

# FINANCING OF MEDIA

### PRIMER QUESTIONS

1. What do you think are some advantages of using advertising to finance media content? Using a license fee (a fee that a person pays for owning a television set or a radio receiver)? Using government allocation? Using user fees (also known as subscriptions)? Using donations?
2. What do you think are some disadvantages of using advertising to finance media content? Using a license fee? Using government allocation? Using user fees? Using donations?
3. What do you think are some underlying assumptions about why it is appropriate to finance media with advertising? With license fees? With government allocations? With user fees? With donations?
4. How do you think the philosophies for media systems affect the financing of media content? What philosophies for media systems tend to lead to what methods of financing media content?
5. How do you think media content is affected when it is financed by more methods versus fewer methods?

When reading a newspaper, listening to radio, watching television, or surfing the internet, it is easy to overlook how much the content is affected by how it is financed. That is because financing is really in the background of how people experience media content. Put another way, it is more enticing to be drawn to whether a television advertisement is funny, outrageous, or silly than to analyze, for example, how the use of advertising as a revenue source affects the look, sound, and feel of the television programming. Yet advertising, like all methods of financing, has a monumental impact on the design and the delivery of media content.

This chapter discusses the element of **financing**, defined as the provision of money or services to facilitate the production and distribution of media content. The chapter focuses on identifying the primary sources of financing for media systems in the eight countries. Financing is a critical element of a media system, because money shapes the media content that is produced, as well as the audiences that are served by media content, plus the audiences that are underserved by media content. Generally, the broader the mix of financing used by a media organization, the less beholden a media organization is to producing and delivering media content that meets the goals and objectives of a single source of financing.

In Chapter 3, financing was likened to the main branches of a tree that set its basic parameters by providing support and direction for the feeder branches (referred to in this book as representing the element of accessibility). If a main branch on a tree deteriorates or dies off, then the feeder branches (accessibility) and the leaves (content) that connect to it will also wither away or expire. The main branches of a tree do not draw as much attention from passersby as the trunk or the leaves of a tree. Similarly, as the first paragraph pointed out, financing does not draw as much attention from the audience as the regulations (the trunk) or the content (the leaves) of a tree.

As might be expected, there is no standard formula for financing content in newspapers, radio, television, and the internet across a country's media system. Rather, as Robert Hilliard and Michael Keith point out in *Global Broadcasting Systems* (1996), different media content is paid for by different combinations of financing models that have developed within the constraints of prevailing geopolitical and economic forces. For example, in some developing countries, there are not enough people with enough money to purchase advertised products to support a viable advertising industry. However, against this backdrop is the larger climate of globalization in which global media conglomerates are seeking new international audiences for media content via new technological delivery systems, wherein advertising and user fees have become more widespread as methods of financing media content. In contrast, government allocation as a method of financing has generally been on the decline or has held steady, as governments have sought to reduce expenditures on public services, including public-service media. Readings that discuss the financing of media include *Electronic Media and Industrialized Nations* (1999), by Donald R. Browne; *The Economics of Television* (1988) by Richard Collins, Nicholas Garnham, and Gareth Locksley; and *New Media Politics: Comparative Perspectives in Western Europe* (1986), edited by Denis McQuail and Karen Siune.

## METHODS OF FINANCING

### Advertising

Advertising is a method of financing in which a provider of media content sells space or time to a vendor so that the vendor can promote a product or service to the audience. Advertising is commonly used to finance newspapers and the internet and, to a lesser extent, radio and television. Normally, a vendor pays a media organization to advertise a product or service to the targeted audience. Newspapers sell space, broadcasters sell time, and web sites sell both space and time. Media professionals typically describe this process as selling the ability to access an audience to advertisers. Academics sometimes describe this process more bluntly as media selling audiences to advertisers.

Sponsorship is a variation of advertising in both commercial and noncommercial media content, wherein space and time are underwritten by a vendor. In a typical underwriting agreement, the vendor is mentioned throughout the media content, in exchange for money. Sponsorship agreements with noncommercial broadcasters ordinarily stipulate restrictions on how the vendor's product or the vendor itself can be described during the mentions. Such restrictions can include limitations on the size of the sponsorship and the qualitative claims that can be made to describe the product or service.

Advertising tends to be used in countries influenced by a libertarian philosophy of media operations in which there is a market-based economy. Two main assumptions lie behind the perceived worthiness of advertising as a method of financing. One assumption is

that government should not be involved in financing the business of media, and individuals should not be required to pay for media. Rather, the financing of media should be a voluntary outgrowth of a commercial marketplace in which individuals freely select media content from the choices that are available. In this marketplace, a vendor pays for media content that is popular with audiences, by purchasing time or space within that content to advertise products and services. The second assumption is that individuals can indirectly select the choices of media content to be offered when they form audiences large enough to entice vendors to pay for the content through advertising. Alternatively, media content that is not accessed by large-enough audiences might be canceled because of the failure to generate enough advertising revenue.

Advertising as a method of financing media content is criticized for two major reasons. One criticism argues that when media organizations rely exclusively or predominantly on advertising as a source of revenue, misplaced priorities are given to advertising content over the arrangement of other media content. For example, newspapers are usually produced according to a system in which advertising content is laid out before the news content. Similarly, try this test with radio: Turn on the radio and do a "band sweep." That is, listen for a moment to the radio frequency at the far left of the band, and then scan to the right until you reach the last radio frequency, while stopping on each radio frequency in between for a few seconds. When you have reached the last frequency to the right, count up how many times you stopped on regular programming, and how many times you stopped on an advertisement. Critics contend that if advertising occupies a large percentage of the space or the time available in the delivery of media content, there is little room to deliver content that is devoid of profit-making potential, such as public-service announcements, educational messages, artistic expressions, or just silly humor. Similarly, if advertising occupies too large a percentage of space and time, other content gets squeezed into short and fast-paced segments that then become superficial and hurried.

A second criticism is that advertising effectively harms society in a host of areas. In particular, countries with leanings toward a social responsibility philosophy tend to place greater governmental restrictions on advertising in favor of protecting society from the innocence of children being exploited; social and political discussions having less prominence in public discourse than corporate commercialism; consumers being misled by false advertising; artists' creations being altered by advertising; and media content being dumbed down to accommodate the advertiser goal of making content understandable to the largest possible number of people.

Supporters of advertising argue that it provides media producers with a financing model that allows media organizations to be more innovative and responsive to audience tastes. That is, because advertising revenue can be increased depending on the popularity of media content, media organizations theoretically have a strong financial incentive to invest in technology and content that meets audience tastes and continues to grow audience numbers.

## License Fee

A **license fee** used to finance broadcast media requires people to pay an annual fee for the privilege of owning and using television sets. Sometimes, license fees are also levied on the ownership and use of radio receivers. But usually, one license fee is required only of people who own television sets, and the revenue that is generated is then used to pay for both radio

and television public-service broadcasting. License fees as a method of financing should not be confused with the use of the term *licensing* to describe the procedure in which a government requires that a media organization (usually a broadcast organization) be officially approved and registered before it can operate. Figure 7.1 shows an example of the application and fee for a television license used in the UK in 2003 to fund the BBC.

Usually, a person who owns a television set or a radio receiver pays a license fee to the government for the right to use the television set or the radio receiver to access media programming. The monies collected through license fees are then used to fund the production of government-sanctioned media content. Some governments in countries mandating license fees use vehicles with transmission-detection equipment to drive through neighborhoods to discover—and fine—television viewers or radio listeners who have not paid license fees.

Mandatory license fees tend to be used in European countries with media systems grounded in a social responsibility philosophy, and in some countries that are former

### Buying a TV Licence

**How to pay**

You can pay for your TV Licence at any Post Office by:

- \* cheque
- \* cash
- \* TV Licence stamps
- \* Girobank transfer, or any combination of these methods.

Tell the counter clerk whether you want a licence for a colour or black and white television.

**If paying by cheque**


Make your cheque payable to 'Post Office Counters Ltd' and write your name and address on the back.

**If you are registered blind**

If you are blind and can present your registered blind certificate, you will receive a 50% discount off the cost of a TV Licence.

**If you are changing your TV Licence from black and white to colour**

If you are changing from a black and white to a colour licence and you have unexpired time left on your old full licence, give it to the Post Office clerk with this form. They will give you a refund against your new licence for any unexpired full months.



Bristol BS98 1TL

### The Over 75 Short Term Licence

If you are aged 75 or over, you are eligible for a free **Over 75 TV Licence**. The free licence will only cover your primary place of residence. If you live with younger relatives, at your primary place of residence, then the licence is still valid. You will still need to choose either a colour or a black and white licence, as a black and white licence will not be valid if you have a colour TV.

If you are 74 and will become 75 during your next licence year you are eligible for a Short Term Licence that will take you up to the month before your 75th birthday. Please check with the Post Office for details on how much you need to pay.

The information you provide will be used by the Licensing Authority (BBC) and its agents for the purpose of processing your application for a free Over 75 Licence. It may be checked with information provided by government departments and agencies and/or disclosed to them, as permitted by law.

### Checking the conditions on the licence

Before filling in this form, please read the conditions on the back of the TV Licence.

### How to complete the TV Licence below

Fill in sections 1 and 2, as appropriate, in BLOCK CAPITALS using a ballpoint pen.

**Section 1**

Write the name and address as you want it to appear on the TV Licence.

**Section 2**

Fill in this section if you already have a TV Licence but your name or address has changed.

If the licence is for a black and white set it will not cover use of a colour set. We would ask you to sign the declaration below if you are taking out a mono licence.

### When you have filled in the TV Licence

- \* Take the completed TV Licence with your payment to the Post Office clerk.
- \* The Post Office clerk will date stamp your TV Licence to show that it is valid and give it back to you.
- \* Please keep your validated licence in a safe place. It is your proof that you are licensed to use television.

**Please note**

If you have held a licence before, we may need to change the expiry date of this licence. This is to ensure that the licence cover is unbroken. If we do change the expiry date after checking our records, we will write to you and let you know the new expiry date.

### Television Licence

This licence is not valid until it has been correctly stamped and dated.

**1. Your name and address**

Title  Initials  Surname

Address:

Postcode

**Are you completing this form for (please tick box)**

Home  Business  First  Change

address  address  application  of details

**2. If you are changing details please enter your previous postcode or licence number**

Signature

Declaration: For black & white licences, I declare that I will not install or use a colour television, video cassette recorder, satellite receiver, or cassette for receive or record programmes in colour under this licence.

This licence is issued by TV Licensing on behalf of the Licensing Authority under the Wireless Telegraphy Act 2003 (as amended).

**Television Licence**

Licence details to be completed by the Post Office.

Type of TV Licence currently required. Please tick boxes as necessary. If the Over 75 Short Term Licence box is ticked, please complete sections a and b.

Black & White TV  Colour TV  Over 75 Short Term Licence

a) Date of Birth

b) National Insurance number

No NIND

Value

£

Licence Expires on   20

Validation Stamp

What this licence allows

- \* You send any person living at, working at, or visiting the premises recorded to you at the above address.
- \* To install and use television receivers subject to the conditions set out elsewhere.

FIGURE 7.1 Application Form for a Television License in the UK  
Source: Robert M'Kenzie.

colonies of European countries. Typically, there are three assumptions behind the worthiness of using a license fee to finance media operations: that media use is a luxury that consumers should pay for directly out of their own pockets; that the design of media content should not depend solely on advertising financing, because it caters to mass tastes; and that direct government appropriation (discussed next) is unreliable because it can change with the political orientation of the government. The use of a license fee is designed to generate a stable revenue source that allows media organizations to produce content.

The government usually decides the cost of a license fee and collects, or hires a surrogate to collect, the monies. Typically, license-fee monies are allocated exclusively to public broadcasting services. Commercial broadcasters, newspapers, and internet content providers typically do not receive license fee monies.

License fees are criticized for three main reasons. Media professionals charge that they stifle investment and growth: Because the revenue from license fees is dependent on a fixed segment of the population that owns television sets or radio receivers, the collectable revenue is also fixed. Consequently, broadcasters might have little incentive to improve the quality of content or the delivery of content if improvements will not increase revenue. Media professionals also criticize license fees by arguing that media organizations receiving such monies have unfair advantages (a stable and guaranteed revenue stream) over media organizations that do not receive license-fee monies. Such critics contend that media organizations having to look elsewhere for sources of financing are more dependent on the economic cycle and the popularity of their media products to sustain operations. Some critics argue that some people are forced to pay license fees for media content that they do not access. Other critics argue that some people who should pay license fees refuse to do so without getting caught. In response, supporters of license fees counter that license fees enable media organizations to produce and deliver high-quality media content without the pressure of meeting the expectations of advertisers or achieving sizable audiences.

## Government Appropriation

**Government appropriation** as a method of financing is when the government allocates monies or resources for the production and delivery of media content, usually on an annual cycle as part of the budgeting process for everything the government is going to fund. Government-appropriated monies are usually allocated either as cash or as tax credits to the provider of media content. When government allocation makes up only part of the operating expenses of a media organization, the allocation is known as a **government subsidy**. Government appropriation resources can also include free postal service or utility expenses. Usually, individuals and businesses pay income tax to the government. Drawing on this general revenue, a government agency or legislature approves a portion of the monies to be allocated to the designated media—normally public-service media.

There are two main assumptions behind the worthiness of government appropriation as a source of financing. One assumption is that certain media—usually select broadcast media—should be set aside as public services made available to the general population and produced without profit-making directives. The second assumption is that society in general should share the cost of providing public-service media content.

Government appropriation is commonly used as a financing source in countries following communist, authoritarian, or social responsibility philosophies, which seek to actively control media content, and in developing countries, which lack large enough middle or wealthy classes. As mentioned already under license fees, developing countries often cannot sustain an exclusive advertiser-supported system because of a lack of consumer demand for commercial products and services. By ensuring annual government financing, therefore, both fledgling and established media organizations can plan long-term objectives for the production and delivery of content.

Government appropriation as a method of financing is criticized for three main reasons. One is that the revenue created through general taxation is connected to unpredictable swings. This in turn makes it difficult for media organizations to plan the production and delivery of content. A second criticism is that, like license fees, government appropriation forces some people to pay for media content they do not access. A third criticism is that government appropriation of financing for media permits the government to have too much control over media content; critics warn that if a media organization provides content that is considered to be inappropriate by powerful government officials, financing will be reduced or withheld in order to terminate the content.

## User Fees

**User fees** as a method of financing permit a media organization by law to charge a fee to individual audience members who access that organization's media content. The user fee normally comes in two forms. One is a **subscription**, wherein the user pays a flat and predictable fee for regular access to a newspaper, a selection of television and radio channels, or a web site. Subscriptions are normally paid out on a monthly or yearly basis. The other form of user fee is the **per-use** fee, wherein a user pays for each instance of access to media content.

Both subscriptions and per-use fees are used in various ways to finance newspapers, multichannel broadcasting, and internet web sites. In the newspaper industry, per-use financing is referred to as *sales*. Financing by sales means the reader pays for a newspaper on the spot. In the multichannel broadcasting industry, per-use financing is referred to as *pay-per-view*. Subscription fees and pay-per-view fees are usually used to finance premium channels (particularly movie channels). In the internet industry, subscription financing is commonly referred to as an *access fee*. Almost all private internet users pay an access fee for internet service. In contrast, employees at organizations that connect to the internet, and students attending universities, usually do not have to pay an access fee. Though most web sites are free once access to the internet is gained, for some web sites, internet users have to pay either a subscription fee or an additional access fee to get to certain kinds of content including financial research, music, and sexually explicit photos and videos, to name a few. In addition, internet providers often charge user fees to people and organizations seeking to post information on the web, such as blogs or home pages.

User fees are generally determined in response to a perception of what the marketplace will support. However, user fees required to access content delivered by cable and satellite broadcasters are often regulated by a local or national government if the company has a monopoly in a particular geographic market.

There are two basic assumptions behind the appropriateness of user fees as a source of financing. One assumption is that user fees allow audience members to pay only for the media content they access. This assumption is somewhat blunted in the case of satellite and cable broadcasting because user fees normally cover a package of channels, many of which audience members do not access or want. A second assumption is that user fees provide a more direct relationship between audience needs and resulting media content because the financial path between user fees and media organizations is more direct.

User fees tend to be used as the preferred model for financing in two situations. One situation has to do with whether a libertarian philosophy for a country's media system underlies the prevailing outlook for how a content provider should operate. If a libertarian philosophy predominates, the financing model of user fees is seen as an appropriate mechanism for allowing the marketplace to determine the selection of media content. The second situation is when certain media content is accessed by a niche audience. In that case, user fees are seen as a more appropriate financing method than a license fee or government allocation, which is premised on providing media content benefiting society as a whole.

The user fee as a method of financing is criticized for two main reasons. One is that user fees only lead to the production and distribution of media content that appeals to the largest audience possible, not to a small but loyal audience. A second criticism is that user fees—particularly subscription fees for broadcast content—tend to increase on a regular basis. This criticism holds that providers of media content are in a coercive position to raise user fees for content that is delivered by satellite and cable technologies because audience members are reluctant to discontinue using expensive equipment connected to wiring that has been installed and already runs through the households.

## Donation

**Donation** is a method of financing in which an individual or an institution (a company or a public trust) voluntarily contributes money to a provider of media content. Usually, donations are made to nonprofit radio and television stations. Donations normally go directly from the donor to the media organization.

Generally, money is donated by two sources. One group includes people who perceive their donations to be critical to the survival of media content reaching niche audiences—content that would otherwise be discontinued if the marketplace were left to determine its viability. A second source includes people and institutions seeking tax relief. Donations are rarely the chief method of financing for content dispersed widely by major media organizations because donation monies typically pale in comparison to other methods of financing.

The main assumption behind donation as a method of financing is that it allows individuals and institutions, of their own volition, to contribute to media content that they alone desire to be produced and distributed. A second assumption is that donation engenders a sense of community and civic duty by encouraging citizens to take an active part in determining the media content that is produced and distributed.

Donation as a method of financing is criticized for two main reasons. One criticism is that donations rise with economies in an upturn and fall with economies in a downturn. Once again, such unpredictability makes it difficult for providers of media content to plan for

BBC for the production and delivery of content. TV Licensing uses a number of means to detect people evading the license fee, including a database of television owners, a nationwide team of enquiry officers checking on unlicensed addresses, television detector vans, and officers on foot with handheld TV detection scanners.

### **Financing of the Internet in the UK**

In the UK, stand-alone providers of internet content (those that do not serve as additional outlets for government agencies or broadcasters) do not receive any government financing. Stand-alone providers of internet content draw on a combination of advertising and user-fee financing.

## **FINANCING OF MEDIA IN THE USA**

### **Financing of Newspapers in the USA**

In the USA, advertising and sales are used to finance most newspapers. Figures from 1997 show that advertising makes up a much larger percentage (about 87 percent) of total financing than sales (about 13 percent). The government provides no subsidies to newspapers, but there are indirect subsidies from municipal governments, which are legally required to publish "public notices" in local newspapers. Some examples of public notices include hearings, bids for government contracts, and available committee memberships.

### **Financing of Radio and Television in the USA**

In the USA, private terrestrial radio and television broadcasters are funded mostly by advertising. Private multichannel (cable and satellite) broadcasters in the USA receive financing from a mix of two sources: advertising and user fees (both subscription and per-use fees).

Public broadcasters in the USA are financed by a broad mix of sources. The two primary sources of financing are donations (membership and business donations) and government appropriation (federal and state). The monies collected through these two methods of financing comprise about two-thirds of the financing of the production and delivery of content on radio stations that are members of National Public Radio (NPR) and television stations that are members of the Public Broadcasting System (PBS). Other sources of financing include sponsorships and foundations. Advertising is not permitted on public broadcasting.

Individuals or institutions (for-profit and nonprofit) that seek to become members of a public broadcast station can pay a monthly or yearly fee. Typically, there are various levels of membership, depending on the dollar amount that is donated. Or, individuals or institutions can donate to public broadcasters during campaigns known as fund-raising drives, which normally occur two to four times a year. During a fund-raising drive, the public broadcaster uses airtime to solicit donations (criticized by some as "begging") from the audience. The monies that are collected from both types of donations go directly to the local public broadcaster to cover the cost of production and distribution of content.



During annual appropriations for all public expenditures, Congress allocates a portion of this fund to the Corporation for Public Broadcasting (CPB), a private, nonprofit, nongovernment corporation. The CPB then provides partial financing for the operations of public broadcasters, as well as full or partial funding for the production of content for NPR and PBS that is then distributed to member stations.

### **Financing of the Internet in the USA**

In the USA, stand-alone providers of internet content (those that do not serve as additional outlets for government agencies or broadcasters) do not receive any government financing and must draw on a combination of advertising and user-fee financing.

## **FINANCING OF MEDIA IN MÉXICO**

### **Financing of Newspapers in México**

In México, newspapers are financed by advertising, sales, and government subsidies. Government subsidies are provided to newspapers through three methods. One method—called “paid insertions”—is where the national government, state governments, and municipal governments pay for advertisements in newspapers. This method of subsidy effectively encourages some favorable coverage of the government by the given newspaper. At the national level, the government purchases paid insertions as needed. At the state level, usually the government enters into annual contracts with regional newspapers to reserve daily or weekly space on a particular page for government publicity. Usually, paid insertions contain publicity about recent accomplishments made by a government department. Figure 7.2 shows an example of a full-page paid insertion, which appeared in a regional newspaper based in the state of Veracruz. This particular insertion is a report by the Veracruz agriculture department concerning growing more crops, increasing exports, opening up more jobs, and establishing new trading partners.

There is no law requiring that newspapers disclose their financing, so percentages of revenue sources often are kept secret. However, it is estimated that many newspapers receive 40 percent to 60 percent of revenue from government-subsidized paid insertions. Some papers receive even more than 60 percent of their revenue from government-subsidized paid insertions, and some newspapers receive as low as 3 percent of revenue from the government.

A second method of government subsidy involves the direct payment from state government to a regional newspaper with statewide circulation. And a third method involves secret payments by government representatives to journalists to elicit coverage of a story in such a way as to present a positive image of government. This method is not condoned publicly, but nonetheless has been somewhat common.

### **Financing of Radio and Television in México**

In México, private terrestrial radio and television broadcasters are financed entirely by advertising. Private multichannel (cable and satellite) broadcasters in México receive