Financing of the Media in South East Europe

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When looking at the market potential of a particular market, we usually analyse a number of factors: size of the nation market; GDP; advertising market and shares and trends within specific segments, such as TV, digital, print; size/reach of the national language and emigration; equipment in terms of high-speed internet penetration and other infrastructure aspects that influence consumption patterns and potential.

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Fragmentation and pauperisation

Unfortunately, in all of these aspects the countries in SEE don't show much potential. Although the term "Balkanization" has a historical and political dimension, in the case of the media it provides the exact definition of the key issue in the region: small fragmented markets that don't offer the conditions for economically strong and viable media that could use the advantages of, for example, economies of scale, and enable media companies to offer high-quality products.

New technological developments offer even more reasons for concern. Digitisation of media has led to an abundance of choice and media channels in many countries, and causes problems even in markets that are stronger in terms of GDP and in terms of population. This fragmentation of the media landscape is, however, even more devastating for smaller countries – in Finland for example, "the restricted size of the market makes it more difficult to introduce fresh products to the market" (Lehtisaari et al, 2012: 46). The problem is even greater in smaller countries with weak GDP – and all of the countries in SEE can be defined as such.[1] Namely, in all of these countries, the size of the market presented the main obstacle for media development and specialisation even in the previous decades, when only a handful of media were present and when there were no digital media. Now, the fragmented landscape is presenting further obstacles for the development and survival of new businesses in media.

Warnings about the limited market potential of such small markets, such as Slovenia, were already expressed at the beginning of the digitisation. "Digitisation will lower certain broadcasting costs, but this doesn't mean that there will suddenly be 200 channels in Slovenia, as there are in Britain or France or Germany". And: "There will never be 200 or more channels that will cover all the niche audiences". (Milosavljević and Hrvatin, 2000: 254 and 258)

Today there are not exactly 200 channels in Slovenian language, but the regular package of cable providers include between 120 and 180 channelsand among those, there are 45 Slovenian channels and 40 channels with Slovenian subtitles (and mostly also with Slovenian advertising).[2]

An additional issue for all of the countries in the region is the reduced circulation of the national languages from an international perspective, hampering the economic potential of local media enterprises. Unlike other small European countries such as Austria or Ireland, for most of the countries there is no other space where editorial products may be exported – except, in some cases, in the (economically weak) region. Although figures regarding the penetration of newspapers and magazines, for example, show these are in some countries (Slovenia) frequently higher than in many other well-performing European countries, the total number (circulation) is much smaller here, ultimately posing a big challenge for media companies.

This fragmentation is also causing concern for advertisers: "The market is so small that the economy of scope simply does not function. Investments in specific channels are compared to the results simply too big. In the time of mass media, for example television, this was still possible. It is true that the reach was small, but the media buying and production were cheap as well. With everything that is brought by the modern communication this is sadly not the case. And it does not matter if it is about the mobile app or guerrilla in outdoor advertising. The costs of app development or the creation of a giant puppet are in Slovenia very similar to those in much bigger countries, except that here they are seen by much smaller number of people," wrote Slovenian advertiser Gal Erbežnik in 2013.

Technological development enabled the multiplication of media channels (radio, television, online); however economic development could not follow the pace of this fragmentation. Once the economic crisis happened, it further endangered the survival of new media outlets: revenue from advertising (which represents the majority of broadcasting and online revenue) has decreased while the number of channels has increased. This means that larger number of actors must share smaller income, leading to pauperisation of an already increasingly fragmented market.

New channels are therefore often developed not because of the market potential but in order to prevent the development of new competition and/or to simply re-use the existing content in an attempt to raise as much revenue from as little investment as possible. The increase of the number of channels thus does not mean also the increase of the quality of the content or even the diversity of this content.

This was also one of the main reasons for the failure of the pay television project by the TV company Pro Plus in Slovenia. The company that owns the two most popular commercial channels Pop TV and Kanal A launched a pay TV service Pop Non Stop in September 2011. The service included six channels: Kino and Kino 2 (movie channels), Fani (sit-com channel), Brio (women-oriented channel), Oto (kids channel) and Spot (music channel), all offered through cable providers. However the company in March 2013 decided to close down the project due to lack of success. The programming of the channels was mostly composed of the repeats of the content already purchased and broadcasted on Pop TV and Kanal A, as an attempt to use also less-attractive content, purchased in packages from studios, that did not fit in the schedule of Pop TV and Kanal A. The lack of the original and prime content was perceived as one of the main reasons for the service failure. (However Channels Kino, Brio and Oto continue to be offered in packages of cable operators from April 2013.)

Low level of internet penetration

Another important issue is the level of internet penetration, users' habits and spending habits related to that. In most of the countries, internet penetration remains low compared to the EU average (even in countries that are EU members, for example Slovenia). It is very often concentrated in larger urban areas. Better educated populations, living in cities and with greater spending power, are of course more interesting for advertisers, service providers or producers of different media-related products.

However in the SEE countries where we have already noted the smallness of the majority of markets, this means that already small markets become even smaller and more fragmented, and thus less relevant and less interesting for service providers, advertisers, media companies and media producers.

The fragmentation of already small national markets due to demographic characteristics which cause the digital divide thus has serious economic consequences for the potential development of new services and products or for the potential survival of legacy media and services.

The development of better internet-related infrastructure would therefore be not just in the interest of potential new media service providers or producers but also in the interest of these smaller countries. Namely, only with good Internet penetration including fast connections are these countries potentially interesting for investors in the field of new media, since only with excellent Internet penetration will they be able to offer a potentially attractive market for these new media services.

The growth of mobile

With the rise of smartphones, mobile media is a key area of growth for news outlets. Mobile access to the internet is opening a new demographic of users and spreading the potential market. However we must not forget that this so-called “mobile leapfrogging” opens up some particular problems which will still limit the market potential of new media services within such populations.

Mobile leapfrogging in Internet access refers to “the process in which new internet users are obtaining access by mobile devices and are skipping the traditional means of access: personal computers” (Napoli and Obar, 2013). Drawing upon data on internet access and device penetration from 34 countries, Napoli and Obar (2013) show that “mobile phones are not yet acting as functionally equivalent substitutes for personal computers”. There is a set of limitations and potential shortcomings of mobile-based internet access compared to traditional PC-based Internet access, including “important relative shortcomings in terms of memory and speed, content availability, network architecture, and patterns of information seeking and content creation amongst users”. (Napoli and Obar 2013: 1)

- Many of the websites do not have an accompanying mobile version.
- Mobile-based interaction with these sites can prove difficult and, in some cases, impossible, limiting the potential of these sites.
- This issue is of particular relevance since in many economically and technologically less-developed country with higher percentage of low-income population, the less sophisticated mobile devices are usually adopted, namely devices which have a lower capacity than more technologically advanced smartphones.
- Mobile-ready websites also often represent streamlined or watered down versions of the standard website. Thus, mobile users get access to less information and less functionality than PC-based users when forced to rely on mobile-tailored websites. (Napoli and Obar, 2013: 8)

At the same time, the issue of the (lack of) economy of scale is seen also in mobile market. Namely, media publishers need to work hard at developing the UX and UI (User eXperience and User Interface) of their mobile offerings. However this is possible (economically viable) only in markets that offer enough potential – small markets again face problems as they lack the potential for the economy of scale, needed for the development of particular UX and UI or apps. This is already an issue in economically much stronger countries such as Finland. “As a small market and a small linguistic area, Finland also places its own restrictions when it comes to pioneering applications and ideas. (…) The small linguistic area means that innovations do not have the same user potential as they would get in a larger area.” (Lehtisaari et al, 2012: 46)

The patterns of media consumption will of course develop and change with the proliferation of new platforms, devices and technologies; however certain patterns and habits will change over time, over the following years, and not overnight.

Also, as seen above, the use of personal computers and/or tablets influences the way people use the internet and the way they use the full potential of its offers and services – something that is (still) severely limited when using mobile internet, thus limiting also the economic potential of mobile internet in terms of services. The complementary role of broadband and mobile internet, personal computers and/or tablets and mobile phones is thus needed to reach the full technological and market potential of new media services.

Is the market-based model of media in SEE sustainable?

Different research has in the past shown that market-based media financing is sustainable only in larger countries (for example Lowenstein and Merrill, 1990) and even countries with strong GDP, positive trends in advertising revenue, and with technologically advanced infrastructure face important market limitations of small populations and language barriers with scepticism and concern (see Lehtisaari, 2012). In countries in SEE where most of the factors listed at the beginning of this paper severely limit the economic potential of (new) media projects and enterpreneurship, it seems that a market-based model of media is even less sustainable. It is largely sustainable in catch-all media such as general television channels with national reach, strong investments, and stable ownership (for example Pop TV in Slovenia and RTL and TV Nova in Croatia). Most of the other media, including previously very profitable major newspapers (such as Delo and Dnevnik in Slovenia), have in the last few years seen dramatic falls in circulation and profitability. And web-only sites that are not connected to any legacy media have so far not reached the kind of adequate revenue that would provide them with stabile financial environment.

It seems therefore that market-only media will have an increasingly difficult time in the following years to maintain their level of production as well as employment. They will need financial support, be it private or public.

As far as the support coming from the private sector is concerned, in SEE this is still very scarce. Regional millionaires are often not willing to invest in the media, as they are not aware of the public interest, or – if they are aware of the importance and influence of the media – they see and use the media and their ownership as a tool to pursue personal business interest and/or to help personal political friends and alliances. Philanthropic investments in the media as a part of public responsibility of the richest part of the society – that is frequently seen in Western Europe or the U.S. – is not noticed in the region.

On the other hand, foreign donors are not interested in the region as some parts have already joined the EU, and others are either in the process of accession, or are seen as less relevant and urgent than some other parts of Eastern Europe or the rest of the world. Foreign donors are largely shifting their help from SEE towards Middle East or other areas (such as South Sudan). At the same time, the region is not seen as adequately influential or prestigious to be relevant for, for example, Russian, Indian or Chinese billionaires who sometimes invest in media to enhance their public role and strengthen their social position, but in other, more 'prestigious' countries, such as the United Kingdom.

At the same time, there is also no strong push to develop alternative models of financing, such as foundations or consortiums founded by workers. A specific, small-scale example of such a consortium emerged in Slovenia when a free daily newspaper Žurnal24 folded in May 2014. After years of losses, Austrian owner Styria decided to close down all its editions: daily, weekly and website. However after a few months a group of former employees and contributors decided to try again, this time only with a website, and has – with permission from Styria – revived the Žurnal24 website. They are now attempting to maintain enough web traffic to attract sufficient advertising revenue for their survival.

However this is a rare example of such an endeavour. Again, the situation in the region is not entirely specific compared to, for example, Western Europe, as in many countries new models of financing are only slowly starting to take-off or to develop, without long-term results that would prove stability of such models. Again, there are similarities in smaller countries such as Finland where many local experts and professionals "do not seem to believe that foundations could be a vital model for financing Finnish journalism, since they do not think that Finnish foundations could secure the basics of independent journalism". (Lehtisaari, 2012: 51)

On the other hand, (some) optimism remains and new projects (still) start even in the midst of increasing financial crisis and uncertainties. A recent example of such an effort involving new technology is Tor5 or »Torek ob petih«, another project by former staff of Žurnal involving some other journalists and bloggers; it defines itself as "first mobile magazine". It started only a few weeks ago, in the first half of November, so its future and success remains unpredictable. However it is a – good – sign of applying new a digital reality to old journalistic models and accepting (and adapting to) new users' habits (where mobile takes more and more time and attention – and advertising income).

On the other hand, for most of the media in the region, the promises of new era of market dominance and market-based economy that will overthrow previous political paternalistic model of financing media in 1980s and earlier have remained unfilfilled. The economic crisis on one hand and the digital disruption on the other have shown the fragility of media market in SEE, and emphasized the important role of the state and state interventionism as only possible solution for maintaining a relatively diverse media. The return of the state, however, also severely limits the potential of the media in the region to become at least approximately independent in terms of political pressure and political influence. State interventions and help will probably help maintain a larger number of media companies in each of the countries – however this doesn't mean that this will help to maintain the plurality and diversity of views and content in those media that will survive.

Footnotes:

[1] Apart from weak GDP, most of the countries in the region have relatively low economic/purchasing power – defined by Eurostat as GDP per capita in Purchasing Power Parities (PPPs) – and have evidenced a decrease of investments in the last five years.

[2] See for example Telemach.

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Note: This article gives the views of the author, and not the position of the Euro Crisis in the Press blog, nor of the London School of Economics.

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