# Internet Media: What are the Markets?

Jeffrey MacKie-Mason
John Metzler
University of Michigan

http://www-personal.umich.edu/~jmm/

# When commerce starts, antitrust sure to follow

- Internet in commercial use since 1995 (1992)
- Many Internet media cases already
  - GTE v. Bell Atlantic, Netscape
  - Hearst & SF Chronicle
  - Thomson & West Publishing
  - Telstra & OzEmail
  - AOL & Time Warner

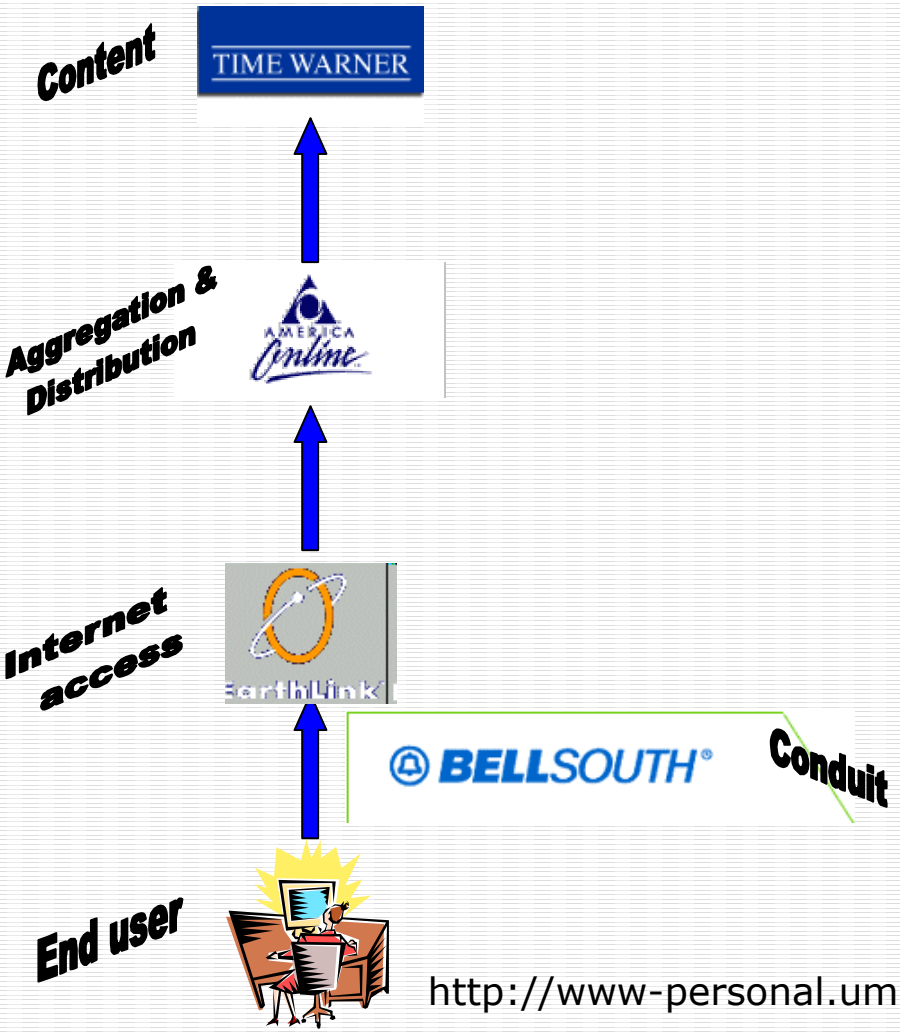
# Market definition issues especially difficult

- Product market definition for antitrust: that set of goods or services sufficiently substitutable to impose competitive discipline on each other
- "Rules of economy" haven't changed
- Rather:
  - differentiated products
  - new services
  - old markets changing in response

# Examples

- GTE vs. Bell Atlantic, Netscape, Yahoo! Et al. (1997)
  - Monopolization of Internet yellow pages: separate market from other Internet advertising and separate from print yellow pages?
- AOL & Time Warner merger (2000)
  - Is there a single ISP (narrow + broadband) market?
  - Is "free" ISP in the same market as subscription service?
  - Is there a market for "online services" (access + aggregation)?

# Media service layers: taxonomy




http://www-personal.umich.edu/~jmm/

# Media layers

| | AOL† | Time Warner† | Prodigy‡ | Yahoo! | Lycos | CNET | Juno | EarthLink |
|---|---|---|---|---|---|---|---|---|
| Conduit | | ✓ | | | | | | |
| Access | ✓ | | ✓ | ? | ? | | ✓ | ✓ |
| Aggregation | ✓ | | ✓ | ✓ | ✓ | ? | ? | ? |
| Content | ✓ | ✓ | * | | | ✓ | | |
| Revenue split (subs./ads) | 69/31 | 0/100 | 100/0 – 87/13 | 0/100 | 0/100 | 0/100 | 63/37 | 96/4 |

| | **Newspaper** | **Radio** | **Broadcast TV** | **Cable TV** | **Internet** |
|---|---|---|---|---|---|
| **Conduit** | Newspaper, retailer | free-to-air | free-to-air | Cable operator | Telcos, Cable |
| **Access** | Newspaper | Radio set (end-user) | TV set (end-user) | Cable operator | ISPs |
| **Aggregation** | Newspaper | stations | Network, stations | network, Cable operator | Portals |
| **Content** | Newspaper, wire svc. | record labels, syndication, stations | Studios, networks, stations | Studios, cable networks, broadcast TV | anyone |

http://www-personal.umich.edu/~jmm/

# Traditional media markets: Cable TV

- Time Warner + Turner 1997 (FTC, FCC, S. Ct.)
  - **Viewing**: broadcast & cable separate
    - Industry: cable eating into broadcast
    - Rubinowitz, Emmons & Prager: broadcast competition does not constrain eliminate cable market power
  - **Advertising**: one market
    - must carry regulations: if broadcast not carried, would lose advertising to cable
  - **Programming services**: broadcast & cable separate **but** all programming competes
    - shelf space argument: CNN & HBO compete
    - portfolio argument: CNN v. MSNBC, HBO v. Showtime

# Traditional media: Lessons

- Subscriptions and advertising are in different markets: distinct consumer populations
- Layer boundaries sometimes but not always define markets
  - **BUT**: Should be demand-driven, not due to producer strategic choices about vertical integration

# Internet media: How many?

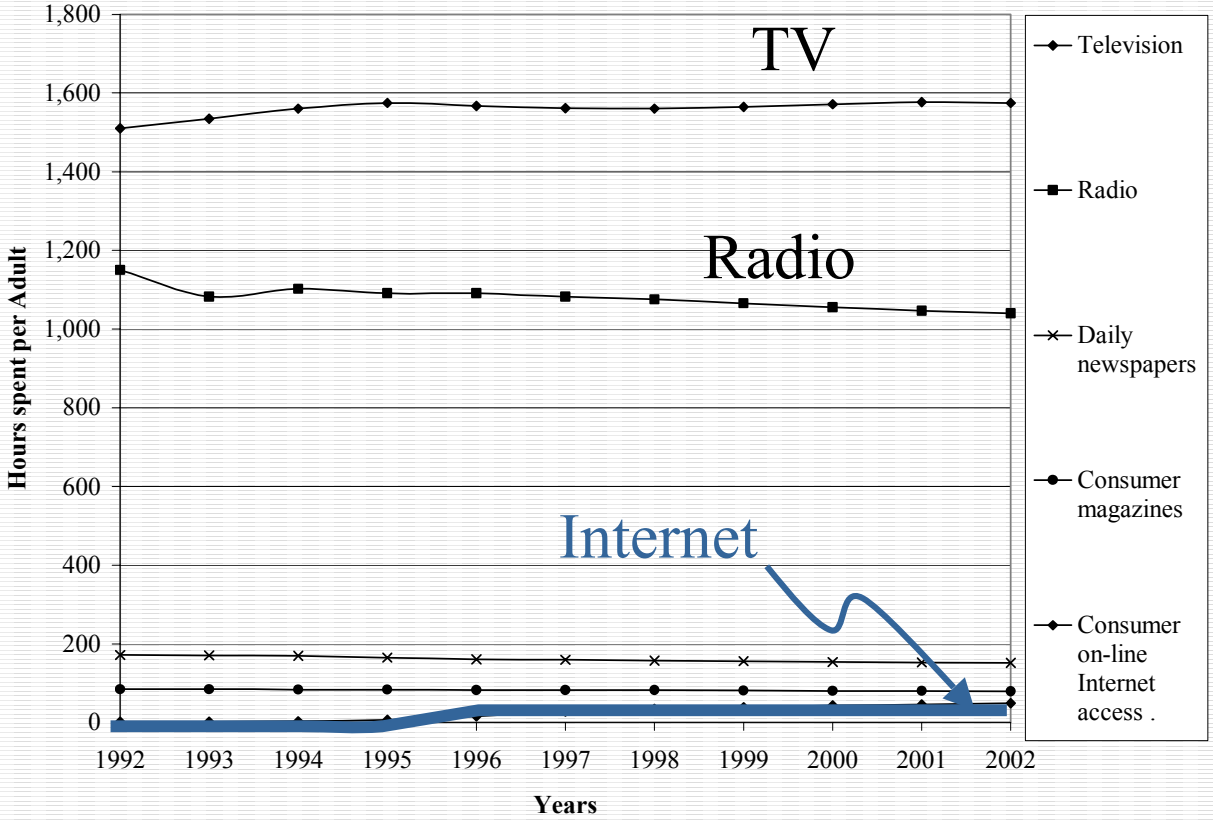
- E.g., firm with control over all music download sites probably has market power
- But, what **are** the "media"? Same as in traditional?
  - Is "Internet yellow pages" a market separate from other Internet advertising? What **is** an IYP? What about city guides, topical directories (restaurants, movie theaters, &c.)?
- Key: Define markets from demand: what is it that advertisers are buying?
  - Seller self-description should not define market boundaries.

# Internet media: Distinct from traditional media?

- Traditional media markets usually limited to one medium:
  - Local advertising on radio, TV, newspapers all separate
- Do traditional media constrain market power of Internet media?
  - Participants say no
  - Canadian Competition Bureau (CanWest + Hollinger): newspapers, TV, Internet not competing directly for advertising

# One sided competition?

- Internet usage hours tiny compared to trad'l media
- Even if traditional media only slightly substitutable, could put large pressure on Internet media




http://www-personal.umich.edu/~jmm/

# Internet media: Who pays?

Chart 1: **Revenue sources for various media**

| | **Newspaper** | **Radio** | **Cable television** | **Broadcast television** | **Internet** |
|---|---|---|---|---|---|
| **Subscriptions** | 19% | 0 | 75% | 0 | 78% |
| **Advertising** | 81% | 100% | 25% | 100% | 22% |
| **Layers incl. in calculation** | all layers | conduit, agg., access | all layers | content, agg., (free)access | all layers |

Chart 2: **Revenue sources for different Internet layers**

| | **Conduit** (telco) | **Access + Aggregation** (AOL) | **Access only** (EarthLink) | **Aggregation** (Yahoo!) | **Content** (NBCInteractive) |
|---|---|---|---|---|---|
| **Subscriptions** | 100% | 69% | 96% | 0% | 0% |
| **Advertising** | 0% | 31% | 4% | 100% | 100% |

- Distinct consumer populations
- But strong interdependence
- Strategic choice of subs/ads mix is a form of product differentiation
  - Do “free” ISPs constrain pricing of subscriber ISPs?
  - Does CNN (ads) compete with HBO (subs)?

# Telstra & OzEmail

- #1 and #2 Australian ISPs
- Should "free" ISP customers count
  - ISP has access to them for advertising (returns grow faster than # of unique viewers)
  - Direct access to upsell their service, upsell their conduit, bundle other services, &c
- Including "free" customers triggered review

# AOL & Time Warner

- Is market for access (ISP) or "online service (access + content aggregation)
  - Latter brings in content issues (IM, audio format standard, exclusive contracts with TW, &c.)
- Separate demand for ISP and aggregation
- But:
  - 40% of market buys bundle (AOL), plus most customers don't change default portal in browser
  - Broadband access requires local caching: efficiency advantage to bundled provider
  - Most major ISPs have integrated into portals and vice versa

# Conclusions

- Identify service layers first
- Do not assume separate media are separate markets
- Do not assume separate customer populations make for separate markets: depends on degree of interdependence, endogeneity of product configuration choice