Universitas Esa Unggul

Ekonomi Media, Session: 02

UNDERSTANDING THE MARKET & REGULATION

TUJUAN INSTRUKSIONAL KHUSUS:

Agar peserta didik dapat memahami secara mendalam mengenai:

1. **Bagaimana suatu pasar didefinisikan dalam ekonomi media**
2. **Struktur pasar yang berbeda=-beda dalam media massa**
3. **Bagaimana perusahaan swasta mempengaruhi struktur pasar**
4. **Bagaimana pasar bekerja dan kinerjanya**

REFERENSI

1. **Albarran**, Alan B (2001). Media Economics: Understanding Markets, Industries and Concepts. Ames, Iowa: Iowa State University Press. Pp. 227.
2. **Alexander**, Alison; James Owers; Rod Carveth; C. Ann Hollifield; Albert N. Greco (2004). Media Economics: Theory & Practice, third edition. Mahwah, NJ: Lawrence Erlbaum Associates, Publishers. Pp. 301

Market Defined: Product &Geographic Dimension

- **A Market is** where the consumers and sellers interact with one another to determine the price and quantity of the goods produced.
- **A market consist** of a number of sellers that provide a similar product or service to the same group of buyers/consumers.
- **A market is sometimes referred to as an industry**. In reality, a market and industry differ from each other. The market refers to an interrelated group of buyers and sellers, whereas an industry refers only the sellers in a particular market (such as the film industry) or across the several markets (as in the newspaper industry, which is engaged in selling the paper as well as retail and classified advertising).
- Today, the majority of media companies participate simultaneously in **several different markets**. For example, **Sony manufacturers electronic** hardware such as compact disk players and other audio equipment. Sony also participates in the manufacture and sale **software** through ownership of CBS studio, Columbia Pictures, which produces programming (another from software) for film and television. So, **Sony is a major "player" in three separate**, yet related, media markets. And Sony encounter different competitors, as well as different buyers, in each market.
- Example in Indonesia: **MNC Group** operates RCTI, TPI, & Global TV and also as a programming for mobile-TV & cable TV content such as XL 3G and Astro. MNC also operates Radio Trijaya Network all over of Indonesia. **Kompas Gramedia Group** operate daily newspaper, Magazine, bookstores, Radio Sonora, Trans 7 television, Hotel Santika, etc.

- **Picard** (1989) explain that **media industries are unique** in that they function in a dual product market.
- **Newspaper and magazine** performance measured through circulation data from subscribers and purchases of individual issues. **Radio and television** use audience ratings, and **film** performance is measured by ticket sales. **Some products require a purchase** to be made by the consumer, such as cable television subscription or video tape rental. **Other products may be accessed** simply by acquiring a receiver, as in the case of broadcast radio and television.
- **The second market** in which many media companies are engaged involves the selling of advertising. Advertisers seek access to the audiences using media content (figure 2.1). Greater demand for media content enables companies to charge higher prices for their advertising.

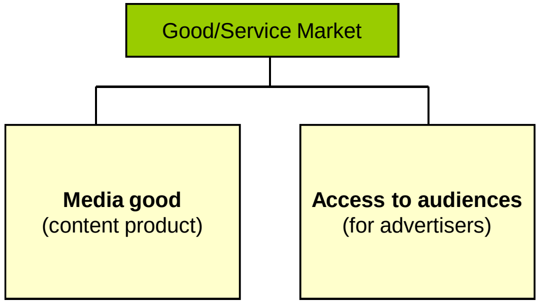

Figure 2.1 The dual product market

- **The product market is a unique characteristics** for much of the mass media. When mass media product represent entertainment and informational goods that can be used over and over again. As information goods are not consumable in the purest sense of the term.
- **Many media companies operate in specific areas**, or geographic region. Some firm such as radio, television, and cable network, compete on national basis, whereas other companies, such as local radio and television stations and newspapers, compete in regional geographic area.
- **Defining a media market consists of combining both the product and geographic dimensions** (figure 2.2). This process delineates a specific market for the media firm in which it offers some or all of its media products to potential buyers. The number of suppliers in a particular—and the extent of the competition among suppliers for buyers—is affected by the characteristics of the market structure affects the conduct and performance of the market, or what economists refer to as market structure.
- **Market structure affects the conduct and performance** of the market. A theoretical tool used to understand the relationship of market structure, conduct and performance is the industrial organization model.

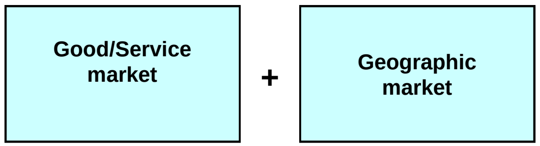

Figure 2.2 The dual product market

The Industrial Organization Model

- **The industrial organization model** is commonly used to understand the relationship among market structure, conduct and performance. The industrial organization model (figure 2.3) explicated by **Scherer** (1980) offers a systematic approach to analyze the many abstract concept encountered in studying market. **Busterna** (1988) adds that the model helps in understanding the interaction of market forces and their impact on market activities.
- **MARKET STRUCTURE**. A market is better understood through an examination of its economic characteristics. The structure of a market is dependent on several factors, but several important criteria clarify the type of market structure. These criteria are **concentration of buyers and sellers** (producers) in the market, the differentiation among the various products offered, barriers to entry of new competitors, cost structures and vertical integration.
- **The number of producers or sellers** in a given market explain a great deal about the concentration in a given market. **A market is concentrated** of it is dominated by **a limited number** of large companies. The lower the number of producers, the larger the degree of power each individual firm will wield.
- **Concentration can be measured in different ways**, but in media economics: **two approaches** prevail. **One method measures the percentage of the market** (using circulation or rating data) reached by competitors through the product. **Another method involved calculating the percentage of revenues** (sales) controlled by the top four (or eight) firms.
- **Product differentiation refers** to the subtle differences (either real or imagined) perceived by buyers to exist among products produced by sellers.

Market Structure

Number of sellers/buyers
Product differentiation
Barriers to entry
Cost structures
Vertical integration

↓

Conduct

Pricing behavior
Product strategy/advertising
Research and innovation
Plant investment
Legal tactics

↓

Performance

Performance
Allocative efficiency
Progress
Equity

Figure 2.3 Industrial Organization Model

- **Barriers to entry** are normally thought of as obstacles new sellers must overcome before entering a particular market. Barriers may be limited to capital (money) or other factors. Wirth (1986) studied barriers for the newspaper and broadcast industries and found that entry into the newspaper business involved for more economic barriers than did entry into broadcast radio or television.
- **Cost structures** consider the costs for production in a particular market. Total cost consist of both fixed cost—the cost needed to produce one unit of a product—and variable costs—costs that are variable in nature depending on the quantity produced (e.g. labor and raw materials).

- **Vertical integration** occurs when a firm controls different aspects of production, distribution and exhibition of its products (figure 2.4)

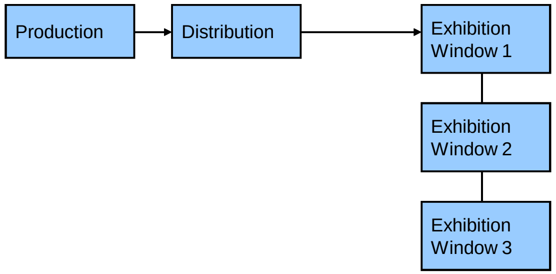

Figure 2.4 Vertical Integration

- **Analyzing the number of producers and sellers** in a market, the difference between products, barriers to entry, cost structures and vertical integration gives insight into **the structure of a market**.
- **Four type of market structure** serve as theoretical models, these are recognized popularly in much of the literature as the "**theory of the firm**" (**Litman**, 1988).
- **The theory of the firm**. The four type of the market structure are **monopoly**, **oligopoly, monopolistic competition**, and **perfect competition**. The four market structures represent a continuum with monopoly and perfect competition found at opposite ends, and oligopoly and monopolistic competition occupying interior positions (figure 2.5)

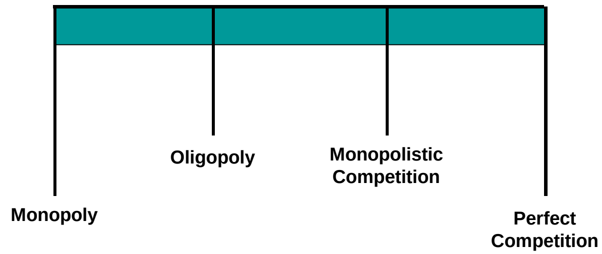

Figure 2.5 Market Structure

- **Analyzing the number** of producers and sellers in a market, the difference between products, barriers to entry, cost structures and vertical integration gives insight into the structure of a market.
- **A Monopoly is a type of structure whereby a single seller** of a product exist and thus dominates the market. Generally, a monopolistic structure assumes there is no clear substitute for the product; a buyer must purchase the good from the monopolist or avoid consumption of the good altogether. Because of this, economists refer to monopolists as "price-makers", as they can set the price in order to maximize profits. As expected, barriers to entry are very high is a monopoly.
- **The monopolist can also exhibit power in the market** by restricting production output (if desired). In a monopolistic structure, the demand curve for the product is the same the industry demand curve (figure 2.6). If no close substitute exists, demand is generally perceived as inelastic. It is important to recognize that not all consumers (buyers) demand the seller's product. If demand is weak and substitutes emerge, the monopolist will have little market power.

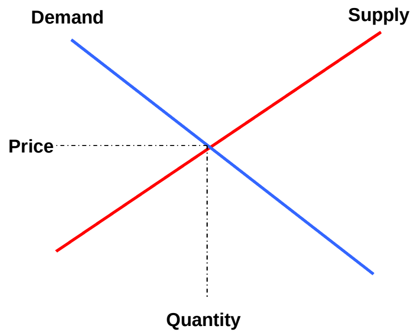

Figure 2.6 Monopoly Demand Curve

- **An Oligopoly** differs from a monopoly in that an oligopoly structure feature more than one seller of a product. **Product offered** by the sellers may be either homogeneous or differentiated. Typically, a market dominated by a few firms is considered an oligopoly, and each firm commands a similar share. Firms in an oligopoly mutually interdependent, with the actions of the leading firm (s) affecting the other firms in the market. These firms consider their actions in light of the impact on the market and their competitors.
- **In an oligopoly, price is normally set by the leader**, and others follow suit. The small number of seller and the lack of substitutes create an inelastic demand curve for the oligopolistic market structure (figure 2.7).
- **Barriers to entry** may take several forms in an oligopoly, but they are not as significant as those found in a monopoly. For example, the Fox network was able to enter the **TV network market** successfully despite the fact that **ABC, CBS and NBC** held dominance with audiences, advertisers and affiliates.

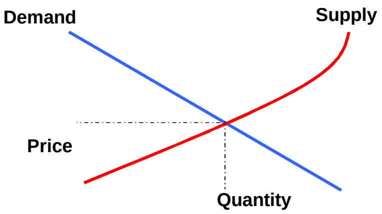

Figure 2.7 Monopolistic Competition Demand Curve

- **Monopolistic Competition**, exists when there are many sellers offering products that are similar, but not perfect, substitutes for one another. **Barriers to entry are lower** than those found in an oligopoly. **Each firm attempts to differentiate** its products in the minds of the consumer through various methods including **advertising, promotion, location, service an quality**. **Price varies** with decision set by both the market and the individual firms. Monopolistic competitive firms, believing they operate **independently** in the market, will often lower price in order to increase revenue. However, the competitors facing similar conditions may also lower their price, which result in a **downward-sloping demand curve** (figure 2.8) for the market.

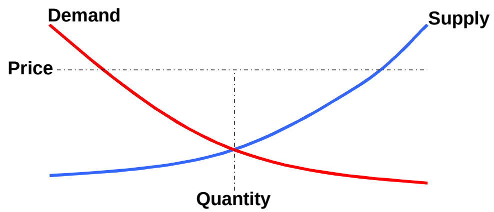

Figure 2.8 Oligopoly Demand Curve

- **In perfect competition**, the market structure is characterized by many sellers in which the product is homogeneous and no single firm or group of firms dominates the market. **With no barriers to entry**, the characteristics of the market economy dominate in a perfectly competitive market structure.
- **Individual firms operate as "price-takers"**, in that the market sets the price for the product, and prices are naturally constrained downward (**Picard**, 1989). The only production decision the firm makes in this type of market structure is how much of the good to produce, as it has no control over price. **The demand and supply curves are straight under perfect competition** (figure 2.9).

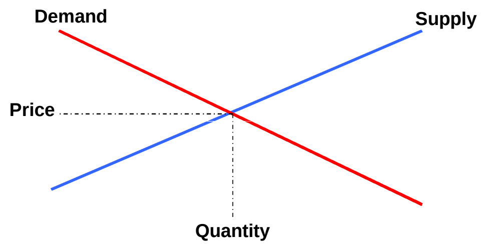

Figure 2.9 Demand Curve in Perfect Competition

- **MEDIA INDUSTRIES AND MARKET STRUCTURE**. In order to apply the theory of the firm to the media industries, one must first understand the specific market and the number of firms operating in the market and determine the amount of control the firms (s) has over its competitors. **Media industries occupy different positions** across the four types of market structure shown in figure 2.10.

- **Monopoly**
  - Cable television
  - Newspapers (in most markets)
- **Oligopoly**
  - Television networks
  - Motion pictures
  - Recording industry
- **Monopolistic competition**
  - Books
  - Magazines
  - Radio

Figure 2.10 Key Media Industries by Market Structure (in USA)

- **Scherer's two dimensional model**. The theory of the firm help clarify the distinctions found across the types of market structure. In addition to the theory of the firm, Scherer (1980) offers a two-dimensional approach to understanding market structure (figure 2.11). **The first dimension considers the number of sellers** in a market (one, a few, many) and **the second dimension separates homogeneous products** from differentiated products.
- **The two dimensional approach is helpful in clarifying some aspects of market structure** left answered by the theory of the firm. This is evident in Scherer's distinction between homogeneous oligopolies and differentiated oligopolies.
- **MARKET CONDUCT**. Market conduct refers to the policies and behaviors exhibited by sellers and buyers in a market. Market conduct centers around five specific areas: pricing behavior, product strategy and advertising, research and innovation, plant investment, and legal tactics.

	Number of Firms		
Type of Product	**One**	**A Few**	**Many**
Homogeneous product	Pure monopoly	Homogeneous oligopoly	Pure competition
Differentiated product	Pure monopoly	Differentiated oligopoly	Monopolistic competition

Figure 2.11 Scherer's Two Dimensions of Market Structure

- **Pricing policies or behaviors** are the most observable type of market conduct. **Picard** (1989) explains that pricing policies involve a series of decisions regarding how products are packaged, discounted and set. Picard identified four common price orientation:

  1) Demand-oriented pricing, where prices are set via market forces;

  2) Target return pricing, which is based on a desired amount of profit;

  3) Competition-oriented pricing, in which prices are based on those offered by competitors; and

  4) industry norm pricing, which is based on the industry at large, rather than market forces.
- **Product strategy and advertising** refer to decisions based on the actual products offered by a firm, including how a product is packaged or designed.
- **Advertising entails** a range of activities designed to create awareness of media products and services. Promotional and marketing activities aimed at consumers are ultimately designed to increase market share.

Kinerja Pasar

- **Market performance** involves analyzing the ability of individual firms in a market to achieve goals based on different performance criteria. Market performance is usually evaluated from a societal perspective, rather than from the level of the firm. Policy makers can examine the economic efficiency of a particular industry through performance criteria. In this sense, performance is examined from a macroeconomic orientation. A number of variables including efficiency, equity and progress are considered in evaluating market performance.
- **Efficiency** refers to the policy of a firm to maximize its wealth. Normally, two types of efficiency are reviewed: technical efficiency and allocative efficiency.
- **Technical efficiency** involves using the firm's resources in the most effective way to maximize output.
- **Allocative efficiency** occurs when an individual market functions at an optimal capacity, spreading its benefits among producers and consumers. Decision to limit ownership for television and radio stations encourage allocative efficiency as well as diversity of expression.
- **Equity** is concerned with the way in which wealth is distributed among producers and consumers. Ideally, a market economy system will provide a fair distribution of equity.
- **Progress** refers to the ability of firms in a market to increase output overtime. Progress goals are set by each firm, and evaluations for the market are determined by the aggregate sum of market output.
- **As the industrial organizational model implies**, the structure of the market affect the conduct of different firms in a market, which in turn impacts the performance of the market.