

Internet Media Usage and Substitutability

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Abstract

This study examines the frequent claim offered by industry commenters that the rise of the Internet is a major justification to eliminate FCC broadcast ownership rules. In making this claim industry commenters have relied on survey data generated by the Pew Center. However, this study demonstrates that industry commenters have vastly overstated the Pew data. Indeed, the Pew analysis directly contradicts the industry's claims. The Pew data and the conclusions of the Pew Center demonstrate that the Internet has caused only minor changes, and that traditional media retains its dominance over the media marketplace. Data from other sources confirm this finding.

Industry commenters frequently claim that the Internet is leading to a substantial decline in the use of traditional news media implying that online news sources must be serving as substitutes for traditional print, broadcast, and cable media. However, the Pew data indicate:

- The decline occurred in the 1990's, well before the rise of online news outlets.
- Online users treat Internet sources as supplements to traditional media.

Surveys from Gallup and Harris-Interactive corroborate the findings that traditional media outlets remain the primary sources of news. The FCC's recent indecency ruling attests to the continuing dominance of traditional broadcast media.

Industry commenters cite low and declining news consumption by the young as evidence of the Internet's transformative effect on the media marketplace. However, the Pew data over a 12-year period suggests that this phenomenon is merely a characteristic of youth, and not a new development caused by the Internet.

- Tracking age cohorts the data shows that as the young age, they spend more time consuming news.
- Also, youth news consumption has increased since 2002. While some of this increase is attributed to the Internet, the data indicate that traditional sources (operating in both physical space and cyberspace) are the primary beneficiaries of this increase.
- The overwhelming majority of online news outlets are not independent sources of news.
- The data indicate that only about 10 percent of the web audience visits independent Internet news outlets.
- Our accompanying study on these websites shows that these sites contain very little independent news content, relying heavily on news produced by traditional sources.

Introduction

In comments to the Federal Communications Commission, the industry commenters have completely bungled the question of media usage. On the one hand, they tell the FCC that it should not examine media usage – that it should not look at the audience sizes of individual outlets when writing limits on media ownership. On the other hand, they insist that new media has stolen so much of their audience that their dominant position has been eroded and the Commission cannot justify limits on ownership. The industry commenters have gotten it wrong on both counts.

The FCC must look at audiences, and when it does, it will find that the traditional mass media are still the dominant outlets for news and information.

The failure of the FCC to properly count audiences in crafting its new media ownership rules led directly to the absurd results that got them overturned in the last proceeding. Its rule writing would flounder again if it were to cite declining audiences as a justification to relax the ownership limits, while also declaring that it could not analyze audiences to set new limits. It will suffer the same ignoble fate if it tries to write rules on the basis of assumptions that do not fit reality. The wild industry claims about the rise of alternatives, as substitutes for the traditional mass media simply do not accord with reality.

This study examines what is probably the most frequent basis for the claim that the FCC must relax its rules – the rise of the Internet. It focuses on media usage pattern as described in studies by the Pew Center, on which many of the industry commenters rely. A separate study examines the traffic and output of Internet-based alternative local news outlets identified by the industry commenters. Both papers show that the industry commenters have vastly overstated the extent of change.

Pew Reaches the Opposite Conclusion to What the Industry Claims

The industry repeatedly cites recent surveys from the Pew Research Center for the People & the Press and the Internet and American Life projects, claiming that there has been a recent, tectonic shift in the usage of media for news and information. In particular, the claim is repeatedly made that the Internet has pushed traditional media out of center stage.

It is the viability of the Internet as a video delivery mechanism that has produced a seismic shift in video competition and viewpoint and source diversity since the Commission's last review (Hearst, p. 6).

The Internet has displaced the public's reliance on traditional media and transformed the manner in which people access, use and otherwise consume information... Rapid broadband adoption has fueled the growth of the Internet as a primary source of news and information (Tribune, pp. 16-17).

Developments over the past several years underscore the need for the Commission to account for the Internet media in crafting cross-ownership rules on the national and local levels (Tribune, p. 26).

We have compared our own survey results to, and cited the very same surveys to the effect that, for local news and information, there has been no such shift. One need only read the reports to recognize that the industry has vastly overstated the change. Indeed, the industry claims are directly contradicted by the Pew analysis.

But growth of the online news audience has slowed considerably since 2000, particularly among the very young... (Maturing Internet News Audience, p. 1)

Broadcast news outlets continued to struggle – over the last two years alone the audience for nightly network, local TV news and radio news have all slipped. Even so, the recent trends in news consumption are relatively stable when compared to the 1990s when TV news in particular was suffering losses of far greater magnitude... (Maturing Internet News Audience, p. 1)

The NAB claim that “the Internet and related digital technologies now substitute for the use of other, traditional media, including print and radio” is directly contradicted by the Pew findings that “The Web serves mostly as a supplement to other sources of news rather than a primary source of news. Those who use the web for news still spend more time getting news from other sources than they do getting news online. In addition, web news consumers emphasize speed and convenience over detail.” (Maturing Internet News Audience, p. 2)

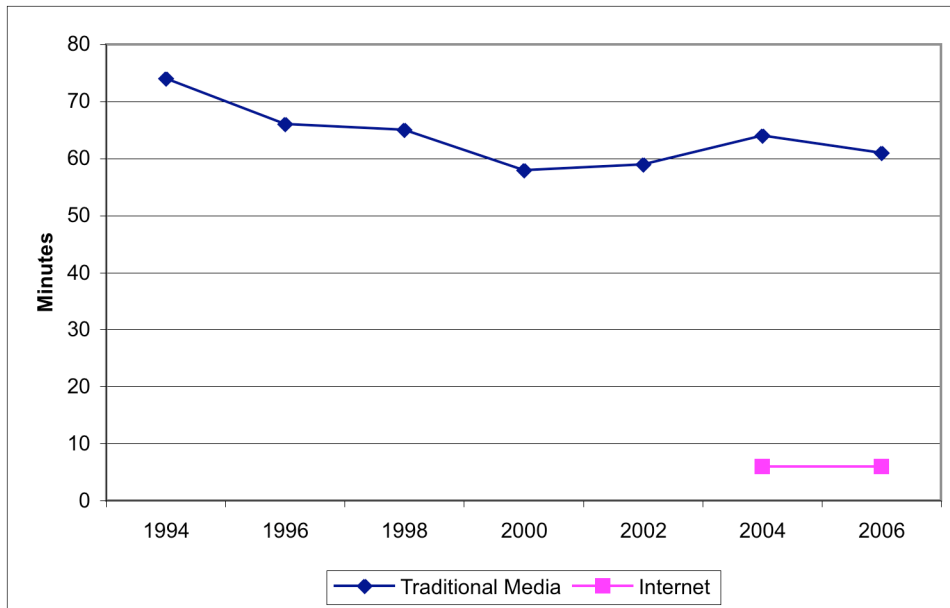
Getting the Facts Straight

Pew’s conclusion is consistent with the data presented, which contradicts the industry claims. Respondents were seven times as likely to site traditional outlets as their single sources of news than the Internet (27 to 4 percent) and more than three times as likely to cite traditional sources as one of two (25-8 percent). Most importantly, the decline in usage began well before the advent of the Internet and has not accelerated greatly since the widespread usage of the Internet accelerated.

In fact, by the Pew numbers, time spent with traditional media was higher in 2004 and 2006 than in 2000 and 2002 (see Exhibit 1). The Internet accounted for less than 10 percent of the time spent with news and there was no great increase between 2004 and 2006. Time spent with traditional media have increased since 2000 in the Pew data, rather than decreased, as the industry claims.

This data is more consistent with our hypothesis that consolidation and the decline of quality hurt traditional media, than the claim that the Internet is doing the traditional media in.

**Exhibit 1:
Time Spent with the News Yesterday: 1994-2006, All Age Groups**



Source: Pew Maturing Internet News Audience: p. 10

The age group usage data also does not support the claim that the sky is falling. It is certainly the case that young people spend less time with news and less time with traditional news, but there are number of important qualifications about this simple observation that cast doubt on its meaning.

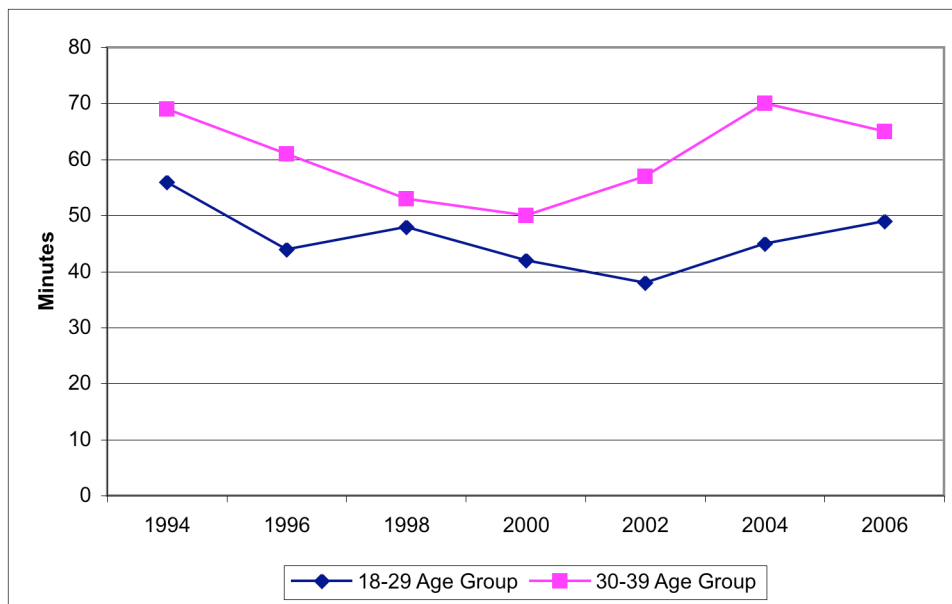
There is one thing certain about the young; they will outgrow their youth. The data shows that the older you are, the more time you tend to spend with news. This observation is interpreted as a generational gap. It could also be just a natural development (see Exhibit 2). Pew's data, which covers a 12-year period, allows us to test the latter hypothesis. Those who were 18 – 29 twelve years ago are 30-41 today. Those who were 30-39 twelve years ago are 42-51 today. If we look at the age cohorts across time, we find that the time spent with news increases dramatically as the cohort ages and the biggest increases in both absolute and percentage terms occurs among the youngest cohort. Also note that the 30-39 year olds of today, who were the 20-29 years olds ten years ago, closely parallel the 30-39 year olds of ten years ago. The maturation of each cohort brings an increase in time spent with the media that brings the cohort into a similar patten as the equivalent cohort a decade earlier.

Exhibit 2: The Effect of Aging on New Use

Age	Cohort	Years	Minutes With News Yesterday	
18-29	30-39	1994-2004	56	70
		1996-2006	44	65
30-39	40-49	1994-2004	69	73
		1996-2006	61	64
40-49	50-64	1994-2004	75	82
		1996-2006	65	76
50-64	65+	1994-2004	83	88
		1996-2006	79	79

A second important observation is that for the youngest cohort, the amount of time spent with the news declined steadily from 1994 to 2002 but has increase steadily in the past four years (see Exhibit 3). There are similar patterns for 30-39 year olds and the 50-64 year olds.

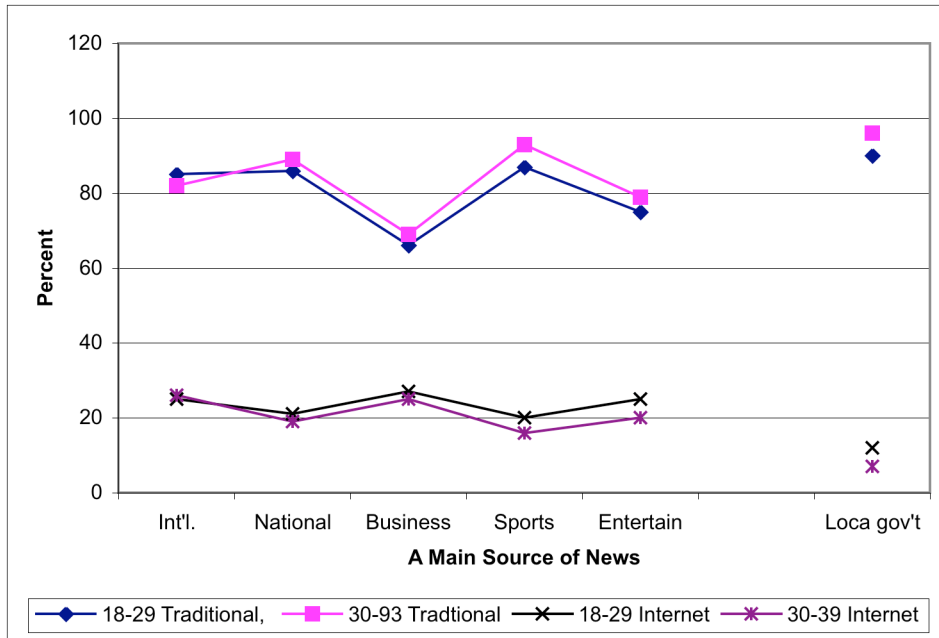
**Exhibit 3:
Time Spent with the News Yesterday: 1994-2006, Two Youngest Age Groups**



These two observations on cohort aging and time spent with the news suggest that as today's "twenty somethings" age they will spend more time with news. It does not necessarily tell us where they will spend time, since they are the first generation to be raised with the Internet. However, the Pew data confirms a point we have made before – the Internet's role in

local news is the smallest of the various types of news and the age group difference is the smallest by far (see Exhibit 4).

**Exhibit 4:
Main Sources of Various Types of News, Youngest two Age Groups**



The percentage of the youngest two age groups (18-29 and 30-39) who say they use the Internet as a main source of news is between 20 and 25 percent for every type of news, except local, for which it is 12 percent, among the 18-29 year olds and 7 percent among the 30-39 year olds.

Web Sites of Traditional Media

The Pew results also shed light on one of the central issues raised by the court -- much of the online news does not represent an independent source of news. It is dominated by aggregators and online outlets of traditional media sources. The court was quite clear that this activity does not represent an increment to diversity of sources.

“Search-engine sponsored web pages such as Yahoo! Local and about.com, which were suggested by commenters as sources of local news and information, may be useful for finding restaurant reviews and concert schedules, but that is not the type of “news and public affairs programming” that the Commission said “was the clearest example of programming that can provide viewpoint diversity.” ...

In terms of content, “the media” provides (to different degrees, depending on the outlet) accuracy and depth in local news in a way that an individual posting in a chat room on a particular issue of local concern does not. But more

importantly, media outlets have an entirely different character from individual or organizations' websites and thus contribute to diversity in an entirely different way. They provide an aggregator function (bringing news/information to one place) as well as a distillation function (making a judgment as to what is interesting, important, entertaining, *etc.*) Individuals... and entities... may use the Internet to disseminate information and opinions about matters of local concern... but ... are not, themselves... "media outlets" for viewpoint-diversity purposes. Like many entities, they just happen to use a particular media outlet – the Internet – to disseminate information. Similarly, advertiser-driven websites such as hvnet.com... hardly contribute to viewpoint diversity." (pp. 66-67)

The PEW data show that independent sources constitute a small part of the destinations on the web. Pew points out that

news aggregators such as Google News, Yahoo News and AOL News are a major source of online news. Not only are they frequently volunteered as websites used most often for news, but nearly half (45%) of Americans who regularly get news online (an 18% of the public overall) say they regularly visit these websites to get news. Roughly a third (32%) of online news consumers say they regularly visit news sites of TV networks, such as CNN.com, MSNBC.com and ABCnews.com. Newspaper websites overall are used about as frequently as network news sites, 29% of online news consumers. (p. 10).

Taking into account multiple responses, half of all the websites mentioned by regular online users were those of traditional media outlets; one quarter were aggregators, and only one-quarter were independent sites. When we take into account the fact that less than half the respondents said they are regular users of the Internet, we conclude that only about 10 percent of the respondents cite independent sources of news on the Internet. And as our accompanying study on independent local websites demonstrates, these independent Internet sources themselves rely heavily on the websites of traditional media for their local content.

The repeated finding that among the most frequently visited web sites are the sites of the traditional mass media underscores a fundamental issue in the analysis of broadcast ownership limits. Industry commenters would have the Commission believe that they are disadvantaged in the contemporary media marketplace.¹ Yet the broadcasters and newspaper owners have forgotten one very large and very inconvenient fact – the broadcast license is a powerful and valuable privilege in our society. As the broadcasters and newspaper owners readily admit and our survey evidence clearly shows, they are availing themselves of the opportunity to use the new means of distribution of text, audio and video content – the Internet. Unlike average citizens (i.e. those who do not hold a broadcast license) the broadcasters also have a second, much more powerful means of speech, the ability to broadcast

¹ Television's multiple channel digital offerings consisting of locally-oriented programming and local newspaper reporters shooting and editing video on the paper's website are becoming the norm. In this digital era, as readers and viewers migrate away from older channels of distribution to new ones, media companies must quickly adjust to and anticipate change. Denying newspaper publishers and free, over-the-air broadcasters the economic and operational efficiencies associated with common ownership is unnecessarily hampering their ability to compete, to the detriment of the American public. (Gannett, p.25).

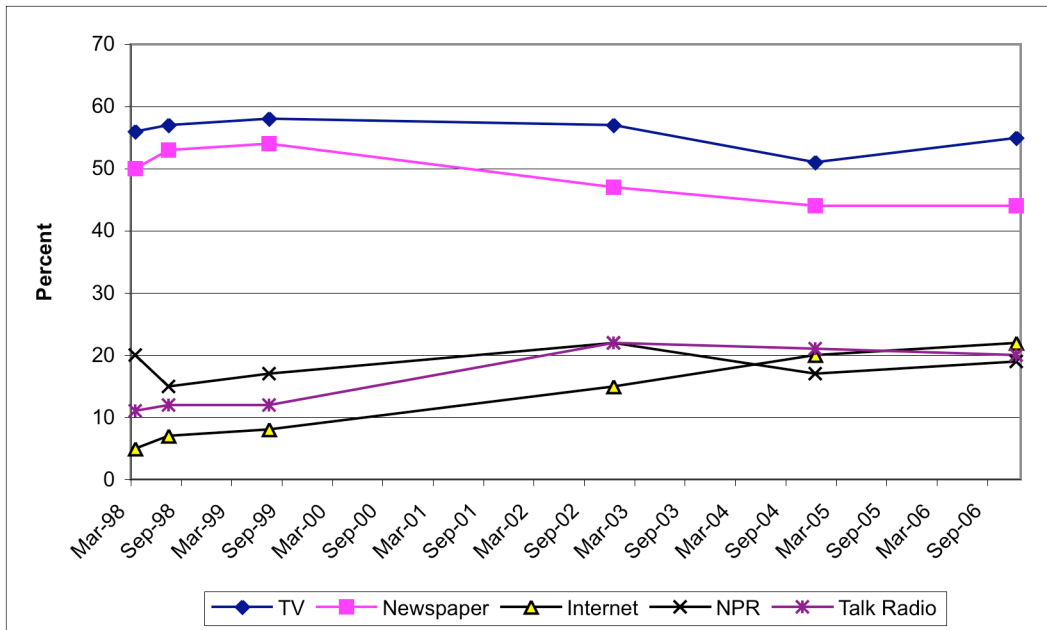
over the public spectrum on frequencies assigned exclusively for their use. Awarding exclusive licenses to a handful of corporations to broadcast over-the-air and denying those rights to broadcast to 99.9999 percent of all Americans hampers their ability to compete, to the detriment of American democracy. They still hold an immense advantage in the forum for democratic discourse compared to average citizens.

Other Studies of Usage

The PEW studies are not the only ones that contradict the claim that the Internet has displaced traditional mass media as a source of news. Indeed, a Harris Interactive study cited by the broadcasters explicitly contradicts the claim in the headline of its press release, stating "Most American Who are Online Use Internet for News, but Most say this does not Reduce their use of other News Media."²

A very recent Gallup Poll shows that local TV stations and local newspapers are the most frequently used sources of news.³ Television has remained relatively constant over the past eight years. Newspapers have declined somewhat, but twice as many respondents still say they use newspapers every day than radio or the Internet.

Exhibit 5:
Sources of News Used Every Day



Source: Lydia Saad, "Local TV is No. 1 Source of News for Americans," Gallup Poll, January 5, 2007

² Harris Interactive, The Harris Poll #35, May 19, 2004.

³ Lydia Saad, "Local TV is No. 1 Source of News for Americans," Gallup Poll, January 5, 2007

The FCC May Have Seen the Light

Industry commenters commend the Commission for concluding that the “media marketplace is characterized by abundance”, noting that “the number of outlets for national and local news, information and entertainment is large and growing.”⁴ NAB concludes:

Since 2002, Internet-related technologies have caused even more fundamental change to the media landscape. As a result, consumers today have access through myriad outlets to a virtually unlimited range of information and entertainment⁵... Due to the proliferation of media outlets and technological advancement, competition in the 21st century has been accurately characterized as “relentless.”⁶

Perhaps it was the severe rebuke by the Third Circuit court that has caused the Commission to look more carefully at the actual changes in the media marketplace; perhaps it is the type of detailed analysis we have provided to the Commission, in previous analyses, but its recent ruling in the indecency proceeding reflects a very different attitude:

42. *Constitutional Issues.*

46. The Networks also argue that the more relaxed level of First Amendment scrutiny discussed in *Pacifica* should no longer apply to broadcasting in light of changes in the media marketplace. Specifically, they contend that because of the prevalence of other media, such as the Internet and cable and satellite television, “it is fanciful to believe that aggressive enforcement of § 1464 against broadcasters will be effective in preventing children from being exposed to potentially offensive words.”

47. We disagree that technological changes have undermined the validity of the reasoning in *Pacifica*. In *Pacifica*, the Court identified two reasons why broadcasting has received “the most limited First Amendment protection.” First, “the broadcast media have established a uniquely pervasive presence in the lives of all Americans. Patently offensive, indecent material presented over the airwaves confronts the citizen, not only in public, but also in the privacy of the home.” Second, “broadcasting is uniquely accessible to children, even those too young to read.”

48. Notwithstanding the growth of other communications media, courts have recognized the continuing validity of these rationales. In 1994, the Supreme Court reaffirmed that “our cases have permitted more intrusive regulation of broadcast speakers than of speakers in other media.” And the D.C. Circuit has rejected precisely the argument advanced by the Networks here: “Despite the increasing availability of other means of receiving television, such as cable, ... there can be no doubt that the traditional broadcast media are properly subject to more regulation than is generally permissible under the First Amendment.”

⁴ NAB, p. 5, citing 2002 Biennial Review Order, paragraph, 86.

⁵ NAB, p. 5

⁶ *Id.*, p. 23

49. The broadcast media continue to have “a uniquely pervasive presence” in American life. The Supreme Court has recognized that “[d]espite the growing importance of cable television and alternative technologies, ‘broadcasting is demonstrably a principal source of information and entertainment for a great part of the Nation’s population.’” Though broadcast television is “but one of many means for communication, by tradition and use for decades now it has been an essential part of the national discourse on subjects across the whole broad spectrum of speech, thought, and expression.” In 2003, 98.2% of households had at least one television, and 99% had at least one radio. The Networks correctly point out that almost 86% of households with television subscribe to a cable or satellite service. That still leaves 15.4 million households that rely exclusively on broadcast television, hardly an inconsequential number. In addition, it has been estimated that almost half of direct broadcast satellite subscribers receive their broadcast channels over the air, and many subscribers to cable and satellite still rely on broadcast for some of the televisions in their households. All told, the National Association of Broadcasters (“NAB”) estimates that there are an estimated 73 million broadcast-only television sets in American households.

50. In addition, the bare number of cable and satellite service subscribers does not reflect the large disparity in viewership that still exists between broadcast and cable television programs. For example, during the week of September 18, 2006, each of the top ten programs on broadcast television had more than 15 million viewers, while only one program on cable television that week managed to attract more than 5 million viewers. Similarly, of the 495 most-watched television programs during the 2004-2005 season, 485 appeared on broadcast television, and the highest-rated program on cable television was only the 257th most-viewed program of the season.⁷

Given this recent, dramatic change in perception of the Commission, based on substantial evidence offered before and after the court ruling, the FCC 2002 *Biennial Review* does not provides a basis for relaxing the limits on media ownership.

⁷ FCC, citations omitted.

Conclusion

These empirical facts, which refute the claims of the industry commenters about the impact of the Internet from the very documents that they misinterpreted, should come as no surprise. In fact, when the Commission last looked at the question of substitutability, it could not find any in statistically significant and/or materially substantial terms. Two of the lead researchers in the FCC working group offered the following observations on the FCC's substitutability study with respect to the Internet's impact on television news viewing⁸:

Perhaps surprisingly, empirical evidence regarding substitutability between various media (e.g. television, radio, Internet, newspaper) for media consumers is scant. Waldfogel's (2002) comprehensive study finds very modest evidence of substitutability between just a few different media.... Waldfogel finds statistically significant positive relationship, implying complementarities, in his data, noting that people who use media of one type tend to use more total media in general.

The significant coefficient from Waldfogel's (22) six regressions of media substitutability yield the following results (a) 1 hr of Internet use subtracts, on average, approximately 4 min of broadcast television viewing; (b) for each instance of Internet news use, broadcast television news use is reduced by approximately 21/2 min.

Has there been change? Certainly! Will there be more change? Certainly! But to suggest that the Commission can ignore the continuing power of the broadcast voice in the forum for democratic discourse ignores the basic reality of media markets. The traditional mass media – television, newspapers, and radio – remain the dominant means of producing and disseminating information in America. The minuscule level of substitution is certainly no justification for the Commission to throw its hands in the air and say the world has changed.⁹ The Commission must have an evidentiary basis on which to base its rule. Its own studies, to date, do not justify the action that Hearst urges on the Commission by any stretch of the imagination.

⁸ Alexander, Peter and Brendan M. Cunningham, "Public and Private Decision Making: The Value of Diversity in News," in Philip M. Napoli (ed) *Media Diversity and Localism: Meaning and Metrics (Mahwah, Lawrence Erlbaum, 2007)*, p. 85.

⁹ The NAB (p. 51) cites a study by Dimmick, Chen and Li ("Competition Between the Internet and Traditional News Media: The Gratification-Opportunities Niche Dimension, *J of Media Economics*, (2004), to support the proposition that the Internet is displacing traditional media. The study is extremely limited in its application to the issue before the commission. It defined Internet news use primarily as the Internet web sites of the existing dominant traditional media outlets, not alternative websites. As such, it is overwhelmingly addressing issues of national and international news. It restricted its questions almost entirely to convenience questions, but asked no questions about depth of news coverage. Given the sources and types of questions, the study tells us little, if anything about local news. The sample was not representative of the broader population. It was restricted to respondents who had the Internet and used it for news along with at least one traditional source of news. The data is from April 2001, which, according to the PEW analysis was the moment when any shift in news sources appears to have stopped. The sample size is extremely small. Interestingly, the study admitted that "because none of the traditional media has a very high overlap with the Internet, the Internet and traditional media are not close substitutes on this dimension." Taken together, these characteristics of the study render it useless as a support for the expansive claims of the broadcasters. Indeed, in its literature review, the Dimmick, Chen and Li study identifies nine prior studies that tried to address the issue of substitutability between different types of media and they overwhelmingly concluded that there had been little displacement. The much more detailed study presented by the Commission and other surveys, which include a much larger national sample and all types of users contradict the misuse of the Dimmick, Chen and Li study in support of their overstated claims of substitution.