

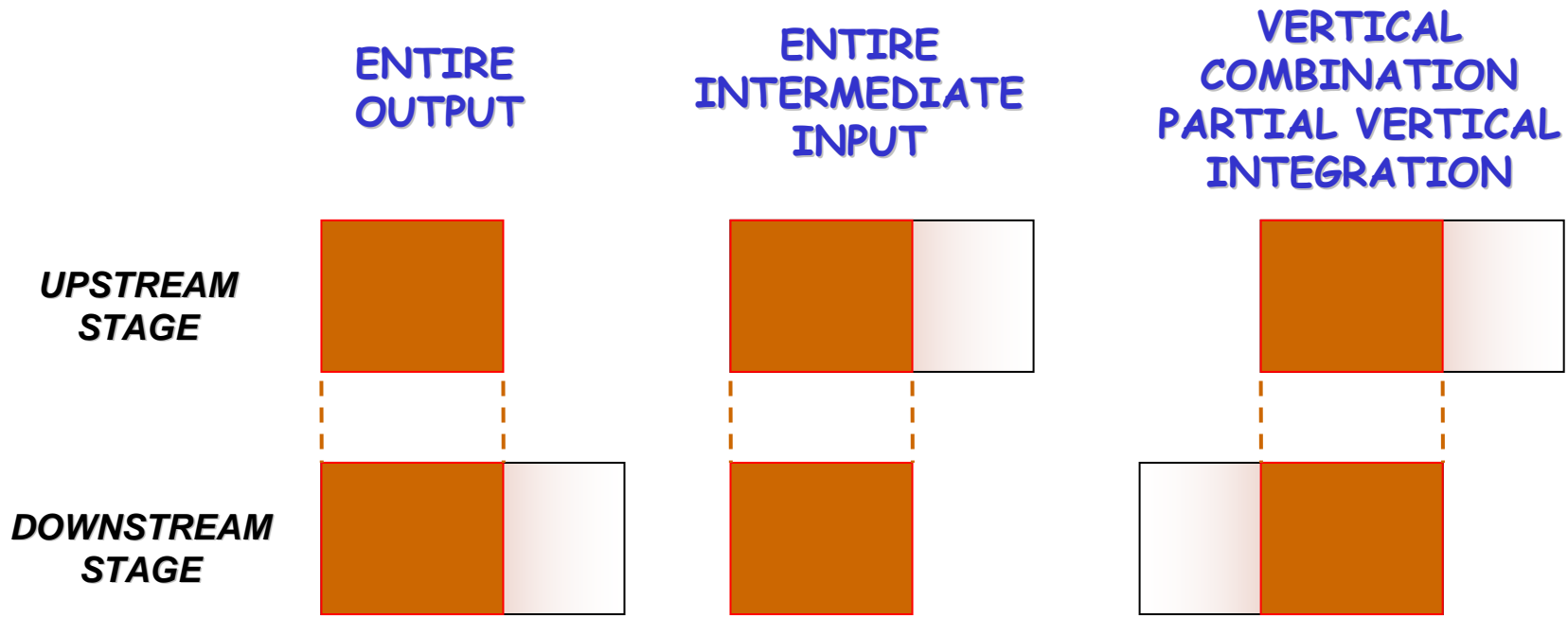
IMMAA Seminar

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Vertical integration in Italian and European media

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VERTICAL INTEGRATION



- ← Ownership and complete control over neighbouring stages of production
- ← Complete flexibility to make investment, production and distribution decisions
- ← Substitution of market exchanges with internal exchanges

DETERMINANT OF VERTICAL INTEGRATION

A

*Technological economies
(reduce intermediate input)*

B

Transactional economies

C

*Market imperfections,
externalities, asymmetric
information, market power*

THEORIES OF VERTICAL INTEGRATION

TRANSACTION COST O.E. WILLIAMSON

- ← main determinant: asset specificity
- ← value of exchange greater between the two firm
- ← bilateral monopoly
- ← internal or contractual exchange

PROPERTY RIGHTS GROSSMAN AND HART

- ← Vertical integration is control over assets
- ← relationship with labour is not relevant

AT EUROPEAN LEVEL HORIZONTAL INTEGRATION PREVAILS

- ← We analysed 86 antitrust cases in which DG Competition was involved.
- ← Publishing, Advertising, Motion Picture, Radio and Television

<i>External acquisition</i>	17
<i>Geographical expansion</i>	10
<i>Horizontal integration</i>	46
<i>Vertical integration</i>	13
TOTAL	86

WHO BUYS WHOM

INTRA MEDIA ACQUISITIONS PREVAIL

Buying sector	Target Sector						TOTAL
	Publishing	Radio TV	Cinema	Advertising	Telecom	Media Conglomerate	
Publishing	6,4%	4,0%	0,0%	0,0%	0,0%	0,0%	10,4%
Radio TV	0,0%	25,4%	0,0%	1,7%	0,0%	0,0%	27,2%
Cinema	0,0%	2,9%	0,6%	0,0%	0,0%	0,0%	3,5%
Advertising	0,0%	0,0%	0,0%	4,6%	0,0%	0,0%	4,6%
Telecom	0,0%	1,7%	0,0%	0,6%	5,2%	0,0%	7,5%
Media Conglomerates	6,9%	13,3%	0,6%	3,5%	0,0%	0,6%	24,9%
Finance	6,4%	4,0%	1,2%	1,2%	8,1%	1,2%	22,0%
TOTAL	19,7%	51,4%	2,3%	11,6%	13,3%	1,7%	100,0%

INTEGRATION BY SECTOR

VERTICAL INTEGRATION PREVAILS IN TELEVISION AND ADVERTISING

Type of acquisition	Target Sector						TOTAL
	Publishing	Radio TV	Cinema	Advertising	Telecom	Media Conglomerate	
External acquisition	6,4%	4,3%	1,1%	1,1%	7,4%	1,1%	21,3%
Geographical expansion	3,2%	7,4%	0,0%	2,1%	0,0%	0,0%	12,8%
Horizontal integration	10,6%	26,6%	1,1%	8,5%	3,2%	1,1%	51,1%
Vertical integration	2,1%	7,4%	1,1%	4,3%	0,0%	0,0%	14,9%
TOTAL	22,3%	45,7%	3,2%	16,0%	10,6%	2,1%	100,0%

INTEGRATION OVER TIME

Type of acquisition	1992-95	1996-98	1999-01	2002-04	TOTAL
External acquisition	0	2	3	12	17
Geographical expansion	2	0	6	2	10
Horizontal integration	9	6	16	15	46
Vertical integration	1	3	8	1	13
TOTAL	12	11	33	30	86

HOW TO MEASURE

HORIZONTAL INTEGRATION

- ← CHANGE IN CONCENTRATION
- ← HERFINDAL INDEX IN THE SAME MARKET

VERTICAL INTEGRATION

- CHANGE:
- ← INTERNAL RATIO OF INTERMEDIATE INPUT
- ← VALUE ADDED/ TURNOVER
- ← TURNOVER PER EMPLOYEE

ITALIAN MEDIA INTEGRATION

Mediaset (TV), Mondadori (books, magazines, radio), Medusa (movies), Il Giornale, Il Foglio (newspaper); tv in Spain

RCS: newspapers, magazines, books, internet, radio

De Agostini: magazines, books, movies, internet; TV Spain

L'Espresso: newspapers, internet, radio, television, magazines, focused on youth target

NEWSPAPERS MARKET STRUCTURE

☆ Newspapers are mostly generalistic; special interest in sport (popular) and business

🕒 They think to be national but they are local

🕒 Scale economies and barriers to entry

🕒 Main newspaper are vertical integrated with newsprint, sales house and distribution

FIRST 10 ITALIAN NEWSPAPERS

Copies sold per day - 2001

	1999	2000	2001
CORRIERE DELLA SERA	681.772	715.594	714.195
LA REPUBBLICA	613.516	646.587	651.539
IL SOLE 24 ORE	398.485	409.418	417.153
LA GAZZETTA DELLO SPORT	413.104	428.087	414.482
LA STAMPA	397.093	397.480	413.688
IL MESSAGGERO	292.515	291.571	291.543
CORRIERE DELLO SPORT	268.474	271.487	263.299
IL GIORNALE	228.310	235.066	228.144
IL RESTO DEL CARLINO	188.669	188.026	183.162
LA NAZIONE	154.492	155.497	149.536

VERTICAL DISINTEGRATION OF ITALIAN NEWSPAPERS

	1982	1996	2002
<i>VA/Turnover</i>	54,7%	40,7%	33,2%
<i>Employees/copy</i>	2,9	2,4	2,3
<i>Journalist/page</i>	2,4	1,9	1,7
<i>% Journalist</i>	23,3%	34,9%	42,2%
<i>Copies sold</i>	5.409k	5.880k	5.806k

Two main trends:
← more freelance for editorial work
← more external newsprint

ITALIAN TELEVISION MARKET

- ← Two main competitors (Rai, Mediaset) with 3 networks each
- ← 8-9 weak networks
- ← 3-400 local station mainly starving
- ← Sky almost monopolist in pay tv business (4mn)
- ← IPTV (adsl and fiber) at the beginning (2-300k)

VERTICAL INTEGRATION IN TV PROGRAMS HAS A VERY FLEXIBLE BOUNDARY

- ← ACQUISITION OF FINISHED PROGRAMS
- ← PRE ACQUISITION
- ← CO-FINANCING
- ← CO-PRODUCTION WITH EQUITY
- ← COMMISSIONED PROGRAMS

**COSTS /
RISKS**

- ← SETS / FACILITIES
- ← TROUPES
- ← POST PRODUCTION
- ← CAST / ARTISTIC PERSONAL

**FIXED COSTS /
VARIABLE COST**

IN TELEVISION VERTICAL INTEGRATION IS PARTIALLY LOWERING

	1994	1998	2003
RAI			
<i>Value added</i>	65%	62%	61%
<i>V.A. corrected</i>	52%	43%	42%
MEDIASET			
<i>Value added</i>	57%	60%	62%
<i>V.A. corrected</i>	25%	24%	24%

Two opposite trends:

- ← more acquisitions and external production
- ← extension of firm boundaries: film production, new media,
internet

DETERMINANT OF VERTICAL INTEGRATION AT EUROPEAN LEVEL

- ❖ *Data Base Amadeus : balance sheet of 1800 media companies over 20 employees in 1996-2003 period*
- ❖ *Nace sectors: book publishing (2011), newspapers (2012), magazines (2013), film production and distribution (9211), video production and distribution (9212), radio and television (9220)*
- ❖ *Cleaned for inconsistencies and too few years
↑ 583 companies*
- ❖ *Value added to turnover between 0 and 1
↑ final sample 362 companies*

VALUE ADDED TO TURNOVER IN SOME MEDIA INDUSTRIES

	1997	1998	1999	2000	2001	2002	2003
Book publishing	34.5%	36.3%	34.5%	32.7%	36.6%	35.7%	27.9%
Newspapers	43.7%	40.1%	44.2%	47.0%	44.3%	44.5%	47.0%
Magazines	35.3%	34.2%	35.6%	35.4%	35.1%	35.8%	35.9%
Movie	41.8%	45.3%	43.7%	41.2%	43.1%	38.7%	42.4%
Video	37.5%	34.4%	39.6%	42.4%	29.4%	37.2%	34.3%
Radio and television	40.1%	40.6%	42.5%	39.0%	36.8%	33.4%	29.8%

DESCRIPTION OF VARIABLE

Dependent variable	Value added to turnover in 2003 minus value added to turnover in 1997
Initial vertical integration	Average of value added to turnover in 1997 and 1998
Cost of labour per employees	Average cost per employee 1997-2003
Turnover	Total turnover: average period 1997-2003
Employees	Number of employees: average period 1997-2003
Fixed investment (total asset)	Incidence of total assets to turnover: average 1997 and 1998
Initial profit level	Profit incidence to turnover: average 1997 and 1998
Profit variation	Difference between profit to turnover in 2003 and in 1997
Unit cost of labour variation	Ratio between the cost per employee in 2003 and in 1997
Total cost of labour variation	Ratio between the total cost of labour in 2003 and in 1997
Fixed investment (depreciation)	Incidence of depreciation to turnover: average of 1997 and 1998
Number of employees variation	Ratio between the number of employees in 2003 and 1997
Quoted in stock exchange	Dummy=1 if the company is quoted

RESULTS OF THE REGRESSION.

DEPENDENT VARIABLE = DIFFERENCE BETWEEN VALUE ADDED TO TURNOVER
IN 2003 AND IN 1997

Variable	Radio and tv (9220)		Magazines (2213)		Newspaper (2212)		Book (2211)	
	Coefficient	Std Error	Coefficient	Std error	Coefficient	Std error	Coefficient	Std error
CONSTANT	-0.295514	1.18186	0.111898	0.06005	-0.004797	0.04757	0.011209	0.04445
Initial vertical integration	1.132147 **	0.55208	-0.095663	0.0641	0.024289	0.09874	-0.135496 *	0.07604
Cost of labour per employees	0.007911	0.00589	0.000209	0.00026	5.04E-06	2.12E-05	0.001204 **	0.00061
Turnover	1.92E-07	3.1E-07	-4.65E-07	2.13E-07	-4.21E-08	1.04E-07	-1.64E-07	1.20E-07
Employees	5.44E-07	9.9E-05	0.000172 **	5.77E-05	1.46E-05	2.10E-05	3.33E-05	2.42E-05
Fixed investment (total asset)	0.059271	0.21749	-0.055623 **	0.02149	-0.016381	0.0192	-0.023049 **	0.0106
Initial profit level	-0.927612	0.65899	-0.070294	0.10382	0.214992 **	0.10832	0.136638 *	0.08003
Profit variation	0.750138 ***	0.16079	0.379223 ***	0.08676	1.011006 ***	0.03207	0.880921 ***	0.0208
Unit cost of labour variation	-0.449683	0.75542	-0.046616	0.04243	0.024906	0.03692	-0.005703	0.01959
Total cost of labour variation	0.304813	0.50788	0.063321 *	0.03314	0.011225	0.01683	0.003336	0.01229
Fixed investment (depreciation)	-3.029133	1.48804	-0.472963 **	0.23953	-1.712582 ***	0.48043	0.143181	0.29768
Number of employees variatio	-0.231263	0.67107	-0.05489	0.03776	0.001417	0.01003	0.003578	0.01632
Quoted in stock exchange	-0.100581	0.31997	-0.243712 ***	0.0753	0.105507	0.08326	0.173135 **	0.07178
Adjusted R-squared	0.288		0.436		0.857		0.98	
Mean dependent variable	-0.116344		0.005503		0.043318		-0.073902	
Observation	45		77		170		117	

*, **, *** significant respectively at 10%, 5% and 1%