

# Media competition that enlarges the market size: Effects on pricing behaviour and content creation

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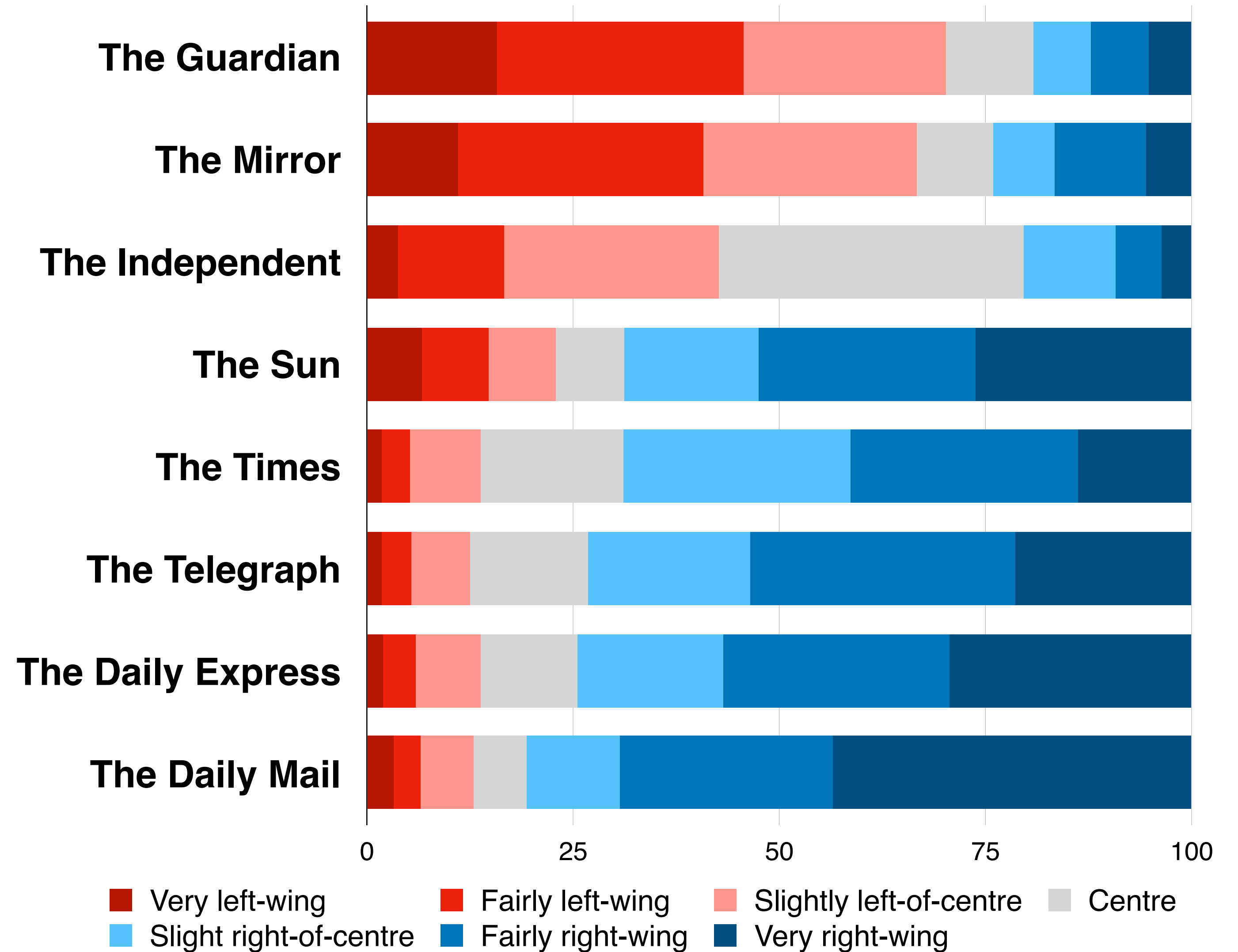
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**Standard media economics models typically focus on market coverage — when all consumers subscribe to at least one platform — but is this assumption innocent with respect to the managerial insights about pricing behaviour and content creation incentives in those models?**

# Which newspapers do people read?

Horizontal differentiation

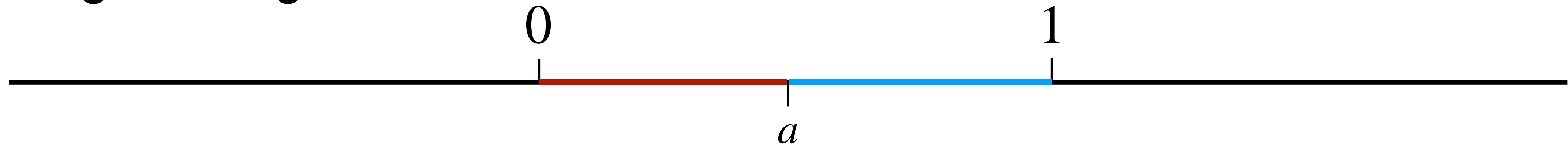
Some people talk about 'left', 'right' and 'centre' to describe parties and politicians. With this in mind, where would you place each of the following...?



# Model

- $\pi_i = (p_i + s)D_i^{SH} + (p_i + m)D^{MH}$ 
  - $s \geq m$
- Consumers live along a Hotelling line
  - Using only 1 platform:  $u_i = n + e_i - p_i - t |X_i - x|$
  - Using both platforms:  $u_{0+1} = n + e_0 + e_1 - t - p_0 - p_1$

## Singlehoming



Anderson and Coate (2005), Armstrong (2006)

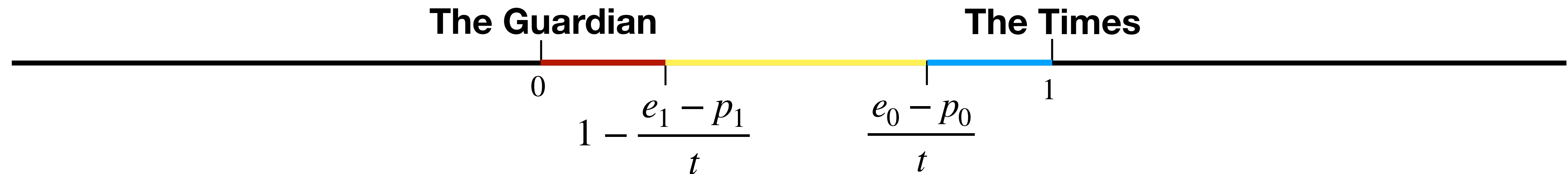
## Partial multihoming



Ambrus et al (2016), Anderson et al (2017, 2018), Athey et al (2018), Foros et al (2017), Kim and Serfes (2006)

# Market is covered

Literature's general insights



- $p_i^B = \frac{e_i - m}{2}$

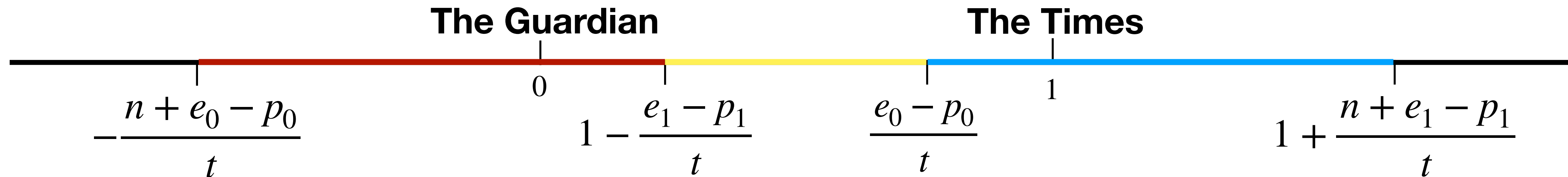
- Managerial insight:

- Only exclusive content matters

- Singlehoming ad revenue ( $s$ ) irrelevant, only multihoming ( $m$ ) relevant

# Market is uncovered

By adding hinterland consumers; Armstrong and Wright (2009) and Graitson (1982)



- $$p_i^* = \frac{n + 2e_i}{4} - \frac{s + m}{4}$$

- Managerial insight:

- Exclusive content matter, **and non-exclusive content matters**
- **Both** advertisement margins are valuable,  $s, m$

# Result

## Proposition 1

In an uncovered market with partial multihoming on the consumer side:

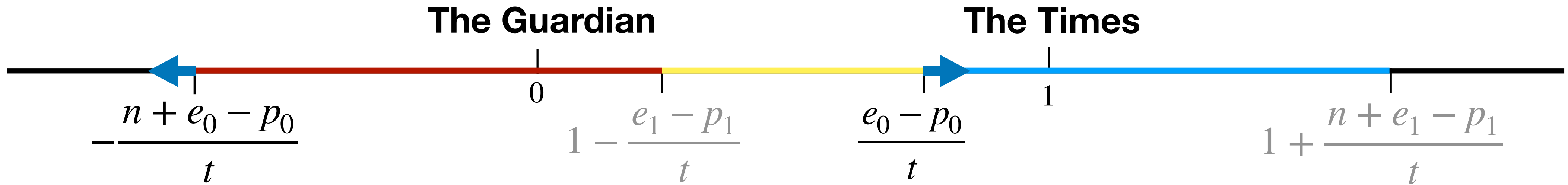
- (i)  $p_i$  is increasing in  $n$  and  $e_i$
- (ii) An increase in  $n$  increases both platforms' prices, while an increase in  $e_i$  increases only platform  $i$ 's own price,  $p_i$
- (iii)  $p_i$  is decreasing in both  $s$  and  $m$



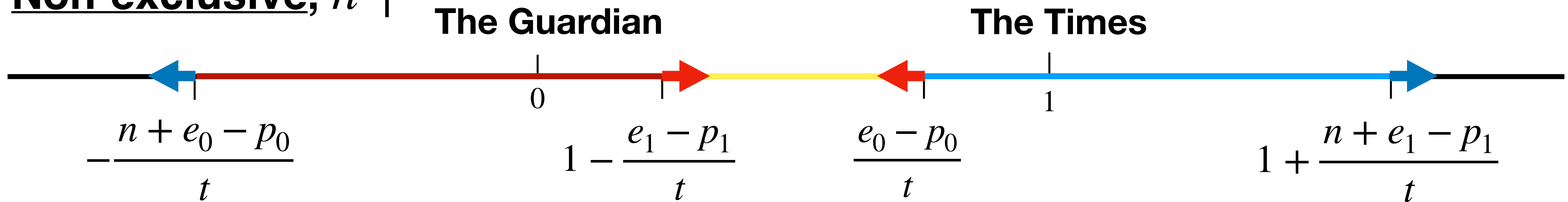
# Content Creation

What happens when The Guardian creates new content?

Exclusive,  $e_0 \uparrow$



Non-exclusive,  $n \uparrow$



# Result

## Proposition 2

With an uncovered market and partial multihoming on the consumer side:

- (i) In a one-sided market, platform  $i$  is better off by a marginal increase in exclusive content,  $e_i$ , than non-exclusive content,  $n$
- (ii) In a two-sided market, platform  $i$  is better off by a marginal increase in non-exclusive content,  $n$ , than in exclusive content,  $e_i$  for  $e_i + n < s + 2m$
- (iii) Total demand increases more from a marginal increase in  $n$  than  $e_i$ , while the number of multihomers decreases in  $n$  and increases in  $e_i$

# Conclusion

Is the 'market coverage' assumption innocent?

- Managerial insights are changed
  - Both exclusive and non-exclusive content affect equilibrium prices
  - Advertisers willingness to pay for both singlehomers and multihomers affect prices
- Content creation incentives
  - For sufficiently profitable advertisement-side rates, media platforms find it most profitable to produce non-exclusive content