**12 THE MEDIA AS BUSINESS**

Behind their similarities we also find significant economic differences among the media in developing as a business, each medium had to adapt to its own continually changing economic circumstances. Com-petition from other media and the rising costs of services, labor, talent, and materials influenced the businesses' success and their content. Now that we have looked at each medium in detail, we can here frame a more consolidated overview of the constraints that economic considerations place on the media.

**The Print Media:**

Although each of the print media is faced with both the laws of large and right numbers and the trend toward concentration of ownership, there are important variations among them. Newspapers, books, and magazines are distinctive business enterprises.

**Newspapers:**

Over the years American newspapers have turned to different sources of revenue, and their content has shifted accordingly. The early colonial papers paid their costs through indirect governmental subsidy, by printing contracts, and by advertising and subscriptions. Then, beginning: with the penny press of the nineteenth century, newspapers began to depend on advertising as their main source of revenue. When it became clear that with increased circulation, advertising could support a newspaper sufficiently to reduce its price, the elite press gave way to the popular press. The papers emphasized human interest, crime, and humor and in some cases resorted to sensationalism as well. Some newspapers also received significant subsidies from political groups: from the time of Thomas Jefferson, political parties arranged to have newspapers serve as their pipelines to the public. But by the beginning of the twentieth century, most newspapers had severed their ties to political parties and lost these subsidies. Consequently, the papers became more general in their point of view and more comprehensive in their coverage of the news.

Thus, over the years American newspapers became more and more dependent on advertising. In 1880 the average newspaper devoted 25 percent of its space to advertising. By World War I, advertising accounted for about 50 percent; currently it accounts for 60 to 70 percent. This dependence has proved to be a mixed blessing.

On the one hand, dependence on advertising discourages newspapers from dealing harshly with the business community that supports them. Publishers who lose the good will of the business community risk losing advertising money as well. On the other hand, what would newspapers be like without support from advertisers? To cover all the expenses involved, a single copy of a daily newspaper .might cost more than a dollar at the newsstand. Delivered to a subscriber's door, a newspaper might cost more than $500a year. Newspapers might be more eager to print stories damaging to the businesses that now help pay the costs of publishing the paper, provided there was another source of revenue. But the end of advertising revenue would probably have other effects on content as well. Sports, news, and in financial section of the paper all require complex logistics. Without advertising revenue, newspapers might become much as they were before dig penny press arose in the nineteenth century, if they could survive at all.

Clearly, then, advertising support for newspapers has both costs and benefits. Dependence on it may bias publishers in favor of the values and interests of merchants and businesses. But the approximately $30 billion spent annually for newspaper advertising brings content and services that only such astronomical sums can produce.

The constraints introduced by dependence on advertising are by no m the only ones felt by the press. Faced with continually rising costs for materials, labor, and services, newspapers have had to increase their income or go out of business. Several hundred newspapers have folded for reason or another since the peak of their popularity at about the time of World War I. In fact, the reduction of the number of newspapers in Am has been one of the most significant trends in newspaper publishing in century.

The prospects of starting a new daily newspaper in a major city are limited. It might require hundreds of millions of dollars to start a newspaper in a city like San Francisco or Chicago, and the newspaper's chances of getting a share of the available advertising revenues would be minimal. Thus, an; who wants a

city newspaper would be well advised to purchase an e one. And, of course, this is precisely what has happened over the

Existing papers have been bought by large corporations that already own papers elsewhere, so the papers can consolidate some activities and management for substantial savings.

There have been occasional exceptions to the "rule" against starting new big city dailies Newspaper owner Ralph Ingersoll in 1988 started the St. Louis Sun, which tried to compete with the St. Louis Post-Dispatch, but died in 1990. USA Today was a new enterprise when it was introduced in 1982, as is the National, a national sports daily begun in 1990. In the 1980s, the Washington Times was established in the nation's capital with subsidies from the followers of Reverend Sun Myung Moon. A decade earlier, the Gannett Company started Florida Today. Still, in general, it is true that starting daily newspapers is difficult in an industry that has seen more failures than successful start-ups.

The result of this trend has been reduced competition. While the number of daily newspapers in the United States declined only slightly in the 1980s to 1,646 morning and evening papers (of which 800 have Sunday editions), Competition has declined sharply. Most surviving papers are quite profitable, but few cities have competing papers that are independently owned.

**Books:**

Book publishing is not a large industry when compared with such giants as auto making, computer manufacturing, or food processing. In 1989 all American book publishers together produced about $12 billion in book sales in the United States. Many publishers are small, and some 80 percent of the total sales are produced by only about 20 percent of the companies. Although the book publishing industry has grown over the last quarter-century, it is still one in which rather small firms produce and sell very specialized products, compared with America's corporate giants.

Advertising plays virtually no role as a source of revenue for book companies. Instead, they depend on the outright sale of their products to consumers. In general, though, the wholesale price book must be enough both to cover its costs and to yield a profit. That has been going up steadily. In 1970 a hardback college text or a well manufactured technical book could be purchased for about ten doll day its price has more than tripled..

On the average, Americans do not read a lot of books. Current put the figure at about five to ten books per year. High price might factor keeping the sale of books down. Probably, too, the number of book readers has declined as television has grown in popularity, but it is to make such comparisons over time because the proportion of Am. Society that is illiterate has declined and the percentage with advance education has increased.

Although advertising does not play the role in book publishing that it in many other media, and although books have a smaller audience many other mass media, the law of large numbers does operate in the book industry, but in modified form. Like any business, book publishers maintain strong profit margins and produce dividends for their stock holders. They must therefore keep their costs of production down and their sales. This basic economic principle plays a key role in every decision that is made from the time a publisher expresses interest in a manuscript or idea to the time the finished product is delivered to a retail outlet. It has the effect of screening out some manuscripts that could be of great interest to a very specialized audience and favoring those that will attract wide interest. Thus it is far easier to interest a textbook publisher in a basic book that will be used by students in large introductory courses than in an advanced technical book that will interest only a small number of specialists. Similarly; it may be difficult to find a publisher for poetry, short stories, avant-garde fiction, or other works that are unlikely to attract a large number of purchasers.

Today it is difficult to keep pace with the publishing industry's proliferating chains and increasing foreign ownership, especially by British, German and Japanese firms. Happily for individuals interested in the topic, the national press, especially the New York Times and Wail Street Journal, provides detailed coverage of this changing industry.

**Magazines:**

Unlike books, magazines depend on advertising revenues to cover much of the cost of production. By the turn of the twentieth century, the magazine for a general audience was well developed, because such magazines provided excellent vehicles for advertising. By 1929, the nation's leading 365 magazines had an average readership of about 95,000 each. By 1950, 567 major magazines were reaching, on the average, more than 223,000 readers each.9 But as more and more Americans watched television, the general-interest magazines failed, mainly because it costs about half as much to reach a thousand people with a television ad as with a magazine ad. The general-interest magazines tried to buck this trend, but they eventually succumbed.

The near death of Harper's in 1980 dramatically illustrated the economics of magazines today. Harper's was a monthly magazine aimed at a fairly educated, prosperous, and influential audience, and it had survived for 130 years. In 1979 it had a circulation of about 325,000—but relatively little advertising and losses of more than $1.5 million. By mid-1980 the magazine had announced that it would soon cease publication.

The vast American population includes enough people with particular interests that a magazine devoted to one of those interests can be a success.

**The Movies:**

Anyone who doubts that the movies are big business can consider that a Hollywood potboiler, a film with little or no artistic merit that is pr; as quickly as possible simply in hopes of making a large profit, costs $110,000 a minute to shoot. Large additional costs are involved in distributing the final version to a worldwide market and exhibiting it in theaters.

It is therefore not surprising that many of the movies we see are and owned by the same film companies that have dominated the for decades companies such as Columbia, Paramount, Twentieth Century Fox, United Artists, Universal, and Warner Brothers. Since the 1960s, ha ever, independent companies have made more and more films. The studio now has less control over the medium, while independent producers ha more. But because a movie requires such a large financial investment, of the independent companies rely on the major companies for backing, so the major companies still get the largest share of box receipts and thereby retain some influence over which movies are mad Today, the studios seem to be trying to reassert their dominance some but independent film producers are still very much a factor in modern making.

Economic influences on the film industry are very similar to those on other media in one important respect: the law of large numbers pi Movie producers seek above all to maximize the size of their audiences, the 1930s and 1940s they did so by being the dominant form of entertainment. Their content had to conform to the mores of the time, television was developed in the 1950s, it presented entertainment for same general audience, reflecting basically the same tastes, themes, and tent as the movies, but it did so at far less cost and inconvenience to consumer. Television thus stole the movies' audiences, and the movies to change to survive.

At first, movie makers tried to regain their audiences through tech gimmicks. There were experiments with huge screens, three -dimensional films, and special sound effects. Most of these devices failed to boost sales significantly. As the struggle continued, movie makers turned to showing more violence and more explicit sex—content that audience’s generally could not find on television. But even that did not slow the stampede to television.

The very medium that caused the movie industry most of its problems is now one of its major sources of revenue. Television has an almost insatiable appetite for films. They cost less per minute of air time than live broadcasts and can attract more viewers than many other kinds of content. Subscription television and cable movie channels as well as video cassettes have increased the market for films. In 1989, it was expected that about 52 million households would have VCRs. About two-thirds of those numbers are active renters of videos who get their cassettes from some 25,000 rental shops. The video cassette publishers, who are mostly major movie studios, sell to wholesalers, who put tapes in video shops. However, the publishers also sell directly to convenience stores like 7-Eleven and K-Mart. It is noteworthy that originally, industry sources thought that people would buy video tapes and did not anticipate a rental service serving millions of people. Once rentals got started, though, they took off with great success, outdistancing video cassette sales.

**Broadcasting**

The economic situation of the broadcasting industry differs from that of the other media in the nature of ownership concentration. The Federal Communications Commission (FCC), the federal agency that regulates broad-j casting, has rules that limit the number of stations one person or company can own. Additional differences arise from the importance of local programming in radio and from the growth of cable television However, some critics argue that the ownership of broadcasting is more "concentrated" than it fir appears. While there cannot be 'Vertical" concentration of ownership, that is, dozens of stations under the same corporate roof, there is "horizontal” concentration in which the same firm owns stations, production companies, and distribution systems as well as other media, cable, and even some non-media conglomerates.

**Ownership and the FCC:**

Long regarded as a very weak regulatory agency; the FCC came into the spotlight in the 1980s as a result of deregulation. The changes it instituted affected every American with a radio, a telephone, or a television set. Many FCC initiatives were carried out in the spirit of deregulation that lay behind Carter and Reagan administration programs.

For many years the FCC had maintained strict rules that limited ownership of broadcast properties. Under these rules, no single owner could have more than seven television stations and seven AM and seven FM radio stations. Further, no more than five of the television properties could be VHF station (that is, channels numbered 2 to 13). Under deregulation in 1984, the FCC led by its chairman, Mark Fowler, instituted a new policy that allowed a single owner up to twelve television, twelve AM, and twelve FM stations. The new rule met considerable opposition in Congress, which passed the legislation] but insisted that no single owner be able to reach more than 25 percent of the U.S. population with its combined stations.

The new policy also set off economic shock waves on Wall Street, spurring the buying and selling of broadcast stations among owners who now could own more of the available TV stations. Prices quickly rose. A Los Angeles television station, KTLA, for example, was sold in 1985 for $ 510 million, exactly twice what it had cost in 1983, when it was acquired in a leveraged buyout. In 1985, 99 stations changed hands. In 1986, the number was 128, but by 1987 the number had declined to 59, and the trend toward escalating prices for TV stations appeared to have peaked by 1989, when both the number of deals, again, and the value of stations declined.

There is some irony in the change in policy at the FCC, though. Once viewed as a weak regulator that rarely denied stations' applications for license renewal, the agency had relatively little impact in Washington or on Wall Street. Now even in spite of deregulation, Wall Street analysts and others interested in profits watch with great interest every move of the FCC whether related to broadcasting, cable, or the telephone company. What happens at the FCC can be critically important, even though the agency is hardly heavy-handed or authoritarian in its approach. At a time when some critics are saying that "industry can now get away with anything," the agency- has great power in national life and is a significant agent for change. A number of liberal critics and commentators are calling for a renewed regime of regulation with more rules aimed at assuring the public interest. Conservatives conversely say that the deregulated FCC is benefiting the public in important ways. By relaxing rules that had held back the development of cable and telephone competition, they claim, FCC actions encourage innovation of all kinds, ranging from telephones in airplanes to videotext experiments.

The changes at the FCC came about as a result of at least two factors. One was the general trend toward deregulation of all industries that began in the late 1970s and continued through the 1980s. The other was court decisions that Changed old arrangements. For example, the federal courts broke up the huge American Telephone & Telegraph Company (AT&T), and that led to competitive long-distance and telephone equipment services for the first time in years. Another court decided that the FCC "must carry" rule, which had required local cable companies to carry all local television stations, violated cable operators' First Amendment rights. Freed of this responsibility, cable companies were able to engage in more vigorous competition.

Whether the move toward deregulation arid the changes at the FCC have been good or bad for consumers is widely debated. Some critics think that deregulation has gone too far and that some regulation ought to be reinstated. Some argue that both program quality and responsible (and responsive) station ownership are suffering. Press critic Ben Bagdikian, for example, sees trends in deregulation as generally harmful to freedom of expression, putting more and more control in fewer hands. Broadcasting, he says, must be seen in the larger context of media ownership generally. Free-market advocates dispute this view. It is clear, however, that big media companies have benefited from the changes. Mark Fowler accurately predicted that new networks would develop and that the ownership changes would actually bring more, not less, diversity in programming. As he put it, "Bigness is not necessarily badness. Sometimes it is goodness.

**The influence of networks:**

The networks represent a different kind of concentration from that of other station owners: the concentration of control over programming. Their influence goes far beyond the stations they actually own. They also produce or purchase programs and then pay local stations to carry the programs.

The Big Three broadcast networks—ABC, NBC, and CBS-all began as1 radio networks, but once television appeared, radio networks declined drastically. Today radio networks are not quite what they were in the 1930s, and neither are they a radio parallel to television networks. Also, today CNN is sometimes called a "network," but strictly speaking it is not parallel to broadcast networks, since it is a cable service. There are scores of radio networks-ranging from the Big Three, previously mentioned, to AP and UPI networks, ethnic networks, networks put together by station groups, and others and they sometimes signify ownership but many radio stations have no network affiliation; they are independent stations, locally produced for local consumption. Most often networks are programming services that sell their wares to local stations.

Among the broadcast media, radio appears to have the fewest economic problems. AM radio seems to be losing much of its audience and revenue to FM radio, but radio as a whole is prospering. It has a unique place in American mass communication as a provider of music, weather reports, information on local events, and summaries of the news. Radio reaches people when a production in color on television would be out of place, or when reading a newspaper or going to a movie is not an alternative. For example, radio has a larger audience in the morning than television does. It is unlikely that this role will be taken over by another medium.

Radio is now healthy, but it is-economically dwarfed by television. Here the networks loom large indeed. NBC, CBS, and ABC today provide programming for about 50 percent of all hours broadcast by their affiliates. Since more than 90 percent of the commercial VHF stations in America are affiliated with one of the three major networks, it is clear that the networks have substantial control over what we see and hear on television.

Many critics once deplored the virtual monopoly that these three networks enjoyed over the content that is broadcast nationally. For years their only competition for viewers came from the Public Broadcasting Service (PBS), which is partly tax supported. But PBS has a very limited budget and provides almost no competition to the commercial networks for a significant national share of viewers. Even when stations supported by schools, communities, or other noncommercial sources are included, the viewing audience for "public" television in the United States is still relatively small.

Still, it is argued that the impact of public television can be substantial, especially in the production of high-caliber dramas and programs on the arts and other cultural interests, as well as some "star" billing newscasts and public affairs programs like those of Bill Moyers and MacNeil-Lehrer. Some critics say it is wrong to evaluate long-term impact just on the numbers watching at the moment. As researcher Leo Bogart put it, "What if we evaluated Einstein's theory of relativity on the basis of how many books it sold?"

The influence of the networks over broadcast content, however, began to be challenged in the late 1980s as direct broadcast satellites made regional networks and programming possible. Such entrepreneurs as Stanley S. Hubbard, Jr., a Minnesota broadcaster, and Rupert Murdoch, the press lord, created independent regional networks that gave local stations much wider influence than they had had. Local

Stations and regional networks can do some of their own programming. For example, they can send their own anchors to a summit conference or to the State of the Union address and thus cut the networks out of advertising dollars they might ordinarily get. Some critics argue that local stations, in a fierce competition for revenues, are cutting back on network programming and thus denying their viewers higher- quality material. The networks, of course, have great depth of talent and programming support services, which local stations lack. Local stations' coverage of national news tends to be superficial and well below network standards.

No matter who is controlling content, however, local television stations remain very profitable. "They are more profitable than any other enterprise short of Arizona land sales and the illicit drug trade."14 The principal reason for this profitability is the eagerness of sponsors to advertise on television. Currently television receives about 60 percent of all dollars spent for advertising in the United States, whereas radio gets about 6 percent and newspapers about 12 percent. Television's share of these dollars is increasing. In fact, since there are far fewer television stations than newspapers, they receive a larger per station share of advertising revenue, higher net profits, and higher return per dollar of investment than newspapers.

Advertisers' eagerness to "buy" audiences on television is based solidly on the law of large numbers. With some 90 million households (98 percent of all American homes) owning a television set, with 68 percent owning more than one set in 1988, and with the average home watching about seven hours daily, the audience for TV advertisement can be awesome. For ex-1 ample, the average daily audience for most daytime soap operas is in the tens of millions. For special events such as the Super Bowl, audiences can be five or six times as large. It is little wonder, then, that manufacturers of consumer goods eagerly stand in line to get their messages on commercial television. However, with nearly 68 percent of all television homes having VCRs and 53 percent connected to cable services, traditional over-the-air broadcasting lost ground in the late 1980s.

Competition for advertising time softened slightly after 1988, but the cost of advertising on commercial television rose as high as $1.35 million per minute for the 1989 Super Bowl. The average thirty-second, prime-time television announcement was priced at $100,800 per minute in the late 198Gsj and spots on a top-rated series, such as 'The Cosby Show," were $235,000. Even spots on low-rated shows can range from $75,000 to $89,000 per thirty seconds. On local TV stations, thirty-second spot announcements range from between $9,300 and $15,000 in major markets to between $10 and $128 in tiny markets.

Both the high price of television advertising and television's resulting profitability are based mainly on the scarcity of strong competitors. A limited number of licenses are available in each city because of FCC regulations. Owning a television station licensed to transmit in a good market area is equivalent to having a partial monopoly on an important product that is in great demand—audience attention to advertising messages. The three large commercial networks have an even more profitable oligopoly because they command national audiences and receive the largest share of the broadcasting advertising dollar. For every $5-00 received by local stations for advertising, the networks receive $8.30. Thus ABC, CBS, and NBC have been red-hot money makers.

Television network ownership underwent major changes in the 1980s, however, and this has influenced both the networks' profitability and their advertising rates. ABC was acquired by Capital Cities Communications, which also .owns newspapers and other broadcast properties. The people at NBC, a company long owned by RCA, saw that corporation acquired by the General Electric Company. Nearly 25 percent of the shares of CBS, a public company once controlled by William S. Paley, were bought by Laurence A. Tisch of Loews Corporation, which owns theaters. The economic turmoil represented by these changes at the networks was closely related to a kind of merger mania in American business generally and to other upheavals in the stock market. For the networks, the need to satisfy shareholders with increased dividends meant that old "loss leader" aspects of the business, such as news, now needed to make more of a profit. (A loss leader in a supermarket is an item that is sold below its value to get customers to come in for other items.) At the networks, corporate budget cutters cut jobs in what they said was an effort to increase efficiency and generate higher profits to serve shareholder interests better. In the late 1980s the competition of cable and other new television forms severely challenged the Big Three to the point where two networks reduced their advertising rates for the first time in broadcast history.

**Cable television:**

Although traditional over-the-air broadcasting is still dominated by the networks, the emergence of various new technologies made possible by the microchip, the computer, and the satellite, has brought much more diversity of ownership and programming to the American people. Cable, for example, had become a national medium of considerable importance by 1989, when more than 53 percent of the nation was wired to receive this service. Subscription television also strengthened its position, as did videotext and various home video services.

Cable television presents problems for the over-the-air broadcasters because it spreads the audience over more channels. Advertisers may be reluctant to spend their dollars on a station's services, or even a network's efforts, if they cannot be assured of a large audience of potential customers. Needless to say, cable television has been vigorously opposed by the commercial broadcasters.