Why Revenues are a Poor Indicator of Media Influence – the Italian Case

Davide Morisi, with the European Commission's Communication Directorate presents evidence from Italy that shows the dangers of basing fixed limits aimed at encouraging media plurality solely on company revenue.

As the fourth part of the Leveson Inquiry concludes, the debate on press and media regulation in the UK will now focus on future policy changes. Among the several measures that can be implemented, our recent paper argues for (re)-establishing fixed ownership limits for media mergers. This solution is largely adopted in other European countries, providing a valuable degree of market certainty currently lacking in the UK regulatory regime. Each country, however, applies these limits in different ways, and policy options differ when it comes to deciding upon which indicators these limits should be based.

For example, in its recent submission to Ofcom, Enders Analysis proposes an absolute limit linked to the share of revenues a company can hold in a single cross-platform media market. They argue that applying this indicator would be "the simplest, cheapest, clearest, least intrusive and most easily communicable way of maintaining plurality". Contrary to other types of data based on consumer behaviour, revenues can be easily collected – avoiding all the methodological problems related to surveying citizens' opinion – and represent a natural cross-platform indicator, because they refer directly to the "source" – i.e. the company creating media content – and not to the different channels where content is delivered.

These benefits can certainly appeal to media regulators searching for feasible solutions to cut the Gordian knot of measuring plurality. Nevertheless, this type of indicator carries a series of disadvantages which might ultimately lead to regulation on the basis of a distorted assessment of the market. The Italian case – where revenue-based limits for a cross-platform media market have been established by Law 112/2004 (the so-called "Gasparri" law) – provides evidence for this.

Data by the Italian communication regulator Agcom shows that in 2010 three media companies – Mediaset, Sky Italia and Rai – shared approximately 30% each of the revenues of the entire TV market. According to these figures, it seems therefore that three equally big players dominated the market, gathering about 90% of all the revenues. Yet, audience shares' figures reveal a completely different picture. In the same year, the combined Rai and Mediaset reached almost 80% of the total TV audience, while Sky reached only 10%.

Given these contrasting figures, it is clear that in this case the decision whether to set absolute limits based either on revenues or audience shares is far from a purely technical choice, because it affects the TV market in significantly different ways. If a decision has to be made, however, then consumption-based metrics – such as audience shares – address the problem of limiting media influence better than revenues, as argued in Ofcom's recent advice on measuring media plurality.

The fact that Sky Italia is a remarkably profitable company does not tell us much about its capacity to reach TV viewers and thus influence public opinion. This link could probably exist in a market where revenues come only from advertisements, given that as Craufurd-Smith and Tambini have argued, "advertising income reflects advertiser assessments of the value of reaching particular audiences". But clearly advertising is not the only source of funding for media companies, and this explains the mismatch between Sky Italia's high revenues, which depend almost entirely on subscriptions, and its low audience share.

Furthermore, revenue data reveals an unrealistic picture of Italy's cross-media market as well. If 2010 data for TV, radio, press, magazines and online publishing are combined, still the same three companies dominate the market, with Mediaset reaching a share of revenues of almost 20%, and RAI and Sky Italia sharing a 16% each. The two main Italian newspapers' publishers, RCS (*Corriere della Sera*) and Gruppo Espresso (*La Repubblica*), follow with respectively 6% and 5% of the total revenues. Although these figures have an advantage in that they show how 'heavy' television is in comparison to other media sectors, they also overrate Sky's role. If the data were a proxy for influence, it would be assumed that Sky is roughly as influential as Italy's state broadcaster Rai and more influential than the combined two most read Italian newspapers. Clearly, even if cross-platform data for audience share is not available, this assumption does not hold.

Evidence from Italy highlights the risk that revenue-based metrics can lead inappropriate assessments of the media market. This situation would not automatically occur in every country, of course, since each media context is different – and certainly the UK media context differs largely from the Italian one. However, if absolute limits aimed at restricting media power have to be adopted, policymakers must be aware that there are serious drawbacks if these limits are purely based on revenues. As mentioned above, revenues help assess the different relative weight of media platforms and can reveal loose *potential* influence, meaning that a high profitable company can be better equipped to expand in the market and reach a higher share of consumers. But still, if the final focus is on consumers, indicators addressing *directly* this dimension should be adopted, such as the share of time exposure as proposed in our paper. Revenues can be taken into account only as part of a set of measures, and certainly not as the main indicator for media influence.

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