Unique Characteristics and Business Dynamics of Media Products

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ABSTRACT This discussion article explores how media products differ among themselves and how those differences affect the economic forces they encounter, business dynamics of their industries, and the strategies employed. It suggests that media can be characterized as single or continuous creation products, as operating in unit cost or fixed cost economies, and as focusing on failure management or success management strategies. It also explores supply side and demand side differences between media and other products and how these affect media industry business dynamics.

KEY WORDS: product characteristics, business dynamics, media product supply, demand for media products

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Considerations of media products sometimes assume that media share similar economic and business characteristics and that media are no different from other products and services. They express the view that no more differences need to be recognized for media then the kinds of differences observed between manufacturing automobiles and soap products. This view is problematic, however, because media products differ significantly among themselves and because they operate in economic environments with business dynamics that most other products and services do not encounter.

These differences do not mean that media are not subject to standard economic, financial, and managerial laws and forces, or that standard business theories and analysis methods cannot be applied to their analysis. However, application and interpretation of those principles in media environments requires recognition of differences in the nature of media products, the forces that shape their business environments, and ways in which media products and operations differ from those of general products and services.

DIFFERING MEDIA TYPES AND ENVIRONMENTS

Single and Continuous Creation Products

Because media product characteristics vary considerably they experience significantly different business environments. At a fundamental level two major categories of media products and services can be seen: single creation products and continuous creation products.

Single creation products are creative and idea driven products that are based on unique individual media content. Typical examples of single creation products are books, motion pictures, audio recordings, and games. Because of the single creation nature of these products the conditions of their creation are project oriented. Managers of enterprises producing these products therefore must cope with project management challenges. The core competence of firms producing single creation products is by nature content creation. Because each product is unique companies must expend significant marketing and sales costs to gain the attention of consumers, inform them about the content of the product, and induce them to consume it. The market for the products is fickle so single creation products are highly risky and experience high failure rates.

In contrast continuous creation media products are concept driven products that involve on-going creation of changing content provided within a package that exhibits continuity. Examples of these types of products include magazines, newspapers, television series and television networks. Enterprises involved in these types of products operate somewhat like those in packaged goods industries, relying upon strongly structured and coordinated processes that tend to be time constrained and require that managers cope with process management issues. The core competence of firms producing continuous creation products is not content creation *per se* but the selection, processing and packaging of content. Managers of these products focus on the look and feel of the concept, the experiences delivered, and processes of content creation and content selected for inclusion within their packages. Issues of branding are crucial for continuous production products. These products tend to require lower marketing and sales costs because they are able to create habitual use patterns and offer subscriptions. Once established the failure rates in continuous creation products are relatively low.

Focus on Failure versus Focus on Success The separate characteristics and business dynamics of the two media types produce different underlying business logics and strategies. The primary business logic for established media firms producing single creation products fundamentally focuses on managing failure whereas the companies with continuous creation products focus on maintaining and improving their products and processes and building upon success already achieved.

Companies producing single creation products typically create portfolios of projects to spread the risk (Picard, 2005) and to allow them to employ "hit" strategies in which income from popular products are used to cover losses from unappreciated products. In the audio recording industry, for example, only 1 in 10 recordings makes money for the major record labels, with 6 recordings losing money and only 3 managing to break even (Burnett, 1996; Hull, 1997;). The characteristics of products in single creation are such that investments in the failed individual media products are sunk costs that cannot be recovered and must be covered by the small number of products that are successful. As a result managers in this environment must focus on managing the failures and creating conditions in the company can sustain itself despite the inevitable failures.

In addition to portfolios, companies producing single creation products typically seek to increase the probability of success by strategies involving previously successful writers, actors, directors, and artists. But even previously successful performers are not a guarantee of success. The example of Mariah Carey, the best-selling female performer of all time, is illustrative. During the 1990s Carey was the winner of 2 Grammy awards, had 14 number one hits, released 10 platinum albums (1 million copies sold), and many of her recordings sold between 4 and 8 million copies. Altogether she has sold more than 140 million recordings. In 2001 Virgin Records (part of the EMI) signed her to a 4-album deal for $81 million dollars, with a $21 million upfront signing payment. The first album produced for the deal was *Glitter*, which sold 500,000 copies making it a gold record, a success by general recording industry standards. However, because it was part of an $81 million package designed to produce profits as well as cover expenses for unsuccessful recordings, *Glitter* was a failure and sent shockwaves through EMI/Virgin. In 2002 company paid Carey $28 million not to make any more albums and she walked away with a total of $49 million for 1 album because the company believed it was less risky for the record company to pay out the money than recording, releasing, and promoting 4 additional albums that might not sell the requisite millions of copies.

Producers of continuous creation products do not faced with the same focus on managing risks and failures once their products are in the market. Instead they are able to focus on improving the content within the packaged on-going products by research on the preferences of audiences those products produce, by alterations in the creative personnel, and by repositioning the products *vis-à-vis* any similar and substitutable products (Aris & Bughin, 2005; Todreas, 1999; Tungate, 2004).

Managers of these types of products operate as product or brand managers rather than portfolio managers, perfecting and improving the product and the experience it delivers, promoting additional consumption, and improving relations with those who consume the product.

Two Production and Distribution Environments

Differences in the forms and production characteristics of media produce differences in the basic economic environments and economic forces that they encounter. Media can be differentiated as operating in production environments primarily affected by either unit cost economics or fix cost economics.

Those operating in unit cost economies are media whose activities are based in physical production and whose success is affected by economies of scale, economies of scale, transaction costs, etc. Media in this environment tend to engage in production cost and price management activities. Media types most affected by the unit cost environment include books, magazines, newspapers, and recorded media with physical forms such as CDs and DVDs. Because products in these industries have physical form, they must be distributed directly or indirectly to consumers and the process has logistical requirements that add significant additional costs because of logistical requirements such as warehousing, transportation, and retail distribution mechanisms.

In fixed cost economies, variable costs for additional production are not significant factors and basic production costs for competitors tend to be similar. As a result competition in this environment is typically based on experience delivered, product and service quality, and brand. The media types most involved in the fixed cost economies are broadcasting, motion picture, TV programming, and Internet media. Distribution in this environment generally does not require physical distribution to audiences but can involve some limited distribution requirements of finished products to intermediary firms, but there are relatively inconsequential by comparison to those found for products in the unit cost economies.

The differences produced by these two factors create significant variation in the cost structures and cost pressures felt by managers in media firms. Newspapers, for example, operate in unit cost economies and printing and distribution costs make up half or more of all costs and have significant implications for the enterprises. Transmission costs for a television broadcaster, however, are often only less than 15 percent of total costs and do not create the similar financial or logistical challenges.

HOW MEDIA DIFFER FROM OTHER PRODUCTS

Although media products involve significant artistic endeavor they are subject to basic economic, financial, and managerial laws and pressures. However, there are some differences in supply and demand characteristics, the nature of the industries, and activities required that affect the business dynamics of media industries. They differ from other industries in a number of respects (Doyle, 2002).

At a basic level they differ from other firms and industries because media products result from creative work that is based on information, ideas, and literary and artistic endeavor (Wicke, 1990; Mitry, 1995; Hinrichs, 1999; Caves, 2002; Clayton, 2003). Media products receive special benefits from copyrights and related rights that are not extended to other types of products. Media companies also tend to be more visible to consumers than those in other businesses because they are a noticeable part of day-to-day life and because individuals involved often have celebrity status and receive great attention. Further, media are highly influenced by public policy and regulation because social, political, and cultural goals are pursued through media policies and media rely upon publicly controlled spaces such as radio spectrum and public right-of-ways to a greater degree than most other industries.[6]

On more specific levels, media are differentiated from many other products and services because of both supply and demand side differences.

Supply Side Differences

By comparison to other industries, media companies tend to face less direct competition than other types of companies (Picard, 2002). The number of newspapers and television channels in markets tend to be far lower than the number of shoe stores or pizza shops, for example. Similarly the number of major cable channels is far lower than the number of laundry detergents available.

Second, many decisions in media industries are based on non-economic criteria and rely upon public service, artistic, and cultural factors, established relationships, the intuition of creative decision makers, and—sometimes—whimsy and hubris (Bogart, 1995; Fuller, 1996; Gans, 2003; Wolf, 2003; Stewart, 2005). Although not all producers of other products always act with economic rationality, the extent of the economic irrationality in media industries tends to be higher and more widespread than that found in other industries.

Thirdly, many people will create content even without compensation because of expressive and artistic motives, public service motives, and desire to become celebrities. It thus differs significantly from automobile manufacturing, fast food industries, and good retailing where it is unheard of for people to work without pay. People do not volunteer to work on appliance assembly lines without the assurance of payment, but

[6] It is recognized that other industries such as pharmaceuticals and banking/financial services face significant regulation but these are primarily based on desires to protect consumers and to promote stability. Media industry regulation tends to involve much broader social goals.

are very willing to write books, make recordings, and make films without such assurances.

A fourth difference involves the methods of production. Because media products are based on creative and artistic elements the processes of production are not as straight-forward as other industries and often involve employees with a good deal of professional autonomy because of their knowledge and artistic abilities and because employers acquiesce to professional norms and standards. As a result, organizational conflict is ingrained in media businesses and content creators and managers often differ on goals to an extent uncommon in most industries (Küng-Shankelman, 2000; Underwood, 1993).

Fifth, many media products have non-physical properties that result in very different distribution mechanisms and costs than physical products. The virtual nature of these products produces significant advantages. For example, the current transformation of motion picture theatres in the U.S. from film projection to digital exhibition technologies is are expected to save about $1 billion annually in distribution costs because of the switch from a physical product (images on film stock) to a non-physical digitalized medium.

Finally, many media products are vulnerable to piracy and counterfeiting in ways other general consumer products are not. Because of the technologies required, an individual can not easily counterfeit a Porsche Cayenne in their garage but can create counterfeit copies of motion pictures in that same garage with relatively inexpensive digital technologies. The ease and ability to make unauthorized uses of media products can interferes with legitimate supply and affect both its costs and revenues (Picard, 2005). Because of the significance of recovering costs for media products that fail, companies promote action again piracy and counterfeiting to protect their ability to receive revenue from successful products.

Demand Side Differences

The most important characteristic of media compared to other products and services is the high unpredictability of success of a product. This occurs because of difficulties in forecasting product quality and consumer demand. Because of their characteristics one cannot produce test units for most media products to determine market demand before full production. Consequently, product failure rates are high—especially among single creation media products.

Another unique property of media is that there are multiple reuses for media products and the reuses may be more valuable than the original use (Vogel, 2004). Motion picture, for example, have multiple uses after theatrical exhibition: cable license sales, video sales and rentals, television license sales, etc. and audio recordings can be secondarily sold for various types of audio collections and soundtracks.

A third demand characteristic is that there is a large oversupply of content from which consumer choose (Becker & Schönbach, 1999). Since it is impossible to consume all products consumers have significant power in media markets in determining success and failure and pricing of media products.

Fourth, much of the economic value of media products results from a small number of products/services. Although failure rates are high, successes are well rewarded financially. In Hollywood, for example, 10 percent of the top 200 films typically account for 50% of industry revenue.

Fifth, media products tend to be consumed more often than other products and the time devoted to their consumption—especially that for television and radio programs and audio recordings—is far beyond that for other products. These factors create unique relationships between consumers and suppliers that are beyond those experienced in other industries.

Sixth, demand is influenced by the dual product (2-sided platform) nature of commercial media, a factor that influences demand for only a few other products. Revenue for products in which advertising is carried is not determined by the time and attention given by audiences alone but also involves separate demand functions that exist for advertiser expenditures (Albarran, 2002). As a result, media products that appeal to audiences but not to advertisers fail if audiences are unable or not willing to provide the revenue necessary for the product's survival.

Finally, it also must be recognized that consumption patterns differ because many expenditures for acquisition are sunk costs and direct and immediate expenditures for consumption are not made. Because of subscriptions and advertiser financial support for many media, demand functions for much content does not follow traditional patterns. Instead, consumers tend to acquire large quantities of content that is not consumed and of consume a good deal of content that is only minimally satisfying

SUMMARY

Media products differ among themselves and between themselves and other products in terms of their market, financial, and operational characteristics. These create differences in business dynamics and managerial issues faced by media managers. Because experience in one media type does not necessarily lead to understanding of the conditions and environment of other media, managers of one type of media who assume managerial responsibilities over another type often struggle to understand its business dynamics. Similarly, managers from other industries who are brought into media firms typically have a long learning curve and experience some difficulties in transferring their knowledge to media industries.

Appreciating the differences among media products and between media products and other products helps managers and those analyzing the industries to determine factors and interactions on which to focus their attention, identify the most important aspects in creating and distributing the products, and understand their dependencies and vulnerabilities.

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