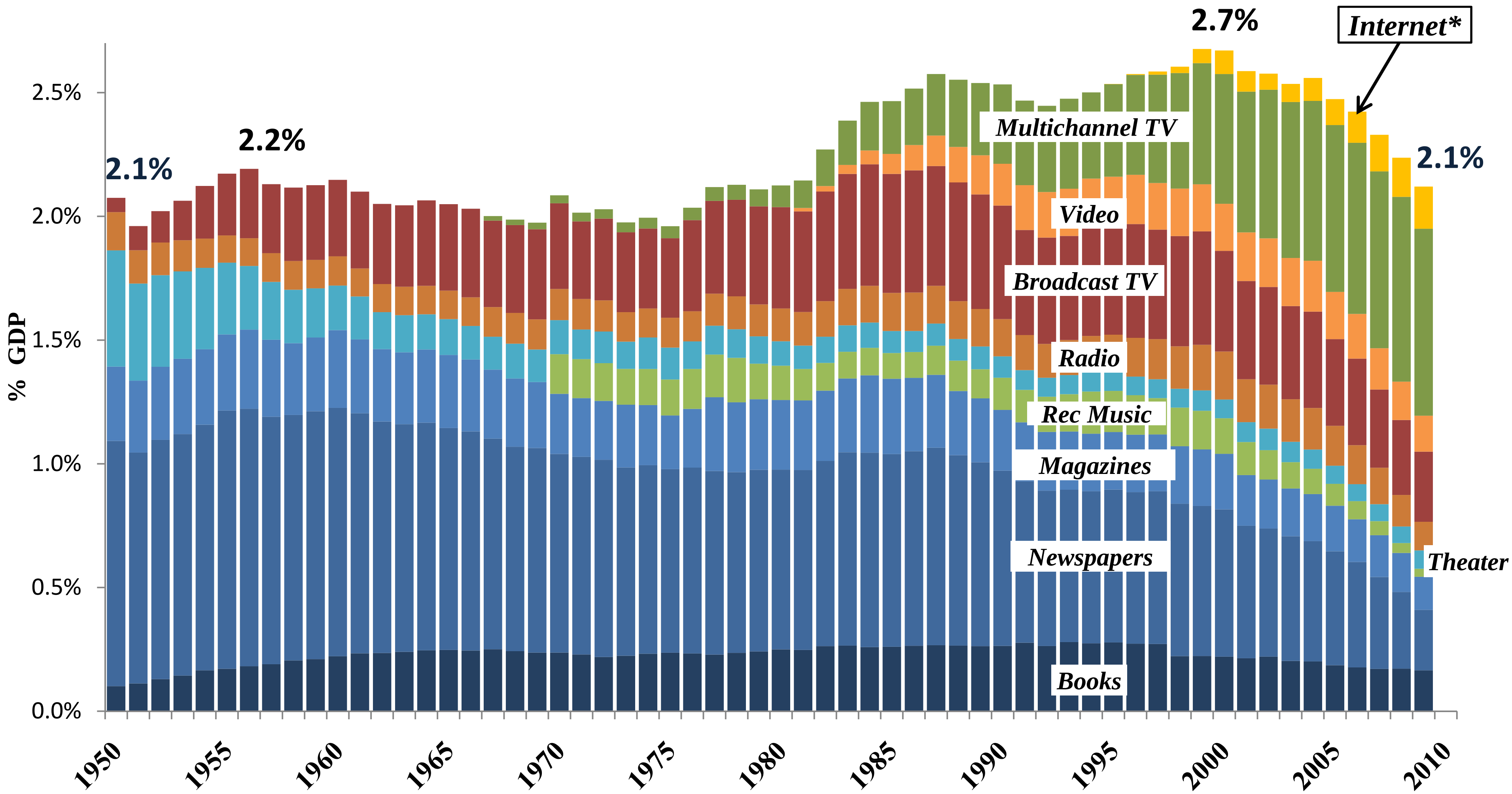
- **Some evidence of increasing media production (a positive sum game)**

Total Revenue of US Commercial Media as % of GDP 1950-2009. (*Internet lower bound**)



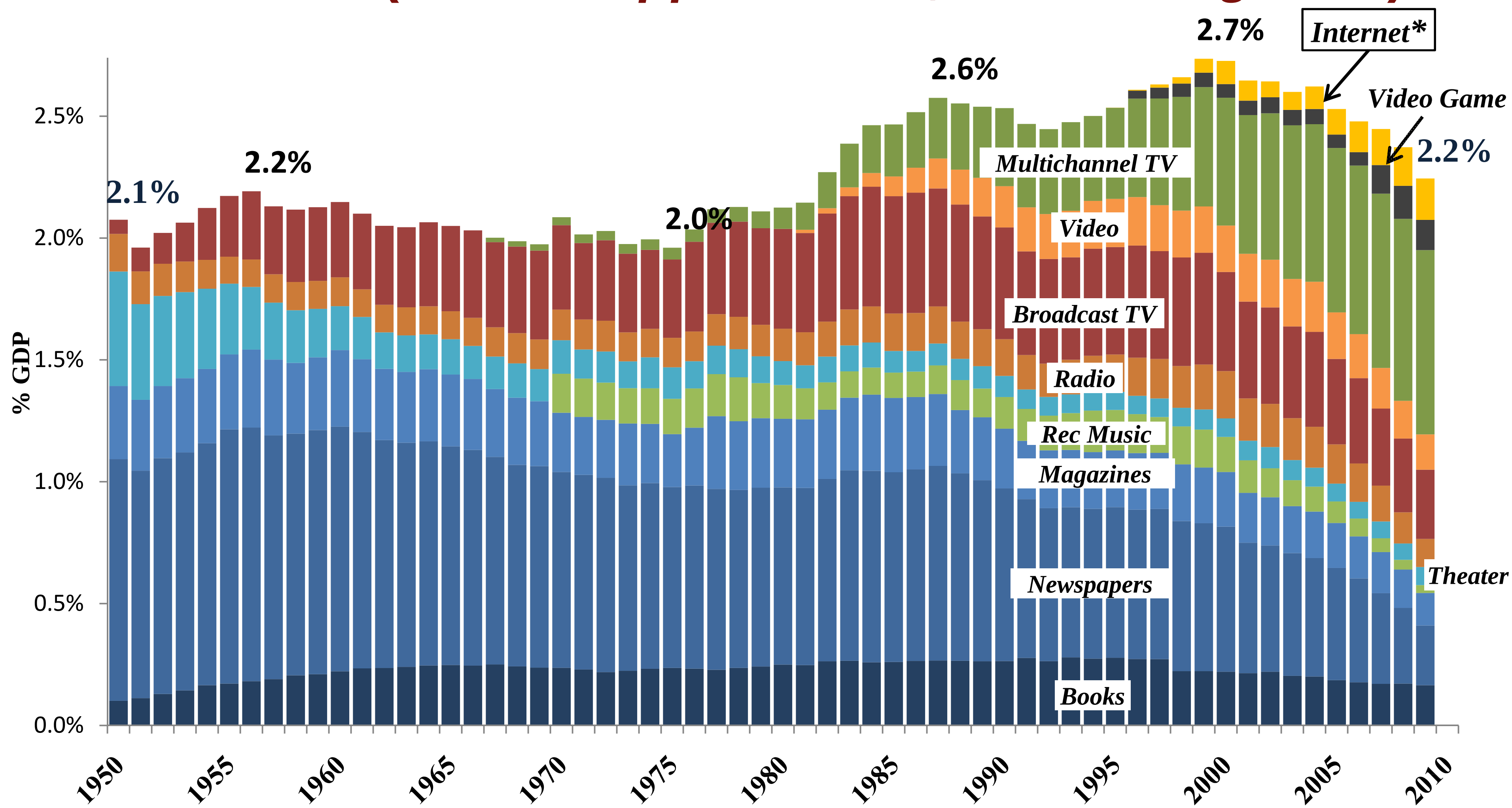
** includes: newspaper websites; digital music/movies; television station/network websites; Internet radio; e-books*
Sources: U.S. Census; trade associations; industry analysts; 10-K reports; author estimations
Preliminary data (Waterman/Ji, March, 2011)

Total Revenue of US Commercial Media as % of GDP: 1950-2009 (*Internet upper bound**)



** includes all Internet advertising except search and e-mail + all Internet Publisher revenues exc. adv. (US Census)*
Sources: U.S. Census; trade associations; industry analysts; 10-K reports; author estimations
Preliminary data (Waterman/Ji, March, 2011)

Total Revenue of US media as % of GDP, 1970-2009. (*Internet upper bound; inc. video games*)

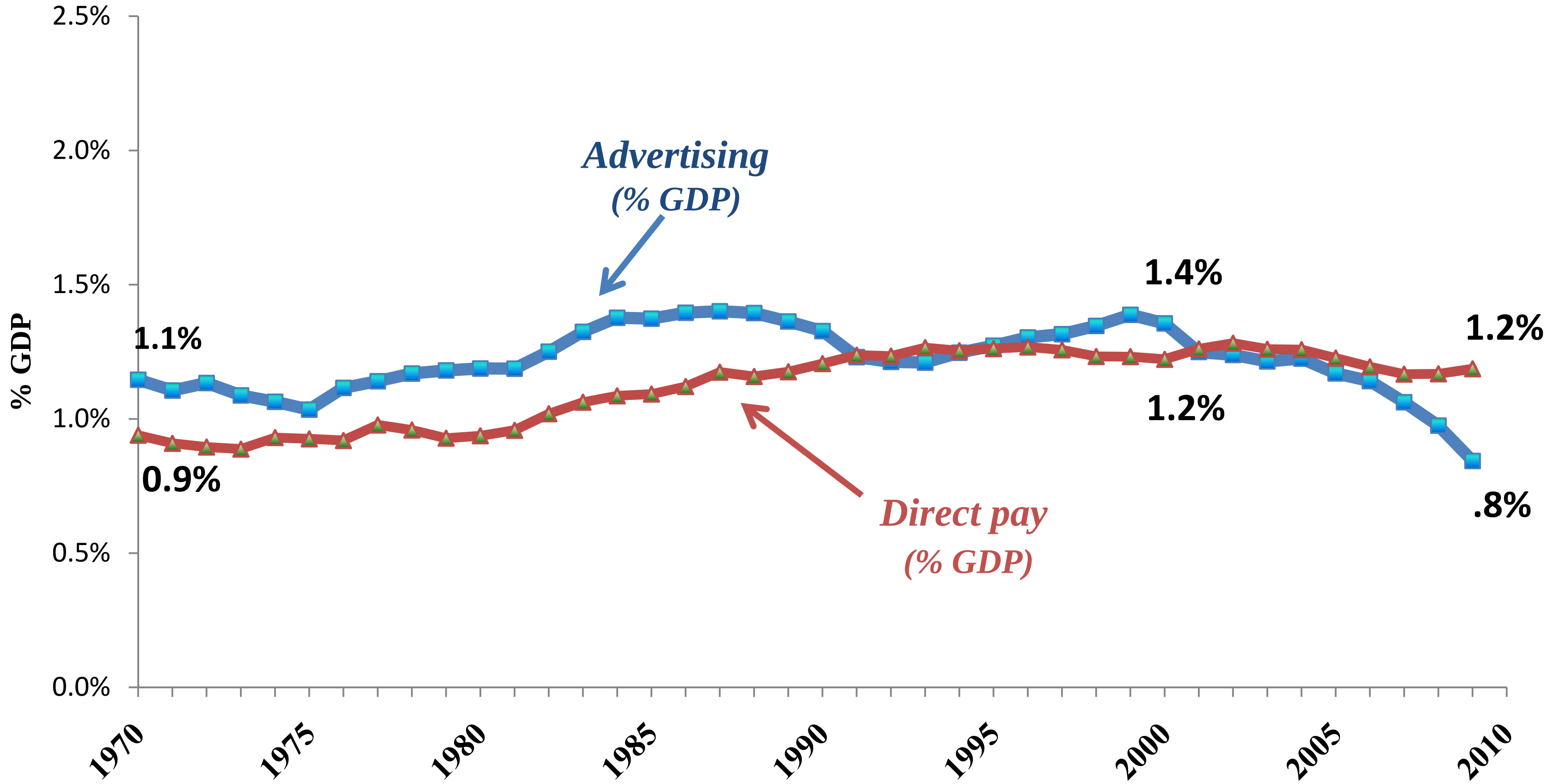


Sources: U.S. Census; trade associations; industry analysts; 10-K reports; author estimations
Preliminary data (Waterman/Ji, March, 2011)

Statistical summary

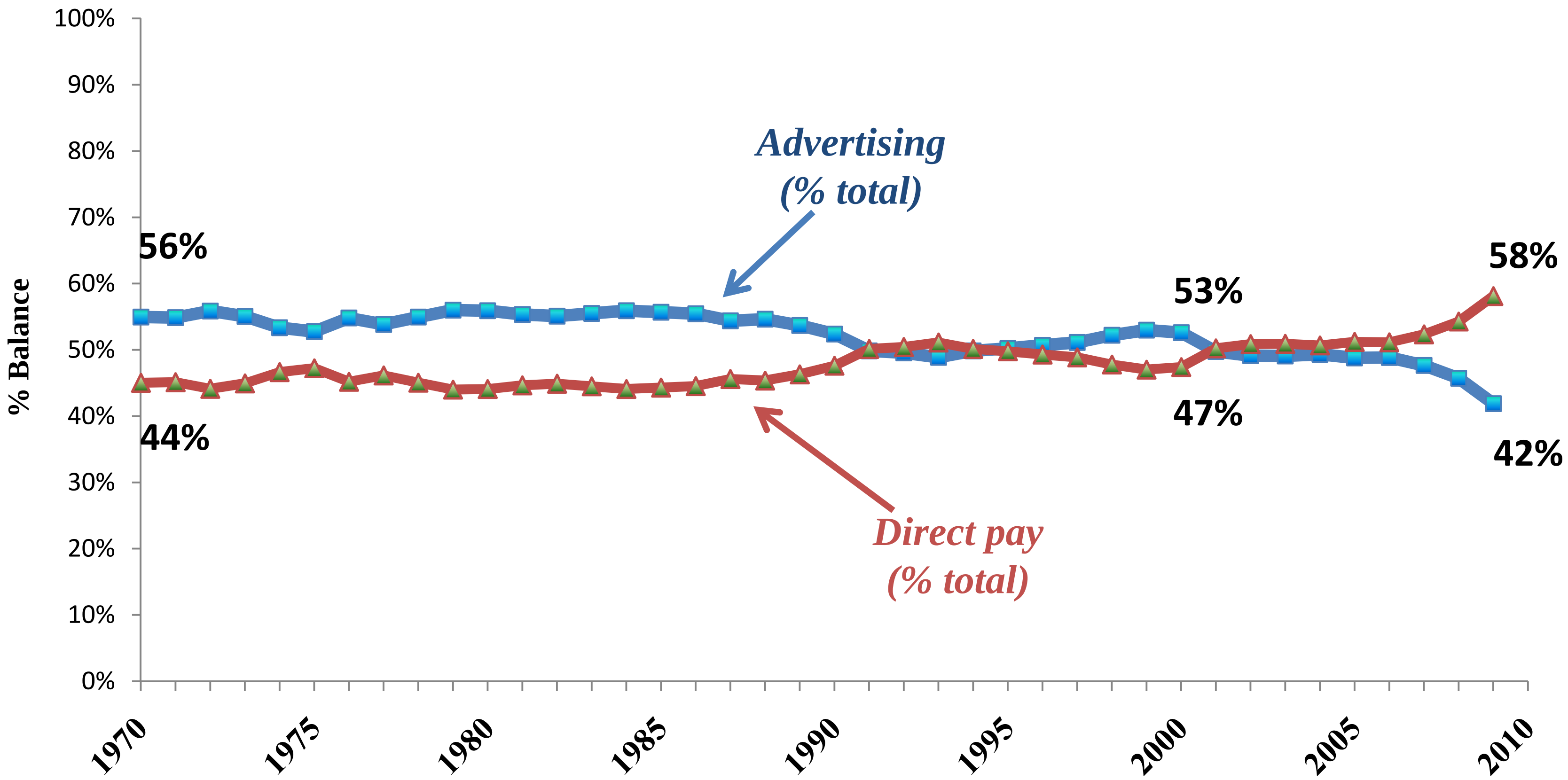
- ❑ **Steady fall in media revenues as % of GDP since 2000**

Advertising vs. Direct Pay Support as % of GDP: All US Media, 1970-2009



Sources: U.S. Census; trade associations; industry analysts; 10-K reports; author estimations
Preliminary data (Waterman/Ji, March, 2011)

Advertising vs. direct Pay Support: % Balance All US Media, 1970-2009



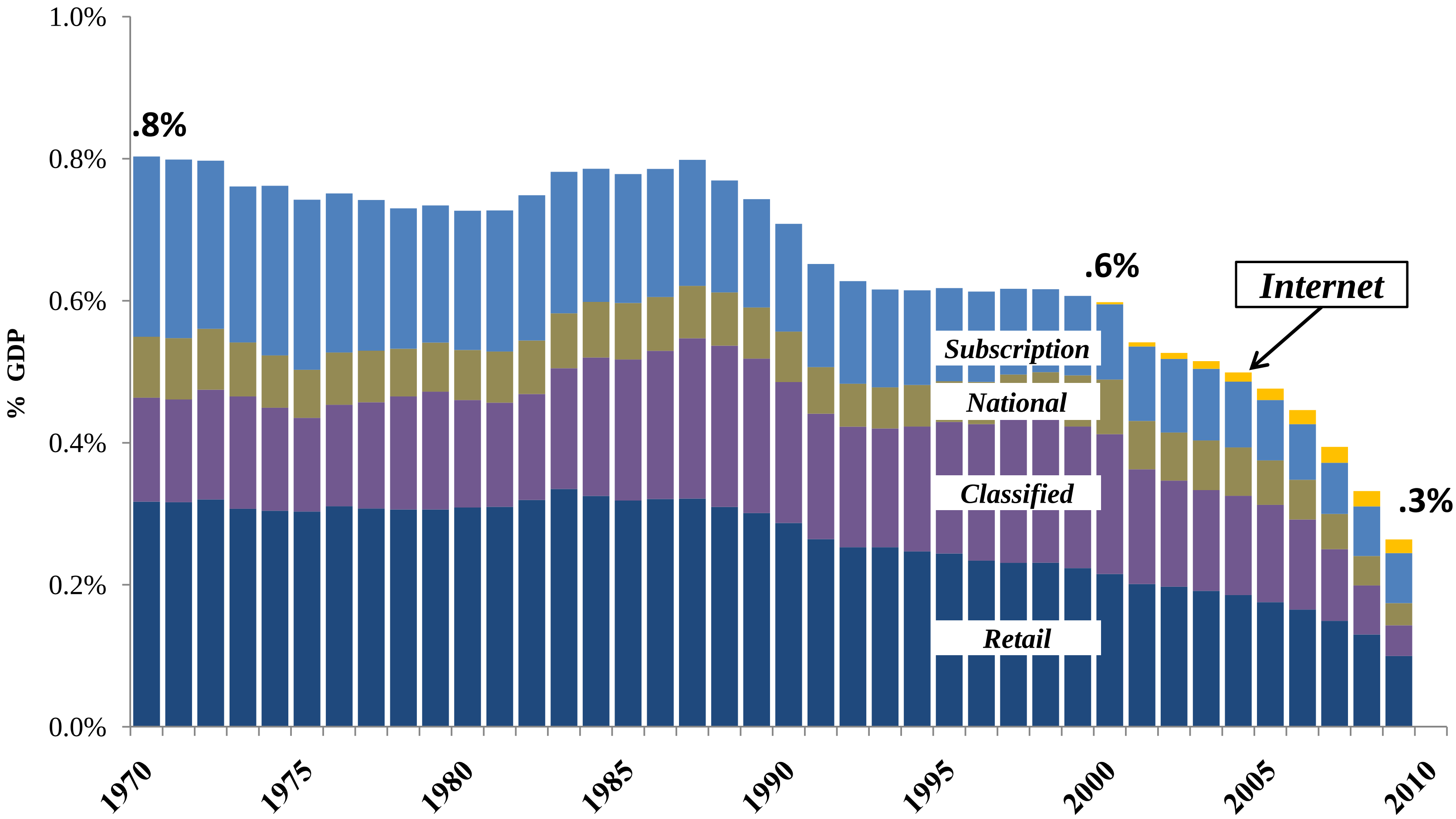
Sources: Sources: U.S. Census; trade associations; industry analysts; 10-K reports; author estimations
Preliminary data (Waterman/Ji, March, 2011)

Statistical summary

- Steady fall in media revenues as % of GDP since 2000

- A shift toward direct pay support, especially since 2000

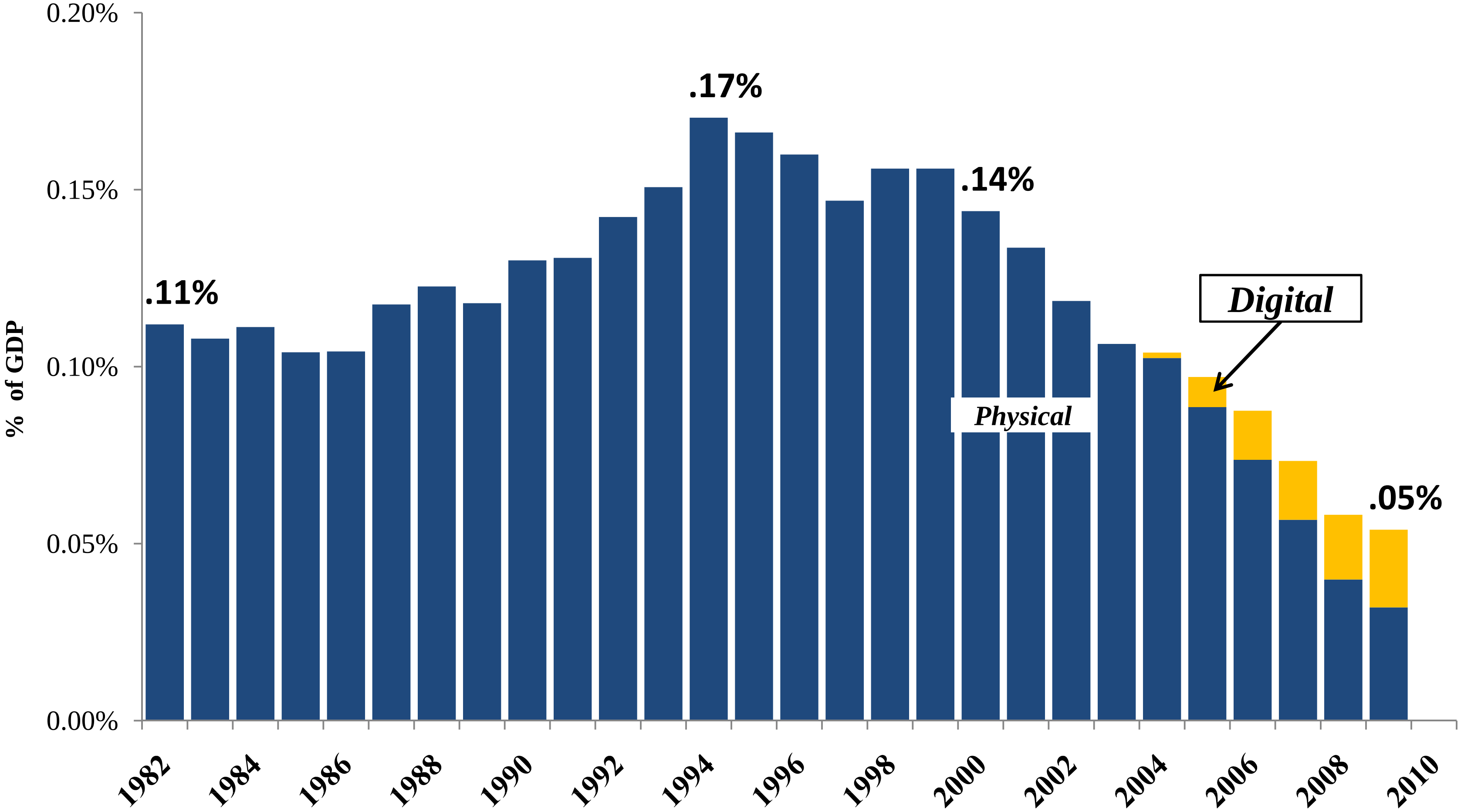
Newspapers: Total Revenue by Category as % GDP, 1970-2009



Sources: U.S. Census: Newspaper Association of America; author estimations
Preliminary data (Waterman/Ji, March, 2011)

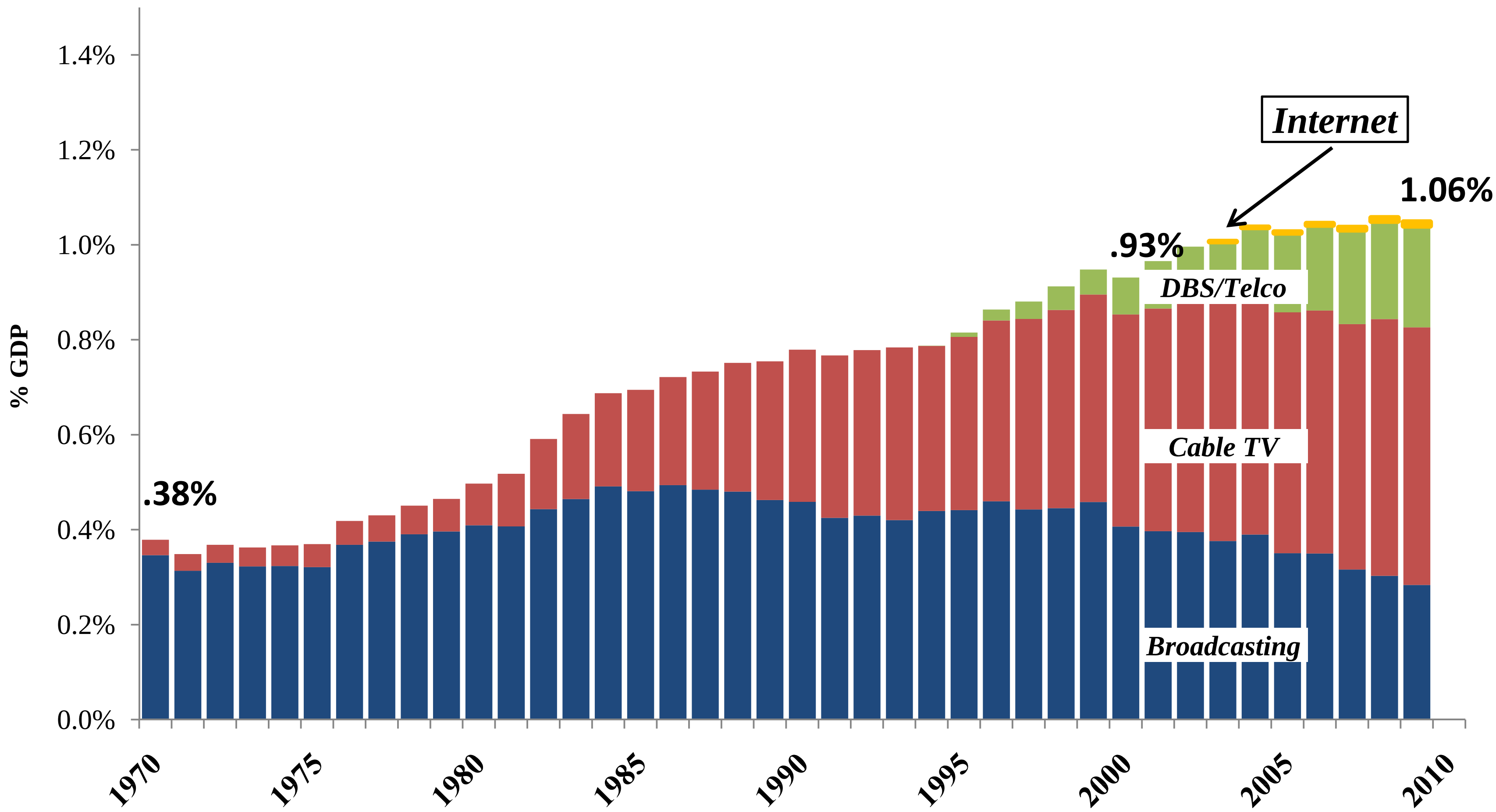
Part I

Recorded Music: Total revenue by category as % GDP, 1982-2009



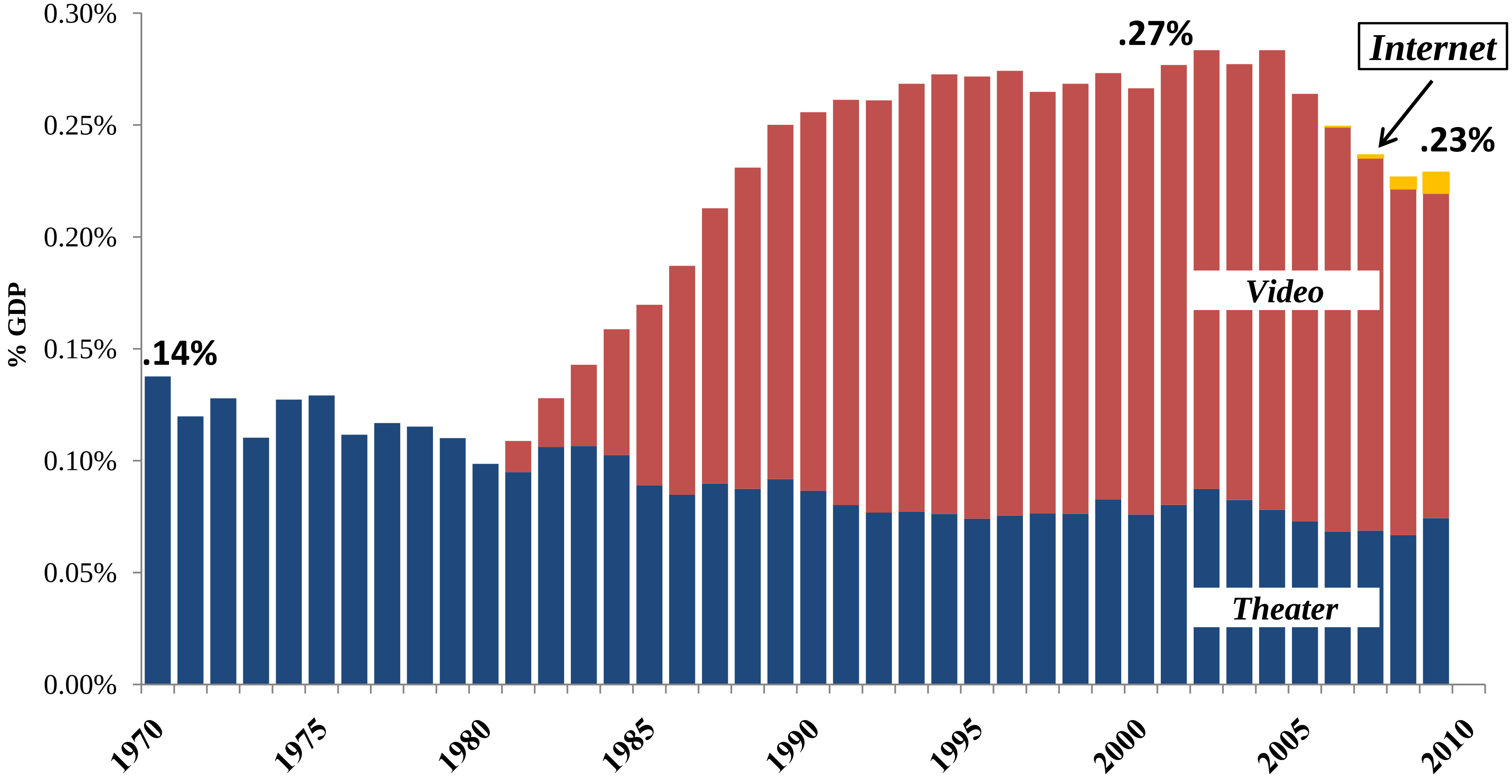
Sources: U.S. Census; Recording Industry Association of America; author estimations
Preliminary data (Waterman/Ji, March, 2011)

Television: Total Revenue by Category, as % of GDP, 1970-2009



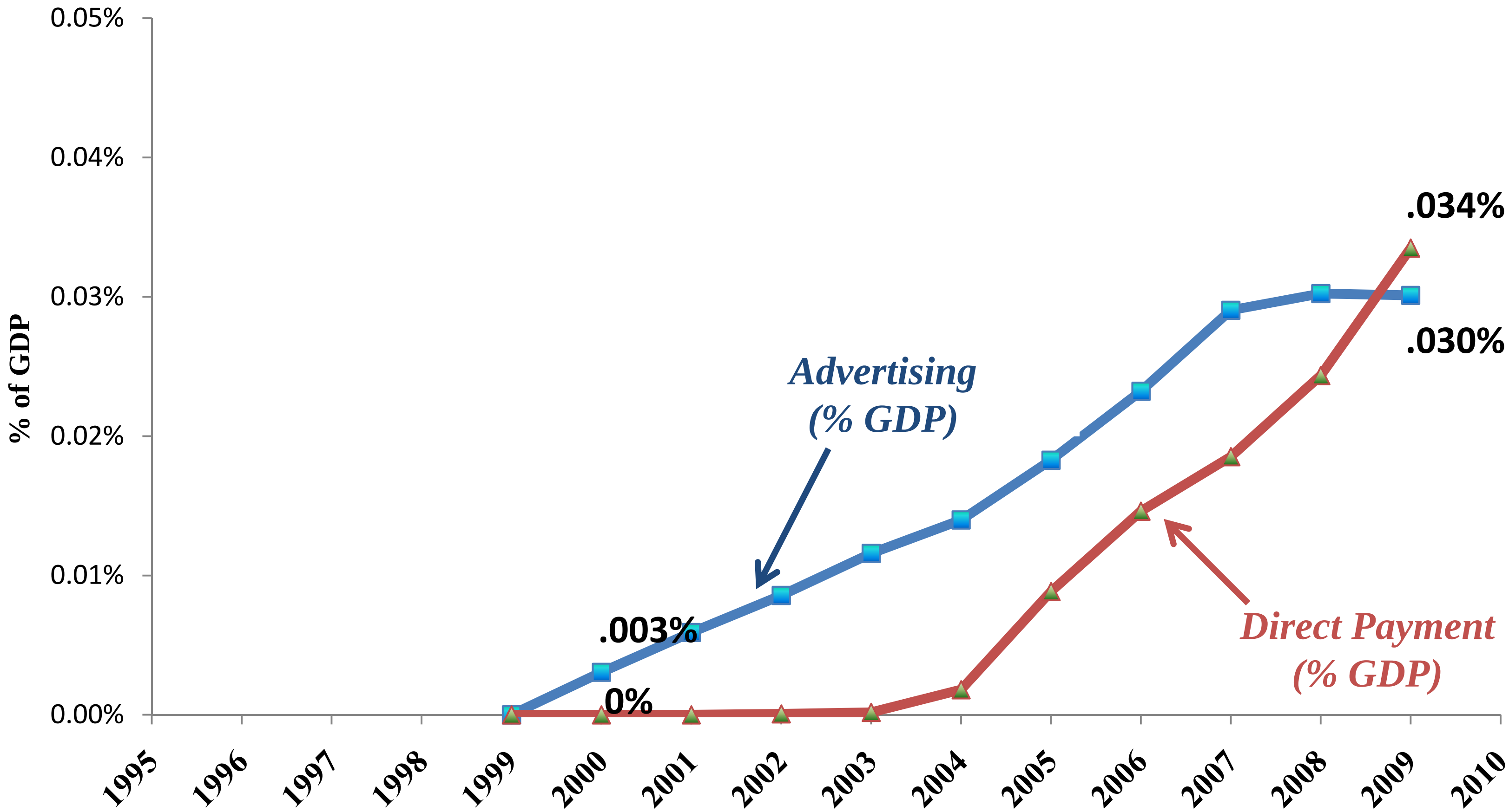
Sources: U.S. Census; FCC; Kagan Research; 10-K reports; author estimations
Preliminary data (Waterman/Ji, March, 2011)

Movie Theaters/Video: Total Revenue by Category as % of GDP, 1970-2009



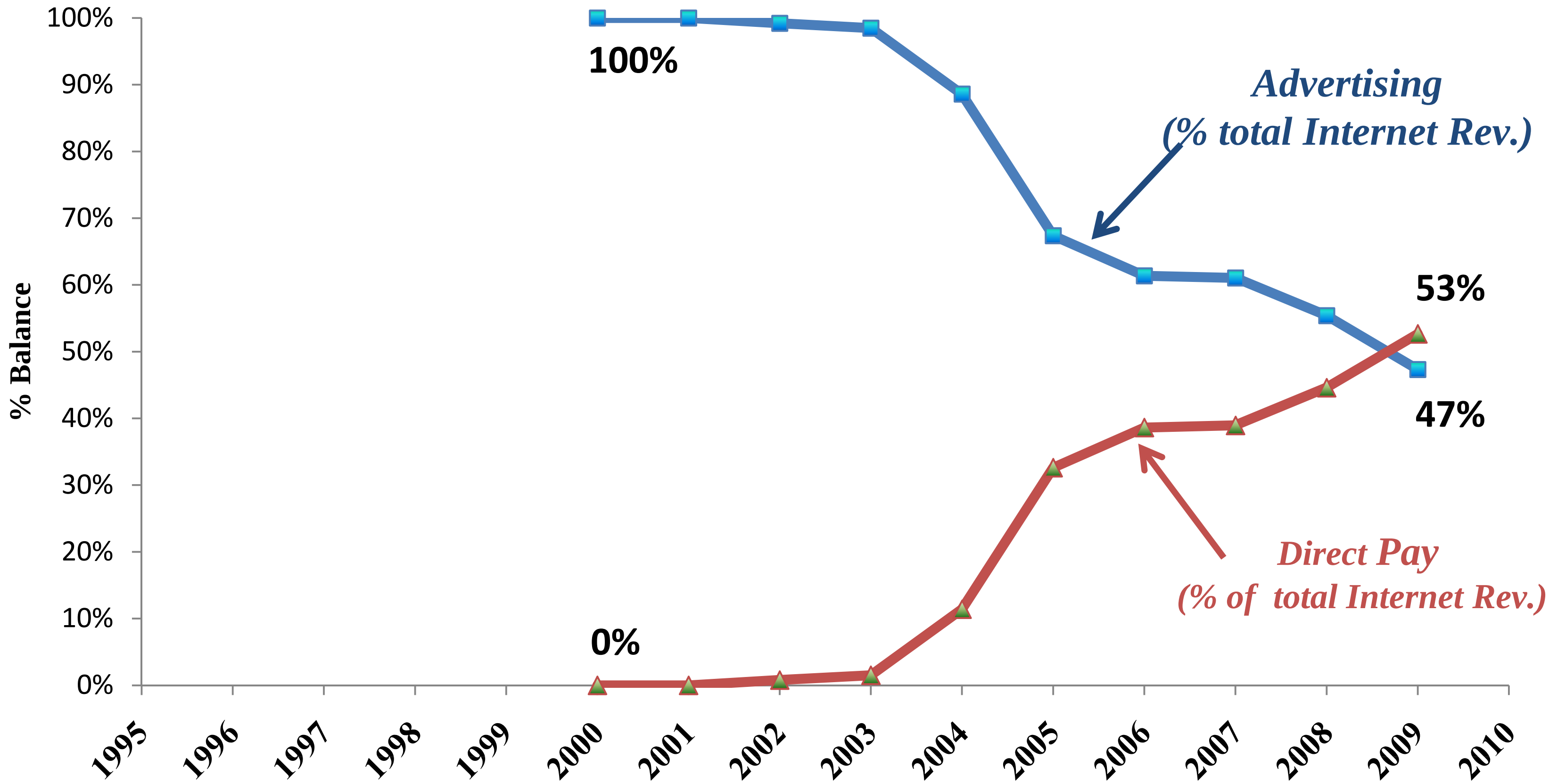
Sources: U.S. Census; trade associations; industry analysts; 10-K reports; author estimations
Preliminary data (Waterman/Ji, March, 2011)

Advertising vs. Direct Pay Support as % of GDP: All Internet Media*, 2000-09



•Internet "lower bound"
•Sources: U.S. Census; Internet Advertising Bureau; industry analysts; author estimations
Preliminary data (Waterman/Ji, March, 2011)

Advertising vs. Direct Pay Support: % Balance: All Internet Media*, 2000-09



*Internet "lower bound"
Sources: U.S. Census; Internet Advertising Bureau; industry analysts; author estimations
Preliminary data (Waterman/Ji, March, 2011)

Statistical summary

- **Steady fall in media revenues as % of GDP since 2000**

- **A shift toward direct pay support, especially since 2000**

- **Major individual media since about 2000**
  - Revenues consistently falling (or flattening) especially newspapers and music
  - A shift toward pay support, including online media as a whole

Five possible reasons for the recent trends

1) Consumers turning away from established media
- Time use studies suggest not a major factor

2) Intellectual property protection more difficult
- A significant factor in music and news

3) Online business models shortcomings
- Advertising, but not direct support

4) Internet distribution is cheaper, more efficient
- Examples: movies, news

Internet cost reductions I: Movies

“Brick & mortar” DVD rental (2002) vs. Online “rental” (2010)

	Rental price	Studio share*
2002	$3.25	33%
2010	$4.41	70%

*** Before duplications/distribution cost**

Sources: author calculations from Kagan Research and Adams Media data
Preliminary data (Waterman/Ji, March, 2011)

Internet cost reductions II: Newspapers

- Distribution of printed newspaper costs (33,000 circ. paper, 1994)*

News-editorial	16%
Advertising	11
Production/printing	39
Circulation	11
Building/depreciation	32
Total	100%

- Classified advertising

Decline of print newspaper classified revenues, 2000-2008:	$9.6 bil.
Total Internet classified advertiser spending, 2008:	$3.3 bil.

Sources: Inland PressAssociation, NAA, IAB
Preliminary data (Waterman/Ji, March, 2011)

End result

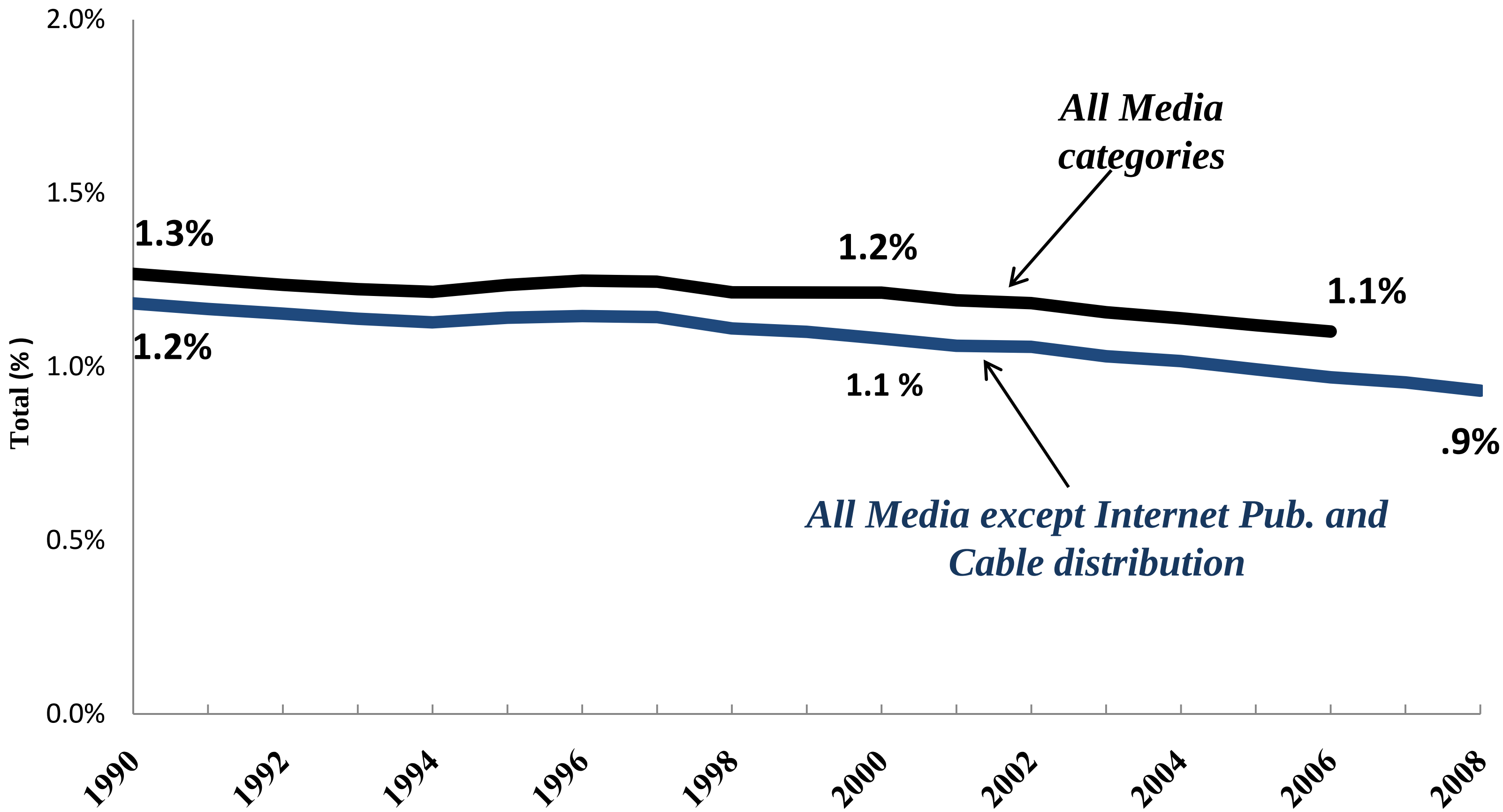
- The bottom line is what happens to media production investment
- Evidence in some media of increasing (or stable) production

US Census: Employment/Payroll: Media Industry Categories

NAICS code	NAISC title (2000)
51111	Newspaper Publishers
51112	Periodical Publishers
51113	Book Publishers
5121	Motion Picture and Video Industries
5122	Sound Recording Industries
5151	Radio and Television Broadcasting (except Internet)
51521	Cable and Other Subscription Programming
5161	Internet Publishing and Broadcasting
5175	Cable and Other Program Distribution
51911	News Syndicates

Sources: U.S. Census; IBRC
Preliminary data (Waterman/Ji, March, 2011)

Media Industry Employment * as % of Total Employment: 1990-2008



Sources: U.S. Census; IBRC
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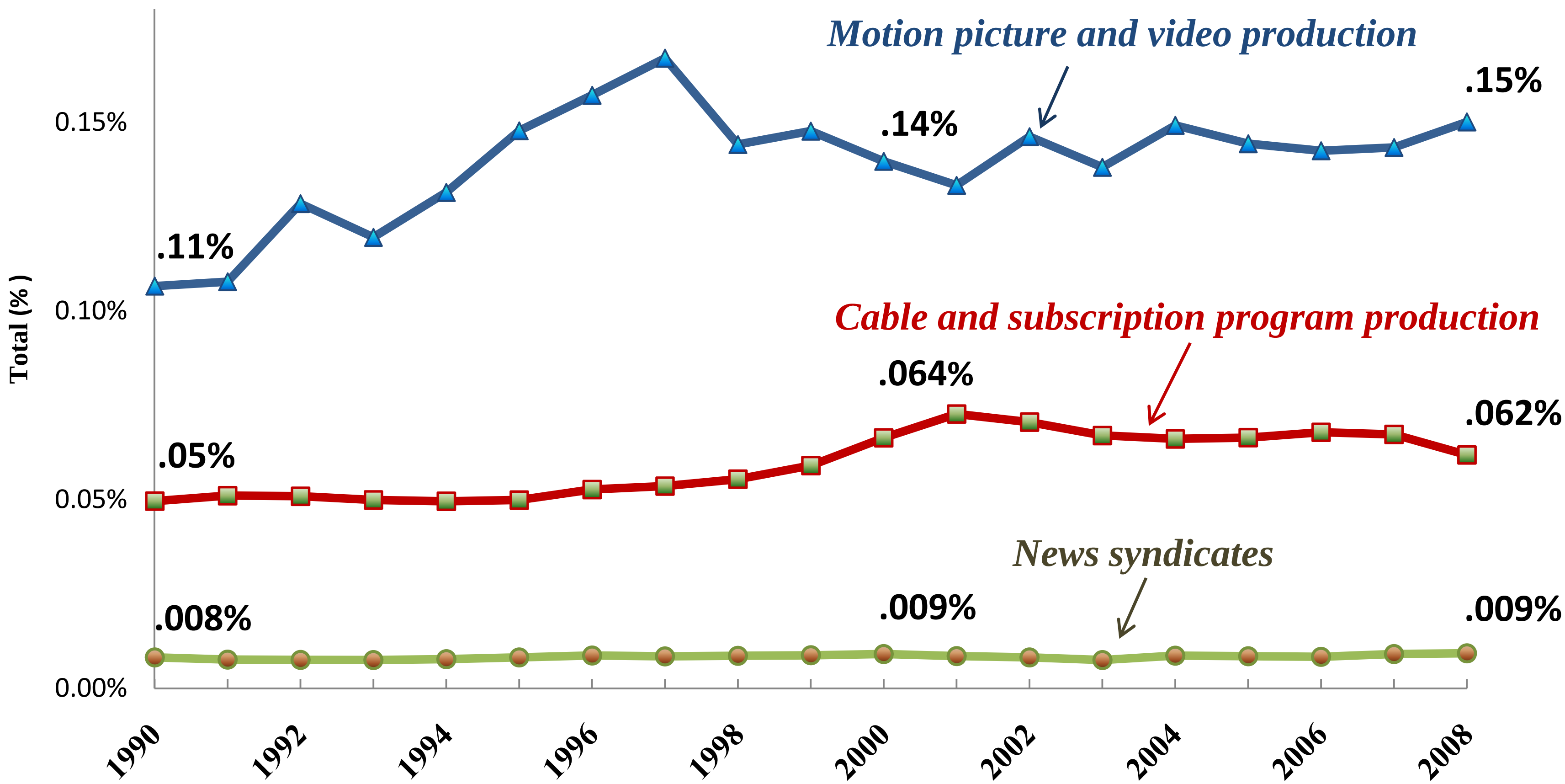
Part I

Employment in Media Production Categories as % of Total Employment; 1990-2008



Sources: U.S. Census; IBRC
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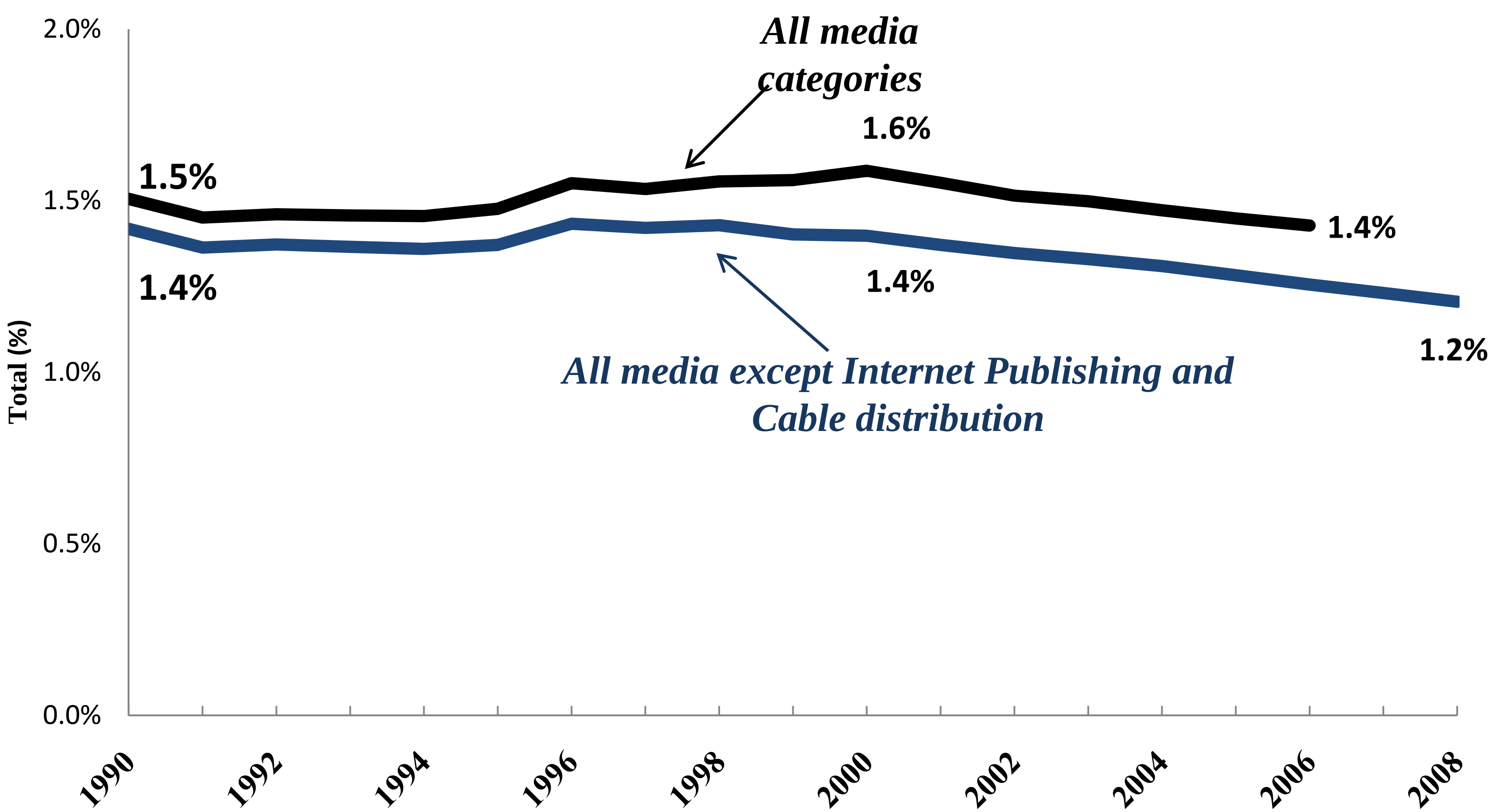
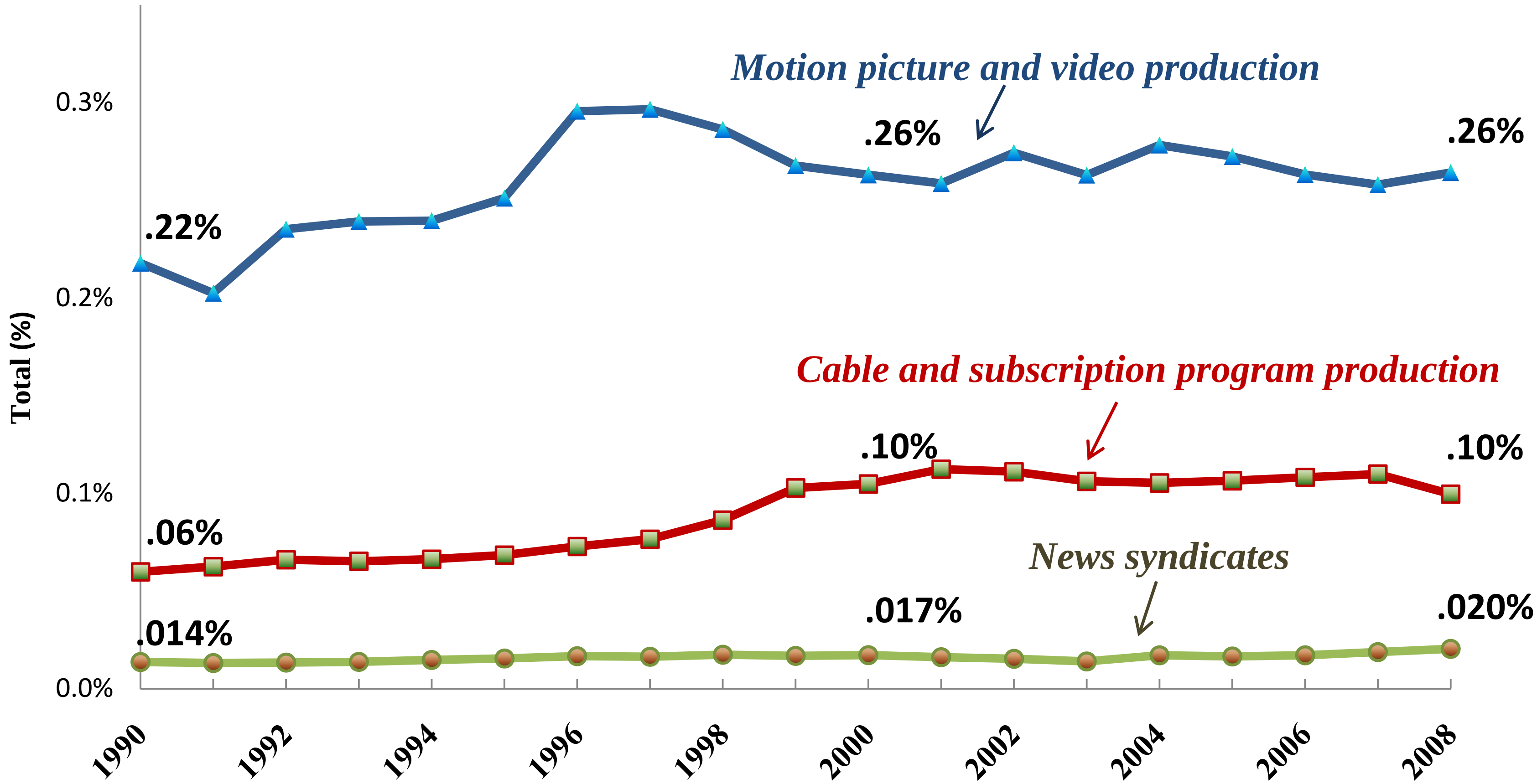
Media Industry Payroll as % of Total Payroll, 1990-2008



* Total includes Newspaper, Periodical, Book, Motion Picture & Video, Sound Recording, Radio, Television, Cable & other subscription, News syndicates, and Internet publishing and broadcasting.

Sources: U.S. Census; IBRC
Preliminary data (Waterman/Ji, March, 2011)

Media Production Payroll as % of Total Payroll, 1990-2008



Sources: U.S. Census; IBRC
Preliminary data (Waterman/Ji, March, 2011)

End result

- The bottom line is what happens to media production investment
- Evidence in some media of increasing production
- More analysis under way

- End presentation