

Newspapers' market shares and the theory of the circulation spiral

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Abstract

We consider a model of daily newspapers' competition to test the validity of the so-called "theory of the circulation spiral". According to it, the interaction between the newspapers and the advertising markets drives the newspaper with the smaller readership into a vicious circle, finally leading it to death. In a model with two newspapers, we show that, contrary to this conjecture, the dynamics envisaged by the proposers of the theory, does not always lead to the elimination of one of them. © 2007 Elsevier B.V. All rights reserved.

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1. Introduction²

The daily newspaper industry has been the object of several empirical studies documenting a dramatic tendency to concentration (see, for instance, Bagdikian (1983),

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Dertouzos and Trautman (1990), Genesove (2003), Kaitatzi-Witlock (1996), or Rosse (1980)). One explanation of this phenomenon was proposed by the media scholar Furhoff (1973), under the name of the *theory of the circulation spiral*. The essence of this theory is that a larger readership attracts more advertising, which in turn attracts more readers, which in turn will attract more advertisers. . . . As a consequence, an initial asymmetry in the readership sizes will entail the elimination of the minority newspaper. In turn, the circulation spiral has received two interpretations. The first can be summarized by the following quotation:

“the larger of two competing newspapers is favoured by a process of mutual reinforcement between circulation and advertising, as a larger circulation attracts advertisements, which in turn attracts more advertising and again more readers. In contrast, the smaller of two competing newspapers is caught in a vicious circle; its circulation has less appeal for the advertisers, and it loses readers if the newspaper does not contain attractive advertising. A decreasing circulation again aggravates the problems of selling advertising space, so that finally the smaller newspaper will have to close down” (Gustaffson, 1978, p. 1).³

We shall refer to this interpretation as the *advertising-driven* spiral, in the sense that readers are assumed to be *ad-lovers*. Another possible interpretation of the circulation spiral is that having more readers means having more ad revenue, which in turn allows a newspaper to attain higher and higher quality, which makes it more and more attractive to its readers compared with the rivals’ newspapers. Thus, there is finally only room for one newspaper in one and the same market. In Furhoff’s words:

“The reason for this (. . .) is that readers make the same demands upon competing newspapers, regardless of their economic resources. Thus, the level of aspiration prevailing is determined by the economically stronger newspaper, which enjoys larger circulation and advertising revenues than does its competitor. It is this newspaper which determines to what standards both will aspire in respect of the scope and quality of editorial control, as well as speed of distribution and technical quality of the product.” (Furhoff, 1973, p. 7).

We shall refer to this second interpretation as the *quality-driven* spiral.⁴ In this note we provide a simple duopoly model of the daily press market in order to test whether the dynamics implicit into the circulation spiral leads indeed to the *elimination* of one of the competitors, as predicted by the theory. From the outset, it is interesting to stress that this model can be adapted to capture either one or the other explanation of the circulation spiral proposed above. Hence both explanations lead to the same dynamics. The bulk of the present paper adopts the first explanation of the circulation spiral and derives its implications, while a special section is devoted to show how to transpose the model formulation to fit the second explanation.

³ Several other elements have been proposed to explain this tendency to concentration in the daily press industry, like the existence of large economies of scale (Rosse, 1967) or the two-sided market structure of the press and advertising industries (Gabszewicz et al., 2004).

⁴ We thank Joel Waldfogel and an anonymous referee for attracting our attention on this alternative interpretation.

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