Who Pays for Media?

Media companies use one or more of these three economic models to make money:

Direct Revenue Stream. For books, movies, and video games, consumers pay directly for media they choose. When you buy a book on Amazon, they forward some of the money to the publisher, who has spent money in the creation of the paper copy. Based on the number of books sold, the publisher then returns a small portion of the revenue (usually 8–15%) to the author in the form of a *royalty* payment.

If you are buying video games, you might visit the GameStop at the local mall or go online to Steam. In any case, the middleman distributor gets a part of the payment, but a big chunk is returned to the game company. If you purchase music, you may pay a middleman like iTunes, Pandora, or Spotify to download files or stream music, but part of that revenue is returned to the musician. Film box office revenues work the same way. The *exhibitor* who owns the venue where the film is screened takes a portion (usually about 40%) and returns the rest to the film studio. When a filmmaker licenses a film to air on a digital streaming service, they receive 80% of the revenue. During the 2020 coronavirus pandemic, the movie sequel Trolls World Tour was released as a digital rental for $19.95, earning over $100 million, a record for streaming. Critics believe that local exhibition companies like AMC and Cinemark may not be able to financially compete in an era where people prefer to watch movies at home (Stewart, 2020).

Indirect Revenue Stream. Some media companies provide their products as a free service, using an *indirect revenue stream* as their business strategy. Terrestrial radio and television do not require payment from consumers. Instagram, Facebook, and Google do not charge fees either. In this business model, the advertiser is charged a fee so as to gain access to the consumer. In effect, for these media companies, the attention of the viewer, reader, or listener is the "product" sold to advertisers.

Under this business model, media companies establish prices for the cost to reach certain consumers, based on their gender, age, income, and geographic location. Typically, advertisers purchase consumers who live in a *designated marketing area*, which is a geographic region. The media company charges a fee based on the *cost per thousand*. So a potential advertiser seeking to promote his or her company will approach a local radio station, which will offer a price list in the form of a rate card. In New York City, clients can buy 15 ads that will air Monday through Friday and four that air on the weekend for just under $4,000. In Denver, the same number of ads will cost just a little more than $1,000. The prices depend on the size of the city and the number of listeners.

To place an ad on Instagram, clients can expect to pay nearly $7.00 per thousand viewers, but they can target the type of people they want to reach with great precision. Do they want to reach people who have purchased a car in the past year? Or people who watch reality TV? Or people interested in media literacy? The ability to target audiences means that the price to reach some audiences is higher (or lower). Among those who search for the keyword "media literacy," for example, I can expect to pay $2.16 every time someone sees an ad (perhaps for this book) and clicks on the link.

Mixed Revenue Stream. The third major way media are funded is the *mixed revenue stream*, where consumers pay for media, advertisers pay to reach audiences, or other third parties, including foundations, think tanks, or governments, pay for media. Table 10.1 shows the sources of funding for many types of media, and it reveals that cable and satellite television and telecommunication services use this model. In the United States, public broadcasting relies on the mixed revenue stream model as it includes four sources of funding: (1) donations from audiences through annual fundraising, (2) advertising (called underwriting), (3) financial support from philanthropies and charitable organizations, and (4) money from the federal government. In

Table 10.1
Sources of Funding for Media Industries

MEDIA TYPE	DIRECT REVENUE	INDIRECT REVENUE	MIXED REVENUE
Book Publishing	X		
Music			X
Movies	X		
Video Games	X		
Magazine and Newspapers			X
Broadcast Radio and Television		X	
Cable and Satellite Television			X
Internet			X
Public Broadcasting			X
Search Engines		X	
Social Media		X	
Streaming Media	X		