

News Aggregators and Competition Among Newspapers in the Internet

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Motivation

Debate of Newspapers decrease in revenues: the paper stress the debate of **News Aggregators (NA) vs Newspapers (N's)**

- News Aggregators **freeride** on Newspapers.
- Newspapers **revenues decrease** when receiving less visitors.
- **Argument:** the appearance of NA will **discourage the production of high quality news.**
- Newspapers' business model **has collapsed.**
- Hot topic: Google News faces mass newspaper boycott in Brazil!!! (October 19 2012)

Summary

In a Hotelling model of linear transportation cost, they study how the appearance of **News Aggregators (NA)** affects **news quality**, **newspapers' profits (Ns)** and consumer surplus. Transportation cost represents ideological differentiation of newspapers.

- 1- Instead of prices newspapers choose **news quality**.
- 2- News quality are **strategic substitutes** without NA and **strategic complements** with NA.
- 3- Without NA, the type of news is not important.
- 4- With NA, **newspapers differentiate** if quality is important enough for advertising revenues. (**specialization**)
- 5- In the equilibrium with **specialization: quality** \uparrow , **consumer surplus** \uparrow but **profits** $\uparrow\downarrow$.

Comment on current debate

- The **threat** for **Newspaper** is not exclusive of **News Aggregators** (e.g., Yahoo and Google News).
- Two additional problems (at least):
 - **News production** is not exclusive of newspapers. (Bloggers, Navalny, etc...)
 - News spread also through **informal networks** (facebook or twitter).
- Why do Newspapers **focus on NA**?
- Are Newspapers **bargaining**? Are NAs a device to channel audience to get money from audience?

Prediction of the model

- The Eq with NA **increases quality in news**, then:
 - Newspapers get **higher revenue from advertising** in high quality news.
 - The **productivity** of high quality news increase respect to low quality news.
 - Empirical test: **wage gap** between good and regular journalist **increases**.
- But, how is the **definition of quality**? Is quality measured by **views**?
- If views is the answer, there may be some **important high quality news for me** that **are not listed** in those NA.
My football team is not popular (even when it is the best).

How consumers attention gets into money?

How consumers attention gets into money? (ω)

- Are News Aggregators making **a lot of money**?
- If **total appropriation** is high the crisis is in newspapers business model.
- This can highlight if the **market of news** or **the business model** of newspaper is bad.
- There may be a transition in newspapers: they must learn how to transform attention into money.

How this translate into the model?

- ω can be different for N's and NA.

Result: specialization and competition

- Result 1: **specialization** implies that newspapers cover different issues.
- Result 2: newspapers are **not in direct competition** with each other.

Specialization and ideological competition

- Is evidence consistent with this result with heterogeneous ideological consumers?
- Is it more plausible to have a different interpretation?
- Maybe, these results arise because **consumers are single-homing**.

Assumption: consumers are **not multi-homing**,

- By assumption the NA provides a multi-homing device. Naturally, NA generates value.
- Is there any additional value of the NA besides of being multi-homing and selective?
- Maybe if the market is not fully covered, NA may save time in organizing some news.

Strategic complements vs substitutes

- Without NA, if μ_2 increases: $(\max_{\mu_1} \Pi_1 = \alpha_1(1 + \mu_1\delta) - C(\mu_1))$

$$\delta \underbrace{\alpha_1}_{(A) \downarrow} + \underbrace{\frac{\partial \alpha_1}{\partial \mu_1}}_{(B) (=)} (1 + \mu_1\delta) = C'(\mu_1)$$

- For **strategic substitutes** the effect is (A).

- With NA, if μ_2 increases:

$$(\max_{\mu_1} \Pi_1 = \alpha_1(1 + \mu_1\delta) + \delta(1 - \alpha_1 - \alpha_2)\mu_1 - C(\mu_1))$$

$$\delta \underbrace{\alpha_1}_{(A) (+) \downarrow} + \underbrace{\frac{\partial \alpha_1}{\partial \mu_1}}_{(B) (+) \downarrow} (1 + \mu_1\delta) + \delta \underbrace{(1 - \alpha_1 - \alpha_2)}_{(C) (+) \uparrow} - \delta \mu_1 \underbrace{\frac{\partial \alpha_1 + \alpha_2}{\partial \mu_1}}_{(D) (-) \downarrow} = C'(\mu_1)$$

- For **strategic complements** (C)+(D) dominate (A)+(B).
- You point out (C) but not (D) (p. 21), is (C) enough?

Thank You!!!!