Chapter 2 - Theoretical Framework and Literature Review

A lot of literature exists on the role and functions of the media, focusing primarily on the notions of forms of media ownership and how particular media practices invariably set particular agendas. This chapter will lay the groundwork for much of the study and analysis that takes place in later chapters. So, the basis for this section will be to evolve a theoretical framework that examines the effects of media ownership and the impact of advertising. It will argue that they, rather than a free market of consumers, contribute to determine the diversity of media products.

2.1 The Media and Society

Liberal Pluralist Theory supports a press that is free and unencumbered by government or legislative oversight, the press is supposed to be the watchdog of the government and inform the polity of government policies while supporting the entrenchment of democracy. Curran (2000) notes that the media can be viewed in liberal theory as an agency of information and debate that facilitates the functioning of democracy. It also provides a channel between government and the people in political discussion and debate on issues that affect the polity.

Habermas (1964) concept of the 'public sphere' gives credence to this notion of the media. He supports the expectation that the mass media should facilitate pluralist debate and the free formation of public opinion. Therefore, a liberal pluralist theory of the media will support a free and independent press, which operates in the role of the public watchdog, while also playing the consumer representation role. With the media operating in the marketplace, it is assumed to thereby reflect popular concerns and finally performing an informational role. This amplifies the media's role in a democratic setting. Curran (2000) notes that media theorists generally view any government attempt at intervention in or regulation of the media with deep suspicion and emphasize that the media's critical surveillance of government is fundamental to the functioning of a democracy[11]. This collaborates with perspectives from Duncan and Seleoane (1998: 13) who note that “it is important for the press to check the excesses of the government in a representative democracy as it will keep the government representatives accountable to the electorate”. In a developing economy such as South Africa, the media’s role becomes central to the proper functioning of the system. For South Africa, democracy may depend on a media that will attempt to bridge the intellectual, political and economic gap created by apartheid.

Marxist and Neo-Marxist approaches however present a strong criticism of the independence of the mass media in capitalist liberal democracies. This tradition has been a catalyst in the evolution of research into the political economy of the media. The Marxist tradition sees the media as following the ideological interest of the dominant class in society; the media becomes integrated into the existing economic and political elites and is not free from their control[12]. This is not far from the truth, since the media could pose a major threat to coalitions of power, like governments, political parties or large corporations. Control of the media is often attempted whether overtly or covertly. The media is also often dismissed as supporting big business. For Herman and Chomsky, 1988; Bagdikian 1998, this could be because the media has become big business, whoever owns the media controls what the media produces.

2.1.1 Media ownership in the 21st century: The newspaper model and change

The newspaper industry has gone through several stages of development. The current 21st century newspaper model which is targeted at a mass audience is quite recent. It developed between the mid – late nineteenth century. Before this, the model was based on targeting specialized audiences. According to Picard (2002), the first 100-150 years of American newspapers were spent serving about 15-25 percent of the population. This was a small audience comprising of the social, political and economic elites. For newspapers to be profitable during this period, they had to depend on copy sales. Since advertising was minimal or almost nonexistent, the pricing structure or subscriptions to

[11] Cited in Bennet, 2004
[12] Bottomore and Maximilien, (ed.) 1961

these newspapers were very high. The business model of this period depended on circulation. Picard (2002) notes that the next business model adopted was mainly affected by the increase in population, urbanization and the industrial revolution of the early nineteenth century with its attendant social changes. Newspapers began to target and serve large audiences, consequently adding new contents to meet the diverse needs of these markets.

This new model focused on acquiring more consumers and papers were sold at very low price. This new development led to the increased reliance on advertising. However due to massive copy sales', advertising was still not considered a major source of revenue. Change however, was inevitable; advertising became a very important source of income. Picard (2002: 31) notes that "the magnitude of this change in the business model can be seen in the fact that advertising provided one-half of the revenue of newspapers in the United States by 1880. The amount rose to two-thirds by 1910 and to 80 percent in the year 2000". The post-World War 11 era heralded the decline of newspaper readership as competition emerged in the form of television and radio. This has only increased as more forms of infotainment increases. Technological aided advances in the communications industry have been diversionary. Picard predicts that as these changes continue, changing audiences and use patterns of newspapers would continue. This will be mainly due to competition as other forms of communications evolve. He notes, "One can expect that there will come a time when newspaper readership will look more like its initial position rather than the position at its mid-twentieth century high" (ibid). If and when this happens, it's only safe to assume that a new business model will evolve.

Mosco (1996) agrees that the political economy of the media concentrates on the set of social relations organized around power to control the production, distribution and consumption of news products. This agrees with perspectives from Herman and Chomsky (1988) who acknowledge the relationships between political power and news production. They note the ability of elites to control and manipulate public opinion as well use the media for personal gratification. However, it is often convenient for media owners and controllers to pay lip service to liberal-pluralistic ideals. While some media practitioners genuinely subscribe to these ideals, ironically this means entirely something different to most owners or representatives of media companies. Firstly, it can be argued to their credit, that media is big business therefore it must be profitable and protected as the asset it is (Hoskins, McFadyen and Finn, 2004; Picard, 1989). Secondly, most owners of large media corporations are in league with big business and government (see Herman and Chomsky, 1998; Bagdikian, 1998; Croteau and Hoynes, 2001), and sometimes media corporations are even owned by these businesses who also demand profits. So unless a rift appears between these cosy relationships, it is business as usual.

In order to understand the mass communication process, it is imperative to understand how the ownership and control of the media determines the structure and production of meaning in the society. McChesney and Nichols (2002) in their book which chronicles the political economy of the American media note that in the 19th century introduction of democracy, the role of the press was seen as central to democracy. But in the 21st century, American media has been highjacked by the elites. This, they noted, poses a threat to democracy; the quest for profit has affected the running of the media. Shareholders' profit margins and advertisers now rule media operations. They acknowledge the role of the political class whose endorsement has given media conglomerates more access to expand and grow their empires. Government policies had been formulated in the last decades to favour the conglomerates, giving them increasing powers in media ownership. These policies, although made on the electorates' behalf, were not at their behest.

Chambers (2000) concurs with theoretical perspectives from Garnham (1979), Ferguson (1990), Golding and Murdock (1991), Curran and Seaton (1997), Bagdikian (1988) that the study of the political economy of the media is important because it examines economic and political dynamics of media ownership and control and its effects on media practices (2000:92). Williams also is of the opinion that,

> Political economy examines the media, the nature of the media activity, to identify the nature of corporate reach, the 'commodification' of media products and the changing nature of state and government intervention. Political economy sees the content, style and form of media product such as newspaper stories or computer games as shaped by structural features such as ownership, advertising and audience spending (2003:72).

This leads to William's conclusion that "the approach emphasizes analysis of the media as industries and businesses. It focuses on their organization, the way in which they operate and what they produce is shaped and determined by economic considerations and their attendant political aspects" (ibid: 56).

Curran and Gurevitch (1996), Bagdikian, (2000), Murdock, and Golding, (1973) argue that the mass media are first and foremost industrial and commercial organizations which produce and distribute commodities. Murdock and Golding (1973) state that the most important aspect of the operation of media as business is that, the production is geared toward the making of profit. What sells most and realizes the greatest profit is the major determinant of what is produced. Thus the starting point of political economy is the economic and industrial organization of the media. They believe that the economic base of the media is a necessary and sufficient explanation of the cultural and ideological effects of the media[13].

2.2 Concentration of media ownership

In classical political economy of the media, private ownership of the media is central to historical growth of mass communications. However, in the 21st century, the press is developing on different paradigms which have shifted away from small to medium privately-owned media. Historically, it was relatively easy to start a newspaper, but in recent times due to the industrialisation of the press, the rising cost of production has become a barrier to new entrants. William (2003) argues that as a result, small businesses were driven out, leaving press ownership largely concentrated in the hands of large media empires or chains. This has since grown to become a global phenomenon; very few companies control the majority of the media globally. McChesney and Nichols (2002) acknowledge the effects of globalisation worldwide and its effect on the media. They chronicle the emerging global commercial media with its national variants. These trans-national media giants have a global agenda and they are increasingly expanding vertically and horizontally. Vertical integration refers to "the process by which one media owner acquires all aspects of production and distribution of a single type of media product",

[13] Cited in Williams (2003: 56)

while horizontal integration to Croteau and Hoynes, (1997: 38) is “the process by which one company buys different kinds of media, concentrating ownership across different kinds of media”.

Williams (2003: 80) notes that “cross-media ownership has developed at a rapid pace in recent years. As the media industries have become more profitable, non media firms have started to buy up media properties”. This has further emphasized the role of the media as business. Further integration onto the market brings increased pressure from the shareholders, directors and bankers to maximize profits. Bogart (1994) notes that the major motivation for large media companies was growing capital requirements and shareholder demands for larger profits and more efficiency. McChesney and Scott (2004) also agree that cross media ownerships, through a wave of mergers and acquisitions, have quickly assembled empires with major players in the numerous different media sectors.

What these firms discovered was that the net profit obtained from a media empire could exceed the sum of the profit parts. These consolidations gave the media conglomerates a decided competitive advantage. These companies in the process, also cut deals with competitors, seek to pre-empt or crowd up-start rivals. Bottom-line driven cost cutting, centralisation of resources and the closure of media outlets that fail to contribute adequately to the profit bottom-line is also common practise. As a result, these conglomerates look very attractive to advertisers (McChesney and Nichols, 2002). Although this development is claimed to stimulate productivity and economic growth,
Bogart 1994; Croteau and Hoynes (2001) note it is accompanied by a disregard for broader social interest, a narrowing of consumer choice and the destruction of individual smaller enterprise. It becomes almost totally impossible for start-up firms to have a chance to compete successfully.

This raises a challenge; do these increasingly global patterns of ownership and control not pose a serious threat to the media’s role in a society? As this is largely aided by deregulation and the free market ideology, proponents of media concentration claim that this will aid competition, choice and quality of media products. They see the explosion of choice as making redundant old-fashioned anxieties about media monopoly as deregulation encourages competition, investment and a growing diversity of products. Murdock (1994), a major critic while acknowledging the ‘more choice’ argument as ‘highly plausible and seductive’, argues for a distinction between plurality and diversity. He argues that studies have shown that concentrated ownership in the press yields diminished editorial voice, the decline of journalistic values, diminution of the press’ watchdog function, reduction in the diversity of ideas, and consequently, thwarts democratic deliberation.

This study examines two approaches to the political economy theory of the media, namely the liberal pluralist approach with its focus on a critique of the state and the Marxist approach which focuses on the critique of capital. While these two approaches may seem to be in contention, they seem to intertwine and coexist uneasily and paradoxically in modern media practises. In South Africa, the media is tasked with maintaining its watch dog role but in reality has to navigate the treacherous terrain of modern business where the ideology of profit and the bottom-line seems to be the norm. In a new representative democracy as South Africa’s, the liberal pluralist approach is still relevant, but more threatening has been the impact of media conglomeration with its penchant for limiting the range of expression.

So, critiques from Curran (2000), Garnham (1990), Herman and Chomsky (1988), Murdock and Golding (1991, 1997), Mosco (1996), expose a situation where in theory, the press in South Africa seems to promote media pluralism and freedom as well as diversity. It also strives to countervail arbitrary state intervention. However, they acknowledge that accumulation and concentration restricts media diversity and produces communication inequalities. To them, the market seems to be betraying the ideals of democracy and distorting the same public sphere, which liberal pluralists clamour for. Lee (2001:5) concurs with these perspectives and acknowledges that the system “embodies the existing problems of incomplete emancipation, resource inequity and cultural distortions resulting from the economic dynamics of advanced capitalism”.

How serious does the liberal pluralist theory of communication take into account the impact and effects of corporate domination and reach on the commodification of public communication? While the Marxist approach to political economy shares theoretical perspectives on the importance of the 'public sphere' with liberal-pluralist theoreticians, they, however, maintain their position that the threat to the media comes not only from arbitrary government intervention, but also by the subjugation of the communication industry to unrestricted market forces. Shoemaker and Reese (1991: 145) agree, "This undermines the public sphere because the principle underlying the free market economy is profit making and this often leads to the concentration of ownership".

Yet this has not stopped the unprecedented growth of the 'big media' globally. The media lobby worldwide is seeking different avenues to get governments to enact favourable legislation that would aid their unabated growth. In the United States recently, the media lobby suffered a major setback when government pulled out of plans to get the Supreme Court enforce a new set of rule granting them 'big media' rights of further expansion.
Ahrens (2005) notes in an article in the *Washington Post* that,

> The rules were opposed by a broad coalition of interest groups and bipartisan groups of lawmakers who said that they would give a handful of media conglomerates too much influence… reducing diversity of views and possibly creating monopoly of advertising markets. [14]

This however only seems to be a temporary setback as predictions from Bagdikian (1988) has proven; big business always gets it way.

2.3 The economics of media

Doyle (2002: 2) notes that "media economics combines the study of economics with the study of media. It is also the study of the changing market forces that direct and constrain

[14] www.washingtonpost.com/wp-dyn/articles/A42134-2005

the choices of managers, practitioners and other decision makers across the media industry". Picard (1989: 7) defines media economics as being "concerned with how media operators meet the informational and entertainment wants and needs of audiences, advertisers and society with available resources". Doyle (2002: 2) notes that "with any free economy, the level of resources available for the provision of media will be constrained principally by the size and wealth of that economy, and the propensity of it inhabitants to consume media". He notes that the availability of advertising support is also related to levels of consumer expenditure or economic wealth in a given market.

A study of economics could be carried out on two levels, namely: macroeconomics and microeconomics. Macroeconomics focuses on very broad economic aggregates and averages. On this level of analysis, the general view of the economy is taken into consideration; issues of total output, total employment, national incomes, economic growth for example. On the macroeconomic level, the overall performance of the economy has serious implications for the way the media would perform; the growth of the national economy could be directly or indirectly proportional to the growth of the media industry (Doyle 2002). He notes that as the advertisers grow in profit, the media industry which is largely dependent on advertising revenue as income will also grow and profit (ibid). On the microeconomic level, the performance of the individual markets, products and firms will be analysed. For Hoskins, McFadyen and Finn (2004: 4) "Microeconomics is concerned with the individual behaviour of individual economic units, notably the firm and the household, the role of the relative prices in affecting behaviour". This study will focus mainly on microeconomics of the South African press and will assess its effects on *ThisDay's* survival.

Picard (2000: xi) states that "the economics and financing of media companies are the foundation upon which all media activities take place". He argues that regardless of media's cultural, political, social roles and expectations, "media must cover their cost and show profit, just as any other business, or they would wither and disappear" (ibid). A contemporary business practice which seems to affect most business entities, is the global trend of expansion, diversification and ever increasing concentration of media ownership amongst major players in the media and communication industry. Increasing competition and the strategic advantage of consolidation and media concentration has led to strategies to exploit new economic opportunities to keep ahead of competitors. Lipsey and Chrystal, 1995: 258) note that "Global competition is fierce competition, and firms need to be fast on the uptake…if they are to survive". Picard, (2002) argue that Media industries operate in a business environment and are affected by the same variety of economic and financial forces that affect normal business entities, their response to these forces must be in a business-like manner. A major business imperative is growth and survival, the logic of economics of scale and scope is an incentive to expand media products sales into secondary external or overseas markets.

Media products are different from other products we consume, what makes the media unique is that it deals in 'dual products'. This Picard (1989) notes is selling content to the audience while also selling the audience to the advertiser. All media firms are involved in the production and distribution of media products 'one thing they all have in common'. The print media, however, differs from the electronic media because of its reliance on advertising revenue for at least 60% of its income; the electronic media depends on advertising revenue for almost 100% of its income if it's not a public broadcaster[15]. The print and electronic media also distribute their product differently. Another distinction between the media and a normal firm is the basis for operation. Doyle (2002: 8) notes that the traditional assumption of every commercial firm is the drive to maximise profit. "The assumption that all firms seek to maximise profit is central to the economic theory of the firm". With the media it is often argued that the bottom-line is not primarily the reason for its establishment. While this could be contested, the media prides itself as being motivated by other goals, public service, information, entertainment and the watch dog role, to mention a few. For some media owners' these goals range from straight forward philanthropy to the desire of specific benefits associated with owning certain types of business.

[15] See Doyle, 2002; Picard, 1989; Hoskins, McFadyen and Finn, 2000

Most theorists are in agreement that journalists and advertisers have a legitimate reason to reach the audience. This is why commercial news production requires some compromise of journalistic ideals with business reality. Bagdikian, 1990; Underwood, (1993) noted that while for some media organisation, the pursuit for profits is obvious, to other disguising the economic interest of the firm serves management. Ehrlich (1993:3) notes that "although the talk of money making is likely to be rare in market driven newsrooms, the logic that drives news routines nevertheless, is economic". It is reasonable for media owners to expect profit from their investments. After-all, in setting up the business, they had taken on a measure of risk. Picard (2002); Doyle (2002); Hoskins, McFadyen and Finn (2004), all agree that media firms are constantly having to grapple with the risk of managerial decisions taken on current and future activities. Picard (2002: 6) notes that, "risk is a concept that results from uncertainty about the future and about the result of choices that must be made today".

While newspapers face relatively low risks due to the stability of their readership and products, profitability must be a rallying point of most business decisions. Picard (2002: 7) notes "profitability is crucial to all media companies because it allows firms to produce their own financial resources and make them more attractive to lenders and other sources of capital when they require additional financing to support their strategies and activities". He argues that it is only by making profit they could reinvest to grow content and be more attractive to advertisers and audiences, "ultimately making themselves more profitable" (ibid). When a media firm is haemorrhaging financially, its demise is inevitable, as it can no longer support its day-to-day operations, which exclude reinvesting in the business. This result in what Picard describes as "the continued spiral of decline combined with the increased strengthening of competitors to heavily disadvantage the less profitable or unprofitable firm" (ibid). The demise or collapse of that media entity will be the diagnosis.

A media firm has to take certain economic factors into account if it were to succeed in the market. Picard acknowledges certain factors, which include: market forces, cost forces, regulatory forces, barriers to entry and mobility;

> Market forces are external forces based on structures and choices in the market place. Cost forces are internal pressure based on the operating expenses of the firm. Regulatory forces represent the legal, political and self-regulatory forces that constrain and direct operations. Barriers are factors that inhibit new firms from entering a new market; they also deter them from successfully competing in a market (2002: 4).

These factors and their components, if not properly addressed, will lead to the demise of any viable business operation. Doyle (2002: 8) notes that "the competitive market structure within which media operates will have an important bearing on how effectively media firms organise their resources and business affairs". Market forces exert their influence on a media firm by trying to determine how it sources capital for its establishment and operations. The forces also affect how media creates a sustainable demand for its product as well as determine how competitive that product will be, depending on the market structure that exists (Picard 2002; Hoskins, McFadyen and Finn 2004). Picard (2002) notes that the amount of competition that exists between media units would affect the development and success of those media firms. More competitors, however, would ensure a continuing struggle to improve or maintain their media share. He argues that healthy competition could actually benefit the audience and advertisers.

Media firms must also have adequate strategies to manage the costs involved in staying operational. Most important could be evolving strategies to manage the cost of production and distribution, the cost of acquiring content as well as the cost implications of marketing the product. Picard (2002) notes that the cost implication for media firms will depend on the kinds of product or content, they produce. The print media he argues, devotes a greater percentage of overall cost to the production and distribution of their product, typically between 40 and 60 percent. This is due to the physical need to produce and distribute the product. Newspapers (especially those with their own distribution network), have to weather a greater cost of distribution because cost arises as the distance to the costumer increases. Distribution costs however, become more manageable due to the density of customers in a target area.[16] Advertising or marketing media products become a necessity if the products exist in a competitive market. However Doyle 2002; Picard (2002) note that if the products exist as monopoly, there's little need for advertising or marketing.

2.3.1 Barriers to entry and mobility in the markets

Any new media company will be faced with barriers impeding its entry into the market. These barriers are economic factors and could encompass most of the factors that we have already discussed. However, Bagdikian (2000), Picard (2002), Doyle (2002), Hoskins, McFadyen and Finn (2004) all agree that certain factors affect new entrants more than others. These include: capital requirements, economics of scale, product differentiation, switching costs, limited access to distribution channels, government policies and competitive advantage.

2.3.1.1 Capital requirements

A major barrier for a new entrepreneur could be the inability to access enough funds. These funds must cover start up costs as well as projected cost for a certain period before the paper becomes profitable. It is common knowledge that most newspapers and magazines may run at a loss for a long period before breaking even or declaring profit. It could take up to five years or more for a newspaper to recover cost and declare profit. Most often, this is the length of time it takes for it to overcome most of the economic factors listed here.

2.3.1.2 Economies of scale and scope

These can also play a major role in the survival of a new entrant. In a competitive market with already established products, it becomes a difficult task to quickly achieve the high

[16] The same cost will apply to delivering a newspaper to ten houses on a street as it would to one household.

quality output and sales necessary to provide a chance of competing effectively. It costs less to print 50,000 copies of a newspaper than to print 20,000 copies. An already established firm could also purchase production material in bulk thereby reducing overall costs. Picard (2002: 73) notes that “Firms with economies of scale can, thus sell products and services at a lower price or retain greater profits than firms with lower economies of scale or diseconomies of scale”. It has been argued by Hoskins, McFadyen and Finn (2004: 149) that “Economies of scope enjoyed by multiple product firms may deter entry; this sometimes involves vertical integration, with the same company involved in production, distribution and retailing of these products”.

Picard (2002: 73) identifies other factors like product differentiation, “which is the ability to create consumer loyalties and identification with existing products making it difficult for new firms to overcome, or switching costs - which are the costs consumers, are willing to pay to shift loyalties to new products as major barriers to entry”. He also identifies the limitations of access to distribution channels as a barrier. If a product does not find a proper and effective distribution channel, it is bound to suffer. He notes that major media companies enter into exclusivity contracts or joint distribution networks that they could keep closed to a new competitor. While it is almost impossible for new entrants to overcome these barriers, except they exist as part of a conglomerate, it is often possible for new entrants to reduce the barriers to entry. Picard (2000) argues that by introducing new techniques and methods of operation that avoid traditional cost structures, new firms could sometimes overcome barriers to entry. If their products come with new innovations, the firms could also overcome these barriers. As a last resort, a new company might enter into joint ventures with existing firms in the market or with firms that have the resources to overcome the barriers.

2.3.2 Characteristics of Newspaper Firms

The newspaper as a source of information has certain features that make it different from other information sources such as books, periodicals, radio, television and Internet. No other source can compete with a newspaper in the abundance and variety of information in its contents (Ferguson, 1983). The huge volume of information in newspapers is usually timely and instant and much more closely related to social reality and people's daily life, which gives newspapers superiority over books and periodicals (Reddaway, 1963). Newspapers can have a massive readership, and a huge circulation. Ferguson (1983), Reddaway (1963) and Doyle (2002) argue that comparatively speaking, the information provided by newspapers is of higher authenticity, and once it is issued, the information is recorded in a stable and unchangeable way, which gives newspapers an advantage over radio, television and internet. According to Picard (2002), newspapers while sharing certain characteristics with other media have certain characteristics, which may distinguish them from other media. These characteristics are on three levels namely; market characteristics, financial characteristics, and operational characteristics.

2.3.2.1 Market characteristics

A newspaper will have a strong link to a geographical location. It is often targeted at the market situated at its immediate production environment, unlike the electronic media whose reach extends far beyond its geographic environment. Newspapers, unlike books or magazines have a shorter product lifespan and the barriers to entry are higher as well. Newspapers often have a stable circulation, but declining market penetration becomes a problem when there are a large number of competing products. Advertisers will often go for newspapers with a larger circulation, meaning that newspapers with lower circulation, if not catering to a niche market, will be starved of advertising. Newspapers are constantly facing new threats from new technologies escalating the cost of production or upgrading existing facilities. A major threat to newspapers right now is the significant loss of advertising revenue to the electronic media (Picard, 1998).

2.3.2.2 Financial/ Cost characteristics

Newspaper production is expensive, its fixed cost and production costs are high. Newspapers therefore, must cover costs that include content, staff remuneration, manufacturing and printing costs at a daily basis. Picard (1998: 122-23) notes that, “because most newspaper costs are fixed, the opportunity to make savings if and when circulation falls is relatively limited". It is expensive to distribute newspapers. The major contributory factors include what Picard (2002: 12) argues is "the physical bulk of newsprint and the logistics of distribution in a geographical location coupled with the variables of time and space". Newspapers however, have low marketing costs, as each daily edition ensures continuity. While the cost of first-copy is high, variable costs for newspapers are moderate due to the economies of scale. The higher the amount of copies produced, the less expensive it becomes on the long run. Paper or newsprint typically accounts for some 20 percent of a newspaper's total costs (Gasson, 1994).

2.3.2.3 Operational characteristics

Most newspapers are Small and Medium Enterprises (SMEs), but a few large firms own a number of them. However, concentrated ownerships are on the increase[17]. Newspaper production is labour and equipment intensive, complex logistics are also involved in the daily running of newspapers. Newspapers like the electronic media, have a high dependence on advertising revenue, but advertising revenue stabilizes with long term contracts. For Picard (1998: 116-17), "Newspapers participate in what is called a 'dual-product' market; newspaper content (news reports, features etc.) is produced by journalists and editors in order to attract readers. Access to readers is then priced and sold to advertisers".

2.3.3 Newspapers and the question of price

The newspaper like any other product, must be acquired at a price. Newspapers occupy a unique position in the market because they do not really depend on the price of its product to make profit. While the newspaper produces one kind of product, it however markets its product to two different kinds of customers. Picard (1998: 55) notes that the "pricing behaviours of newspapers are influenced by a variety of factors- industry structure, the nature and amount of inter- and intra- media competition, circulation of

[17] See Doyle (2002), Picard (2002), Williams (2003)

specific newspapers, the sizes of the primary market in which the papers circulate, demand for advertising, and general economic conditions"[18].

However, this study must quickly identify the fact that for pricing in newspapers, a distinction must be made about which market is buying what? This is because newspapers set two kinds of prices, the price at which the newspaper is offered to the readership and the price of advertising space to the advertiser. This creates two parallel markets for its product. However, Picard (1998) notes that the amount charged for advertising is more dependent upon the sizes and the characteristics of the audiences than the sizes of the advertisement themselves. The kind of market also affects the pricing of this dual product. If the newspaper is in a monopoly, it is obvious that it will not really be challenged for its market share and can afford to price it products accordingly. A newspaper in a competitive environment will consider the pricing structure of its rivals before setting its own price. Picard (1998: 56) notes that while the pricing behaviour of newspapers in a small or moderately sized market does not influence the advertiser, in a national market, that may be influential because, "demand is especially sensitive to price changes when there is another competing daily paper and its audience demographics are similar, and the disparity in circulation between the two papers is not great". A newspaper will inherently have a cover price and an advertising price, but will factor its profit margin into any transaction with its clients. The ratio of advertising to editorial space is what determines the profitability of a newspaper.

This creates a puzzle;, should profitability be left at the behest of the amount of advertising a newspaper gets? How important is the pricing strategy to a newspaper? This question has been contested in many quarters. To theorists like Picard (1998), the pricing structure of a newspaper is directly proportional to the amount of advertising it gets, or a paper that relies more on creating advertising space is more concerned with its circulation. The more readers it gets, the more its advertising space is worth. That is why selling as many copies as possible could lead to low prices. On the other axis are arguments that pricing strategies were non-existent or not prioritised in the newspaper

[18] Cited in Picard etal (eds.) (1998: 55)

industry. Picard (1998) notes that pricing is not taken seriously in the newspaper industry. Picard notes that in the newspaper industry, "pricing strategies and rate setting are not even viewed with the same importance attached in other industries, where in spite of the amount of research and acknowledged importance is still taken for granted" (ibid).

It is therefore not surprising that newspaper managements do not also take pricing seriously as the pricing issue has also been ignored in major newspaper management texts. Picard criticizes the work of major contributors to media economics theory for overlooking this important subject[19]. Picard is apparently championing the cause of advertising pricing, yet in actual fact copy price and advertisement rates play an important part in the newspaper. While the effect of copy price on advertising is relative, the fact remains that advertising sales is influenced by circulation. So a theory on the pricing structures in the newspaper should place an equal emphasis on both. Rucker and Williams (1974: 211) acknowledges the importance of both pricing structures "while the accustomed standard has generally been circulation, the business public is beginning to realise that something more than paid subscribers determines the value of a newspaper as an advertising medium". It is believed that what attracts advertisers to a newspaper is its circulation, but newspaper readers could also be attracted to the newspaper because of the advertising inserts[20].

Corden (1952:182) agrees to this by adding;

> It will be noted that the circulation is the link between the two products sold by the newspaper–printed matter for readers and space for advertisers. The circulation is the quantity sold of one of the products and determines the quality of the other. A link in the reverse direction is also possible. ...We shall assume the absence of this reverse link, as it is generally not sufficiently important to justify the complexities with its introduction into the analysis would involve.

While traditional theory argues that the newspaper with the largest circulation enjoys the most advertising[21], this may not always be true. In South Africa, the paper with the largest circulation- *The Daily Sun* which has a current circulation of 500,000 copies

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[19] See McClure, 1950; Rucker and Williams, 1974; Udell (1978)
[20] See Bassey (2005)
[21] See Furhoff (1973 9)

attracts only about a third of the advertising harnessed by its broadsheet competition *The Star.* Advertisers will approach a newspaper for various reasons.

Advertising space is not a homogeneous commodity, but something whose value depends on the characteristics of a newspaper's readership. Since advertisers want to sell their products to those with the most amount of disposable income, it is suggested, in particular, that the proportion of readers belonging to the more affluent social categories will exert a strong positive influence on advertising. A newspaper with a small circulation might still attract all the advertising it needs if its readership consists of the very affluent. Another argument is that if the content of a newspaper attracts the right crowd, it could afford to charge a cover price that allows it to recover cost thus reducing the dependency to advertising. This argument seems to suggest that the readers will pay for what they consider to be quality, and the readership that recognises and demands quality news are amongst the affluent; a win-win situation?

2.4 Media, Advertisers and Advertising

A symbiotic relationship exists between the media and big business who in the final analysis will turn out to be the advertisers. After all it is their products that will be displayed in newspapers. While this section will discuss various issues revolving around the media and advertising, advertising should be seen as a necessary evil that has its merits. The media industry is in a constantly evolving environment; as the economics of running a media entity become more defined, especially with threats of competition for media revenue, the relationship between the press and advertisers might only blossom.

2.4.1 Market Driven Journalism: Economic realities of the modern media

The reality of the market place makes the press increasingly dependent on sources of revenue that compromises its independence. This is because the media has increasingly had to depend on other sources of revenue generation other than the sales of copy. The press has rather become a business entity. Its public service role; a primary one being the provision of information only increases its ratings for audiences, while the major aim seems to be selling the audience to the advertisers for profit. Investors and shareholders whose main interest is the profit margin now control news corporations. According to Herman and Chomsky (1988:7), the drive for profit has, "encouraged the entry of speculators and increased the pressure and temptation to focus more intensely on profitability". This argument corresponds with Pogash (1995) who, amongst other critics, asserts that publicly-owned companies, which include most of the country's largest newspaper chains, have lost their journalistic path in pursuit of high profits to please Wall Street analysts and stockholders. Harber (2005) notes that,

> The owners view media and journalism like any other industry, refuse to recognize any larger social or public interest in what their television, newspapers and radio outlets do, with an interest only in the bottom line and in the share market's demand for constant large-scale growth[22].

McManus (1994:1) observes that "the news is now a 'product', the readership the 'customer', while the circulation or signal area is now a 'market'". He notes that,

> Even though profit-seeking business has been the enabling foundation of journalism here, ever since entrepreneurs succeeded politicians as operators of the press 150 years ago, it has usually been kept in the basement. Now the business of selling news is being invited upstairs, into the temple (ibid).

McManus commented that a few purists like Carl Bernstein[23] blamed the market orientation of modern journalism for creating an 'idiot culture':

> For more than 15 years now we have been moving away from real journalism towards the creation of a sleazoid information culture… in this new culture of journalistic titillation, we teach our readers and viewers that the trivial is significant, that the lurid is more important than real news (McManus, 1994:2).

[22] http://www.journalism.co.za/modules.php?op=modload&name=News&file=article&sid=2386

[23] Bernstein was one of the reporters who broke the Watergate scandal.

Bagdikian (1990) notes that market journalism gather an audience not to inform it, but to sell it to advertisers. This is to the detriment of the public while the corporations increase their profit margins. However, there seems to be a growing body of theorists who believe that market driven journalism is the future of the press and those in the press who resisted change were likely to be removed. Michael Fancher the editor of the *Seattle Times*, was quoted as saying,

> Some editors resist getting involved in the business side of newspapering fearful they will be tainted by its filthy lucre; I believe those editors are doomed. Sooner or later they will, their journalistic options will be proscribed by someone else's bottom-line (Cited in Underwood, 1988:29).

Elliott Parker (1996) notes that a growing number of newspaper journalists feel that management's embracing of a "market-driven" business strategy threatens their professionalism and conflicts with the historical role of newspapers in the American democracy. These journalists believe management is asking for fundamental changes in the practice of journalism. These changes - the journalist as a business agent, smaller newsroom staffs, and less resources with which to work, increasingly show that management and journalists have conflicting agendas[24]. It is therefore important for a newspaper's management to preserve the independence of the newsroom as it is equally important for journalists to recognise the changing environment which calls for paying equal attention to the business side of the running a newspaper of which advertising revenue plays a key role.

2.4.2 The Role of Advertising in the Media

The role of mass communications and advertising within the institutional structures of contemporary capitalist society has been examined and questioned in substantial literature. However, most of the available literature examines the content and structure of advertisements and note their ability to distort information or the ideological effect that advertisements have on the audience. Bagdikian (1990), Croteau and Hoynes (1997), have attempted to provide a historical basis for advertising and the communications

[24] http://list.msu.edu/cgi-bin/wa?A2=ind9612B&L=aejmc&P=R51602

industry, and located them within the history of contemporary capitalism, examining their impact on the socio-political economic structures. While the origins of the advertising industry has been located within the evolution of the global economy from an "Industrial" to a "Consumer" society, theorists like Leiss, Khline and Jhally (1986) note that advertising has become a central institution of the market-industrial economy. Vincent Mosco (1996: 108) commenting on the synergies that exist within contemporary capitalism notes that "Commercial linkages have expanded as advertising and media firms come together through mergers, partnerships, joint ventures, strategic alliances, and the other forms that structural transformation takes in this industry".

The rising cost of news production and the realisation by the business sector on the relevance of showcasing their products to a wider market, has played a major role in the growth of the advertising industry and the dependence on advertising revenue by the press. Advertising can be seen as an important institution in the consumer society because of its economic benefits; mainly in managing consumer demand and aiding capital accumulation. The modern day media's dependence on advertising for revenue has reached astronomical heights, although in different segments of the media, the use of advertising revenue may vary. The press unlike the electronic media 'which depends solely on advertising' depends on both advertising and the sell of copy. Most newspapers increasingly rely on advertising for over 60% of revenue, and thus need to be sensitive to the needs of advertisers, and this impact on their readers. The bottom line is that newspapers have to target a class of readers that is being chased by most advertisers - conventionally that is they have to identify people with disposable income to buy the products of their advertisers[25].

In order to attract advertisers to a newspaper, its management must be able to show that they have that specific target market the advertisers need. This also means that the circulation figures of the paper must be attractive to the advertisers. A quality newspaper targeted at the right audience, with a high circulation figure is definitely a goldmine to its

[25] See Croteau & Hoynes 1997; Wilson & Gutierrez (1995)

owners as advertisers would clamour for the opportunity to reach their market through that audience.

2.5 Advertising and the South African Media

Berger (1993) and Kanyegerire (2002) acknowledge the increasing tilt of the media industry towards global trends. Consequently in South Africa, the media market is skewed towards the elite white minority who are economically well-off when compared to the majority of blacks, coloureds and Indians. Berger (1993) notes that currently the marketplace means that those at the bottom of the pile, the most media-deprived, are not targeted by the media because this would be unprofitable. He notes that while a large majority of readers was now 'black' the media continued to serve a white audience; advertising is aimed at the white audience and the pricing structure also favours white readers. These niches are carved out specifically by these publications because of the belief that advertisers would respond positively (ibid).

Dlamini (2003) notes that South Africa's history has greatly influenced the media, therefore, advertising investment strategists now have the task of transforming the advertising industry to cater for previously disadvantaged members of the society while ensuring that their principles stay economically viable and profitable. This has led to the adoption of the South African Advertising Research Foundation's (SAARF) Living Standard Measurements (LSM) and the All Media Products Survey (AMPS) to segment the audience into distinct identifiable groups in terms of demographic and personal data, media consumption data and psychological data. These tools have become indispensable to the South African advertisers and media companies. A major basis for classification of the LSM is race, which distinctly demarcates the South African audience into rating of 1-10.

Table 1.1

<u>LSM Race Group Profiles</u>

	LSM1	LSM2	LSM3	LSM4	LSM5	LSM6	LSM7	LSM8	LSM9	LSM10
%White	0	0	0.1	0.3	1.7	8.9	29.4	49.1	71.2	87.4

%Ind.	0	0	0	0.2	1.3	4.7	8.3	9.6	9.5	4.9
%Col.	0.3	2.4	3.8	5	9.4	19.1	23	19.2	11.1	4.4
%Black	99.1	97.6	96.1	94.5	87.6	67.3	39.3	22.1	8.2	3.2

The economic gap: 83% of Black Adults fall into LSM1 –5, whereas 98% of white adults fall into LSM6 –10.

However as the next table shows, the bulk of advertising spend is mainly taken up by the media which has its niche market in the LSM groups 6-10 and only a small proportion is spent on the LSM1-5 groups.

Table 1.2

Population Profile by LSM vs. 2001 Spend Profile of the Big 4.

	LSM1	LSM2	LSM3	LSM4	LSM5	LSM6	LSM7	LSM8	LSM9	LSM10
%POP.	10.1	14	14.3	13.8	12.5	12.6	6	5.8	5.4	5.1
%SPEND BIG 4.	1.5	3.8	6.6	9.1	11.5	16.4	10.1	11.9	13.2	15.3

Courtesy 2002 Nielsen Media Research. (cited in Dlamini 2003)

This raises a question that examines whether the available audience was able to support a new newspaper, or is it possible that there will never be a broad based newspaper with quality editorial content in the South African media. De Wet (2005) argues that *ThisDay's* business model was never going to be an attractive vehicle for key South African advertisers. He notes that the top three advertisers (according to Nielson media research) were retailers Shoprite/Checkers, Pick 'n Pay and Spar[26]; revenue that *ThisDay* never accessed, barely getting experimental advertising which could not sustain its existence. *ThisDay's* LSM target and its purported circulation figures did not stop the newspaper from sinking. The advertisers staying away contributed to its closing shop to the dismay of its new hard won audience.

[26] See Appendix A

2.6 The Effects of Advertising on the Media

Advertising and its implications for the political economy of the media has been criticized and defended from many quarters. Hoskins, McFadyen and Finn (2004: 248) however note that “advertising is both attacked as a monopolistic and wasteful practise and defended as promoting competition and lowering cost that consumers pay for goods”. That advertising revenue is contributing to the global economy is not in dispute; according to Hoskins, McFadyen and Finn (2004: 249), “advertising comprises roughly 2% of the GNP in United States”. Whatever the exact figure might be globally, this investment in advertising, marketing and promotions in turn promotes the trends towards monopoly concentration, conglomerate mergers and takeovers, and an economy dominated by giant corporations.

A major advantage of advertising is that revenue generated empowers the media, consequently providing funding for better facilities for the practise of journalism. While the benefits of advertising seem laudable, studies have shown that this advantage seems to be minimal as the drive for profit often leads to downsizing of newsrooms, overworking of journalists, lack of adequate training and poor remuneration. Critics like Leiss, Khline and Jhally, (1986) have also pointed to what seems to be the impact of advertising on overall media content. The negative impact of advertising includes the avoidance of controversial subjects, banal programme formats, stereotyping of audience segments and ownership concentration in media industries. The concentration of media ownership with its links to advertising has a profound impact on media content. Hoskins, McFadyen, and Finn (2004), note that reliance on advertising, whether as a partial or total revenue source, could affect its content, first as the advertisement being a substantial part of the content could affect its value and secondly as content is often aligned to promote or create a suitable environment for the advertiser.

Harber (2005) argues that although more media outlets exist, there are fewer that are actually willing to challenge those in power as a greater dependence on advertising favours journalism that is middle-of-the-road, non-controversial and overcautious. This he notes, has resulted in "a triumph of entertainment over journalism, ruthless cost-cutting that leads, for example, to less international, first-hand or investigative reporting and the abundance of bland, grey, over-processed journalism"(ibid)[27]. Chambers (2000: 94) notes that "it has led to the reduction in independent media sources, the commodification of media contents and audiences, and the neglect of minority and poorer sections of the audience". Herman (1995) notes that these factors lead to the marginalisation of oppositional views and the reduction of investment in less profitable media activities such as investigative reporting on issues like nuclear pollution, which is likely to compromise the relationship with the nuclear industry through patterns of media ownership (cited in Chambers, 2000). A critical theory of advertising, they argue, must develop adequate analysis of the interrelationships between big business, advertising agencies, and the media monopolies, delineating ways that advertising helps control media content.

In explanation Bagdikian (1983: 123) reports that the economic logic behind this is simply the fact that "newspapers, magazines and broadcasters in 1981 collected $33 billion a year from advertisers and only $7 billion from their audiences. The almost five to one dependence on advertisers has insulated the media from the wishes of their audience". Herman and Chomsky (1998) identify advertising as the second filter of the propaganda model. They allude to the fierce competition throughout the media to attract advertisers. A media system dependent on advertising drives out media companies that do not subsidise the price of the newspaper through advertising. It ensures that the advertisers have a powerful influence on the survival and prosperity of the media industry. This economic dependency of the media and the powers it confers on the advertisers carry with it serious responsibilities for both. Suma Varughese (2004) notes that,

> If advertisements underwrite a publication's operation then its constituency ceases to be the reader; it becomes the advertiser. The publisher has to worry not so much about pleasing the reader as the advertiser. But the heart or soul of a publication happens to be its relationship with its reader. Does it reflect the

[27] http://www.journalism.co.za/modules.php?op=modload&name=News&file=article&sid=448

> reader's unique worldview? Is its reading matter in the best interest of the reader? In the case of a newspaper, is its portrayal of the world as unbiased as it is possible to be? Commercial interests hijack these questions and cause the publisher to betray the reader[28].

The implications these portend for the media industry and democracy are enormous. As media capital becomes concentrated, so does the interest that shape media content. Capitalism's "free market" organisation of the media is aimed at creating centralised and concentrated media conglomerates with narrower and narrower interests. Democracy as a whole could be threatened as the diversity of information available to the consumer could be limited. The media's dependence on advertising could result in their pandering to the demands of advertisers.

[28] (http://www.prdomain.com/articles_journalists/pr_media_ads.htm)