

## **ADVERTISING INCREASES CONTENT DIFFERENTIATION: Evidence from YouTube**

Advertising revenue leads to more diverse media landscapes, according to research by **Anna Kerkhof**, to be presented at the annual congress of the European Economic Association in Manchester in August 2019.

Her study analyses how a change in YouTube's advertising policy has affected the content of more than a million YouTube videos. She shows that an increase in the technically feasible number of ad breaks per video leads to a twenty percentage point reduction in YouTubers' probability of uploading 'mainstream' content.

Why? Advertising is a nuisance to viewers and they perceive it as a 'price' that they have to pay. Thus, if a YouTuber shows more ads, her viewers could switch to a competitor. Switching is less likely, however, when the YouTuber uploads niche content, because niche content is provided by fewer other YouTubers.

### **More...**

Media diversity is important for at least two reasons. First, a diverse media landscape sustains democracy, freedom and public discourse. Second, the more diverse and differentiated the media content, the more likely it caters to all consumers' tastes.

Policy-makers appreciate the value of media diversity and undertake great efforts to achieve and maintain content differentiation in media markets. The European Council, for example, has recently passed official guidelines for the protection of media diversity in the EU.

But media outlets' typical business model – generating advertising revenue instead of charging their consumers a direct price – provokes a persistent debate about the consequences of advertising for content differentiation. Media scholars argue that ad revenue induces media outlets to duplicate mainstream content to sell a maximum number of eyeballs to advertisers.

Economists, in contrast, acknowledge that consumers perceive advertising as a 'price' that they have to pay. Taking this into account leads to the opposite prediction: when given incentives by ad revenue, media outlets prefer to differentiate their content from each other.

So does advertising lead to content duplication or to content differentiation? Empirical evidence on this question is scarce.

The analysis of around one million YouTube videos demonstrates that an increase in the feasible number of ad breaks per video leads to a twenty percentage point reduction in YouTubers' probability of uploading mainstream content.

The reason is the following: mainstream content is produced by many YouTubers. Therefore, viewers could easily switch to a different channel when a YouTuber shows more ad breaks than before. Switching becomes less likely, however, when the YouTuber uploads content that is less popular and thereby covered by fewer competitors. Thus, advertising leads to more content differentiation.

The results advance discussions on the effect of advertising on content differentiation. It is the first study that provides evidence of a causal *positive* effect of advertising on content differentiation, whereby it challenges the widespread opinion that the media inefficiently duplicate mainstream content when the incentives are driven by ad revenue.

This is a major insight, especially because the media's options to generate ad revenue are often subject to external regulation by policy-makers. When deciding about if and how to limit advertising quantities, policy-makers should take these novel results into account.

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