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## A tale of Sheiks and cheques

Posted by [Paul Belleflamme](#) on 5/3/2012 • Categorized as [Media](#), [Platforms](#)



*The Bulletin* is a magazine for expatriates moving to or living in Belgium. In its issue of July 10, 2008, the magazine picked up a story that had already been reported in the Belgian and international press. The article described a police raid at the fourth floor of the Conrad Brussels hotel, which had been rented by some members of the Nahyan royal family of the United Arab Emirates. These people were accused of exploiting and mistreating their servants.

The hotel management regarded the publication of these reports as “unethical” and decided to cancel its subscription to the magazine. Two other hotels from the same group soon followed suit.

At first glance, this looked like a minor event for the magazine. The three hotels together distributed about 700 copies of the magazine, which amounted to 5 percent of its circulation. Yet, the magazine’s editor in chief, Derek Blyth, declared to the New York Times: **“Our financial stability is at stake with such a major response. We’re reeling from the impact.”**

Hence, there seems to be a disproportion between the scale of readership loss and the economic consequences for the magazine. Some scholars refer to a vicious **“circulation spiral”** to describe this phenomenon.

- You are asked to use the theory of two-sided platforms to explain this conundrum.
- Also, what does this story tells you about press freedom (and its price)?

(This post was originally published [in French](#) in 2010.)

Tagged as: [advertising](#), [press](#), [two-sided](#)



Paul Belleflamme is professor at Université catholique de Louvain. He is attached to the Center for Operations Research and Econometrics (CORE) and to the Louvain School of Management, where he teaches courses in the fields of Industrial Organization and Managerial Economics. [More info & contact](#)

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## 42 Comments

1.  *Jean-Christophe Ghys* 2 Comments  
**25/04/2012 • 14:31 (Edit)**

The basic two-sided platform situation should be readers – magazine – advertisers. In this case, there is a relation with “healthy competition”. they need each others, and are flexible. I mean they each have some leeway before it affects the others as to break the relationship.

Yet, there is here another actor : the hotel. For me, there is one problem : The relation between the magazine and the hotel is not balanced. Given the consequences of this cancellation of subscription, we see that the magazine was a little a prisoner in this relationship. This inequality is probably explained by the money. This kind of hotels are powerful and financially strong, that give them an advantage.


Moreover, such a position of inferiority is particularly inappropriate to the press. Indeed, their job is precisely to freedom of expression and information. So, this position and the nature of thier work are totally in opposition.

We see here that freedom of press is not compatible with economic relations. Their job requires them to disclose any current events, whatever they are. So they can not favor one or the other company (which is common when two entities are in partnership), because it would put their credibility in Danger.

In summary, in an economic partnership, the press was caught between two obligations: to reveal the truth to his readers, and honor their trust relationship with their partner. The problem occurs when the magazine can not do both, and must make a choice.

I think that more we deals with large sums of money, luxury, ... (as is discussed with the kind of hotels presented in this article), more basic relations of competition are replaced with trust relationships. Here, Hilton believes they have been betrayed. And given the importance of this relationship at this level, it was expected that other hotels imitate them. This is probably a way to insist and remind the importance of trusting relationships in such environment. The conclusion is that at present, some people are forced to put their work aside to avoid major financial problems.

### **Reply**

2.  *Bahibigwi* 6 Comments  
**25/04/2012 • 14:10 (Edit)**

In this paper, we have a platform: The Bulletin: magazine of arts, culture and news, which is an intermediate between market of readers mainly international community in Brussels and the market for advertisers

Gabszewicz, and Laussel Sonnac (2005) study the pricing strategy of a newspaper, faced with a request for readers and advertisers demand and shows that a proportion (fixed) is “publiphile” consumer (the network effect due to advertising is positive), while others are “publiphobes” (the network effect is negative). Advertisers and consumers have heterogeneous willingness to pay (respectively, and for an ad for the newspaper). The authors show that the effect on the selling price of partial funding from advertising (compared to a situation of financing sales only) depends on the attitude of the average consumer vis-à-vis advertising.

In the case of Conrad, first there are the sheikhs of the Emirates who have a lot invested in Belgian and international

companies and therefore may influence the advertising campaign of the company asking them to no longer include their campaign through this magazine. This could be damaging when we know the influence of these investors in the global market and therefore it could be a lost for the magazine. But as it is saying in the theory of two sides, when the platform loses part of his benefice with one side it will cover it with the other side. The problem being that it will increase the price of the magazine, which will impact on the number of its readers. Then there is a network effect. Indeed, Conrad is a hotel chain with a good reputation. If the hotel unsubscribe at magazine after the incident, the other hotels could also follow suit in anticipation of even a scandal and therefore the risk being that these hotels also unsubscribes. That this will be damaging to the magazine because his niche is international and this public is located generally in the hotels. If readers are turning away from the magazine, that will impact advertising and ultimately the viability of the magazine

In terms of freedom of the press, the magazine could depend in in party or whole advertisers to survive. And in this case their editorial independence could be influenced by the interests of its owner. This is the case for example of magazine that is financed by friends of politicians who find themselves with a political color while when it started it was more or less independent. If advertisers have a monopoly such as for magazines where the advertise that are made are usually targeted and therefore it is difficult for the magazine to diversifies the advertisers and thus finds himself trapped by the advertiser

### Reply

3.  *Maxime Lefèvre* 3 Comments

**25/04/2012 • 13:58 (Edit)**

The whole problem lies in a decision between two choices for "Bulletin": publish or not publish the story. By publishing this story, the magazine wanted to show that it existed not only to satisfy the whims and desires of its high standard readers. By doing so, it proves that it has the strength of character to go against some of its readers. The magazine took a calculated risk by acting in this way and was ready to roll with the consequences. These showed up quite logically. The Conrad hotel and its group partners ended the distribution of the magazine. Now we can argue about the correctness of the choice made by Bulletin. Maybe they have not made the right choice. I believe that through this publication, the magazine has proven that it was not for sale to the highest bidder and he was ready to lose some of its profitability goal to keep his objectivity and detachment.

I think the theory of two-sided platforms does apply in this case because of the reduced number of readers. Unlike magazines and newspapers of general distribution (eg "Elle magazine"), the Bulletin is directly influenced by the deregistration of a customer like the group to which belongs the Conrad Hotel. And I think this is where the problem is. Freedom of the press appears when the media is big enough and important enough to withstand a change in sales due to the departure of some agents in the other side, here the distributors. In fact, the situation turns around. When the number of readers is small and therefore the magazine is too small, it is the readers who impose the content. But when the magazine becomes important and large enough, it is he who imposes the reader what he reads. I do not think there can exist an equilibrium between the two sides. The power is either one side or the other, but not in between.

### Reply

4.  *Daniel Scurtu* 7 Comments

**25/04/2012 • 13:56 (Edit)**

As a social activist, and a lover of freedom of unaltered information, I respect the Bulletin's decision to stand up. However, this is still a business we're talking about and there are more sides to it.

There are several ways we should look at the issue before deciding what each party involved should have done.

From a purely economic standpoint, I think aiming for "ethical" things such as freedom of the press is a bit naïve when there is a profit to be made by someone, at least if we assume all agents to be purely rational. Entirely changing the incentive will entirely change the nature of the game. History has proven this too many times, the most outrageous example of this being

the US healthcare system, where the primary goal is to make money rather than keep people healthy. The press is, sadly, no exception. What make things worse are the volatility of the two-sided market and the interdependence of the two sides. You lose readers, you lose advertising; you lose advertising, you lose readers; once momentum ensues, it is generally difficult to maintain.

From the hotel's strictly business viewpoint, it is understandable why they would cancel their subscriptions – you can't have articles pointing out how unethical you or your customers are in your own rooms (although on a personal note, I would say their management didn't really think outside the box). While the damage to the hotel's image had already been done (it could be viewed as a sunk cost I suppose, one can only move forward from that point), and the decision does seem drastic, it also sends a message to other business partners for the future.

From the magazine's strictly economic viewpoint, publishing the article was a mistake, since it hurt their readership, with the potential to hurt their advertising profits. From a marketing standpoint, things are not so cut and dried.

To decide whether the magazine made the right choice, we have to put all things in their appropriate context. The magazine not publishing or putting an overly positive spin on the story (positive as in favoring the hotel) in contrast to the rest of the media coverage would have flown back in the 1970s or 1980s, but in today's age of "freely" flowing information, readers are more educated and are more generally aware. News travels faster and is harder to spin. What used to be an issue with an obvious solution and really just one option a few decades ago is now a double-edged sword. Marketers who think outside the box can recognize this as an opportunity to improve on the magazine's image and reputation. A simple editor's letter on an early page on the next issue could inform the readers on the conflict that ensued, the stand the magazine editors took, and maybe even mitigate some of the damage done to the hotel's image (although compared to the extensive media coverage already done, it's hard to imagine the damage done by The Bulletin was significant). In the long run, it may increase reader loyalty enough to compensate for the short-term losses.

I think the issue with the press boils down to bargaining power. Who has the ultimate bargaining power in a multi-sided market? In the case of Conrad vs. Bulletin – the hotel. In the case of advertisers vs. Bulletin – advertisers. But in the case of readers vs. press and advertisers together and whoever else you might think of, the readers have the ultimate bargaining power. Why is that? Because readers don't buy advertisements (of course, with the exception of classified ads), they buy information, entertainment, news, education. The relationship between press and readers is based on trust. And by harnessing the power of that trust, the press can increase its bargaining power when dealing with the advertisers.


Unfortunately, there weren't any freely available articles on the aftermath of the incident, so I'm not sure they took it, but this was an opportunity for the Bulletin to stand out to its readers and increase consumer loyalty. It all depends on managing relationships and carefully communicating the right message to all parties involved. I think even the damage done with the hotel could have been mitigated, unless hotel management was just simply too old fashioned (the way I'd have put it was "the hotel wasn't expecting this kind of thing, it probably happened only possible because of the high level of privacy they offer their guests," but it seems the proof of the hotel turning a blind eye was pretty clear).

#### **Reply**

-  **Paul Belleflamme** 294 Comments  
**25/04/2012 • 14:03 (Edit)**

Thanks for this deep analysis.

#### **Reply**

-  **Daniel Scurtu** 7 Comments  
**25/04/2012 • 15:03 (Edit)**

Also, I had one more thing to add, which is a bit more general and not strictly related to two-sides markets, but may

help us see things in perspective a bit better.

Ethical dilemmas for companies have been higher in number in the US (whether they were US or foreign companies), at least if we're talking about the big ones that make the newspapers. That's probably due to the different regulations which are often more loose, "interpretative" or simply not there. The US has also been the source of the most famous/infamous whistle-blowers in recent years.

With the public so aware of the unethical business practices, PR has become an important tool for many corporations. Giving up short-term profits for "ethical" reasons (whether the motivation is genuine or not) may improve the company's image with either its customers or the public at large, which may or may not be the same.

If the positive image helps the business in the long-run, shareholders are happy. But what happens when the image can't be turned to cash and it remains just that? An image. Well, it depends on the ethical dilemma in particular, and how broadly the shareholders and investors can see. Some might be happy, but others will see unethical business practices as indicative of more unethical behavior yet to come. And with so many shareholders being burned by executives' unethical business practices, whether they be legal or illegal, the investor community is starting to be more wary of such behavior.

An example comes to mind: Electronic Arts. As one of the largest electronic entertainment publishers out there, they have a lot of bargaining power with game developers. They have bought out many individual studios and made many popular brands their own. But because of this increasing bargaining power, they have started to put more and more pressure on game developers to finish their products according to strict deadlines (which in the electronic entertainment industry have generally been very lax due to the creative nature of the work). While this does bring in the profits now rather than later and makes shareholders happy, it has given EA a bad name with the consumers who are unhappy to see their favorite brands rush-released unpolished. Furthermore, some consumers aren't dissatisfied only with EA, but also the developers for giving in to this pressure and releasing unfinished content, so EA's business practices are also hurting the image of its partners.

In the long run, EA has to worry about making two groups unhappy – the consumers and the game developers, some of which have already moved to other publishers (not to mention that EA and developers have already been sued as a result of unpolished released content). As profits dwindle, the shareholders eventually get hurt in the long run.

So by trying to appease shareholders in the short run, EA may actually hurt their profits later on because one group's significance is undervalued.


The underlying idea is that externalities are more difficult to measure when you take into account the marketing side of business, PR, and public opinion and the different groups you do business with, whether you're dealing with a multi-sided market or not. Trade-offs between short-run and long-run are sometimes made based on faith, experience and intuition, and good knowledge of your market.

And speaking of knowing your market market, while I know less about European businesses than US ones, it does seem to me that due to a less extensive history of unethical business practices and famous lawsuits, the European public might not appreciate the ethical choices of executives as much as the US one. So the ethical choice for a company in the EU might go under the radar and not really generate externalities to make up for the costs, whereas in the US a company might run a PR campaign to milk the situation as much as possible (in the US, the underlying question behind most actions is "how can I make money?"). To a European company it might be business as usual. This is simply an opinion, but please correct me if I'm wrong.

This might be part of the reason the Bulletin might not have mitigated the damage as well. Perhaps the opportunity isn't there. I know that in my home country, Romania, the current cultural environment would definitely not have made

mitigation possible. The market simply doesn't care enough for the ethical choices to be worth it in the long term at the cost of current profits.

### **Reply**

-  *Daniel Scurtu* 7 Comments  
**25/04/2012 • 17:37 (Edit)**

I just remembered of a great example of how press is sometimes not free.

Anyone who is actually familiar with Fox News in the United States can attest to how biased they are politically (very right wing, very Republican) in their news coverage and commentaries.

Their most significant target market is the conservative part of the population of the country. But a lot of their funding comes directly from the Republican Party and various conservative, libertarian, and other right-wing political groups. For them, reporting the news in a fair and balanced manner would mean the end of that funding.

However, that is direct funding, and is a poor example of a two-sided market. The better example would be publications such as The Conservative Christian Journal. There are millions of people in the US who rely mainly on publications like this for news. After sampling a few issues, I simultaneously laughed and cried at how biased they were, how much spin they put on some events, and how more than half the major news at the time was missing entirely, because it put the Republican Party in a bad light, or was otherwise "unpleasant" for the conservative christian (this was in 2003-2004).

As you can imagine, reporting the unfiltered truth would severely reduce their readership base, and advertising profits would plummet. However, in this case, the target market is specifically picked for their desire to read a certain kind of "news," it's the basis of the business model. This is an extreme example (sadly, not the only one), but it does a good job of illustrating how important the public you are dealing with is. Some press can't afford to be ethical and fair. Should that be the case? No. Can that be avoided? Not as long as there is a niche market where money can be made. For every identifiable market there will be a business trying to cater to it, whether it is ethical or not.

Either way, there is a cost to be endured. Either the loss of profit for the one who isn't there to seize the opportunity, or the cost of society having to deal with the horrible political and social decisions the misinformed will make. Two-sided market dilemmas and the externalities that can ensue are much like shooting a missile into space. It will keep moving and moving until it hits something, so whether it's now or in a hundred years, you will ruin someone's day, somewhere, sometime.

### **Reply**

5.  *Pieter De Bakker* 4 Comments  
**25/04/2012 • 13:49 (Edit)**

The magazine Bulletin serves as a platform, on one side the content is used to attract viewers. In which a magazine you have more choice in which relevant issues you are going to cover than a newspaper for example. And on the other side the viewers are then used to attract the advertisers.

But to come back on the topic of press freedom, it has definitely its price. Nowadays catchy news can easily be caught up by some key international newspaper and expand rapidly into a bad image and harm the hotel image of the chain of Conrad hotels around the world. That is where probably the magazine's editor in chief, Derek Blyth, made a wrong strategic decision because he didn't expect that there would occur some kind of snowball effect. Because the cancellation of the Conrad hotel looked probable. But what was less expecting is that after this took place in reality, some other group of hotels wanted to cancel their subscriptions too. These are specifically externalities in the intra-group, the hotels, which serves in




this specific case as connection between readers and advertisers.

Since the Bulletin is aimed at cosmopolitan and active readers who are looking In fact it is also interesting to think of the consequences of not publishing the article. The expat magazine's core value is to deliver in-depth stories on Brussels, Belgium, politics, business and lifestyle (stated on Bulletin's website). When they you would not have published this particular news in the field they would have taken the risk to be shouted to not have covered relevant news in their area and therefore it could also damage their image probably.

Nevertheless, Conrad hotel could have been communicated to the media that it was not aware and didn't notice some particularly event that could lead to suspicion of slavery. And it makes a strong opinion clear that it absolutely do not support these kind of practices. By contrast, the management of Conrad hotel is aware that it is not in the position to prohibit these practices by recognizing it is keeps the responsibility of the client.

This implies that involved chief editors of magazine should take into consideration the benefits from press freedom towards the cost of it when considering to publish a sensitive article. Especially in two-sided markets in which these externalities in this case intra-group can seriously reduce your profits.

### **Reply**

6.  **Alexandre Jund** 4 Comments  
**25/04/2012 • 13:12 (Edit)**

What it is interesting also with this situation, besides the economics of the two-sided model, which means that this 5% loss of readership means a loss on the sponsorship side, which weakens the reader side and so on, is that it shows how fragile is the press these days.

In addition it shows that the press is treated as any other product or industry.

But it is clear that it is not. It is not just a product or an industry. It should not be compared, treated or traded the same way as t-shirts, oil or bananas for instance.


And there is I think the root of the problem in this situation.

### **Reply**

-  **Paul Belleflamme** 294 Comments  
**25/04/2012 • 13:13 (Edit)**

You're right but I would prefer if you could elaborate a little...

### **Reply**

7.  **Jean-François Marenne** 4 Comments  
**25/04/2012 • 11:56 (Edit)**

I agree with the general opinion that The Bulletin had underestimated the effects that might have his article on both sides of its network (advertisers and sales). He did not understand the risk of losing the Hilton hotels was very dangerous because the group gave access to a category of readers really important for advertisers.

The problem of magazines that specialize in a certain niche is that they are very interconnected with the mains actors of the sector in which they are specialized. These actors are a very important source of income (by advertising, subscriptions, access to key information or key readers) and it is very dangerous to criticize them because it means biting the hand that feeds you. So these magazines can't be totally free (neither objectives) when they deal with subjects in which they are specialized.

A magazine specialized in automotive must maintain privileged relations with major brands if it wants to have a premium access to information, exclusivities and tests. But one can easily imagine what happens if it starts to get rude in his criticism

of the new models. The major brand will close this access.

However, I don't think we can really talk here about restricting the freedom of the press. I think freedom of the press is something more complicated than simply the right of each magazine to publish what it wants on the subject it wants. The freedom of a magazine or a newspaper is something it must construct and legitimize by a detachment of the main interests of the subjects they cover and by a serious substantive work and investigation. In our case the magazine was not free at the base because implicated in all the economical issues of its domain.

Finally lets take now the point of view of the Hilton group. Its problem is that it try also to have priviledged with networks of important custommers (the Nahyan family made hundred members and has also certainly an influence on other great Arab families with who it have to maintain exclusive relationships). So the group is also restricted by its economical interests. It can't spread in its hotels in a magazine that criticizes the group and mainly that criticizes a significant custommer. The difference in my sense is that the magazine has kept an ethical dimension in all its approach and not the Hilton group.

### **Reply**

o



**Paul Belleflamme** 294 Comments

**25/04/2012 • 12:06 (Edit)**

There are several interesting elements in your comment. Let me just elaborate on one element. You write: "*A magazine specialized in automotive must maintain privileged relations with major brands if it wants to have a premium access to information, exclusivities and tests. But one can easily imagine what happens if it starts to get rude in his criticism of the new models. The major brand will close this access.*" You may be right but there is a dimension that you fail to take into account here: the independence of the magazine in the way it reviews new models is likely to be valued by readers *and* automotive manufacturers alike. The magazine performs here two additional roles: (1) it acts as an information gatekeeper, or 'infomediary', by allowing consumers to access and process more efficiently information about prices or the match value of products and services; (2) it also acts as a trusted third-party (or certification agent) by revealing information about a product's or seller's reliability or quality. We will cover these two themes in the last two lectures.

### **Reply**

8.



**Gauthier Vandeleene** 4 Comments

**25/04/2012 • 09:40 (Edit)**

From Joachim Janowski's comment: « The magazines which have dependence with a quite precise sector shouldn't speak negatively about them. Indeed, they know that it could be extremely dangerous for their business. Personally, I think that we have a freedom of expression limited to our larger customers. » If everyone acted like that, seeing that every press company has a preferential readers-viewers-subscribers, and signs adverstising contracts, there would not be any free press in the world. The risk is real and this case prove it to us.

What society should be paying in order to ensure this press freedom? Well, here's an idea: legal collusion.

In Belgian law, rescind unilaterally a contract in permitted in certain circumstances if and only if the party which rescinds it does not abuse from its right. I think this is the case here (if there was a real contract binding the parties, not a subscription one because rescision is permitted for any reason in that kind of contract.)

So, every press release that is published in a network, whose rescision (fair or not) could have a huge impact, should sign a commercial contract with that network (hotels, shops, malls, etc...) in order for it to protect their company and its press freedom and to ensure that any unfair descision (such as the one of Conrad and co) would not be allowed by the court, without damages or specific performance (exécution en nature) with penalty (astreinte).

As for the state, it has a two-sided position for protecting fondamental rights such as press freedom: a negative one (which



compels him not to intervene in the press's publications) and a positive one (which compels him to ensure, by giving state aids to press companies for example, to ensure that free press actually exists in its country). And through state law, with respect to the constitutionnal positive obligation to act in order to protect fundamental rights, all the the press companies should be compelled to sign that kind of contract. And if one company should break that permitted legal collusion (in order to get more demand), not only the others but also the state could bring them before the court.

Not to mentionned, hypothetically of course, that Conrad and co might be abusing of their dominant position for press's releases demand....

And seeing the definition of the repair of the damage of the article 1149 in the belgian law (=l'article 1149 vise ainsi la réparation intégrale du dommage : le créancier est en effet privé de tout ce qu'il a presté ou effectué en vue du contrat, mais il est aussi privé des avantages, du bénéfice que lui aurait procuré l'exécution du contrat, soit par lui-même, soit en vue de ses affaires futures), Bulletin could have gained back every pieces of the losses due to the rescission of the contract. And the same explanations are valid as for the 2 other hotels. Not to mentionned that if the violation of press freedom has been identified as a wrong motive to end a contract, criminal law will enter the case.

That should be the price of press freedom.


Now how to evaluate those damages? This is where the theory of the two-sided platform comes in handy. Why did the bulletin suffered in such a way because of the rescission of that contract? This has been explained by other students. One of the many examples that have been given: « because of the fewer readers, there will be less incentive for advertisers to invest in this magazine and the Bulletin will make less profit. And with less attractive advertising, the magazine can lose readers and again make less profit. This can be seen as a circulation spiral. » ( from Géraldine Mottard's comment).

### Reply

- o  **Paul Belleflamme** 294 Comments  
**25/04/2012 • 09:46 (Edit)**

Thanks a lot for this legal perspective, which usefully complements what has been written so far.

### Reply

9.  **Olivier Lê** 4 Comments  
**25/04/2012 • 08:30 (Edit)**

From an economical point of view for the hotel's group, it seems to be understandable to cancel their subscription to "The Bulletin". Even if they had a good relationship with the journal, it sends (to the Nahyan Royal family and others top customers) a strong message that the Hotel isn't judging the way they live, their culture.

For the family, they had troubles with the Law and the negative image published all around the world. For the Hotel, it's a small gesture which demonstrate their loyalty to their top customers. <http://hrlaws.blogspot.com/2008/08/uae-slavery-in-conrad-hotel-brussels.html>

My response doesn't take into account the human rights and the poor condition of the employee around all the luxury which is an important factor.

For "The Bulletin", it was logical to cover the news, even if it was link to one of their closer relation. Moreover, the article didn't seem to be inappropriate. They want to share the information of the couple weeks with the expat'.

Which is lead to the story we know. Where "The Bulletin" is losing 5% of their direct sales. Those papers was read by the Hotel's clients and that was a real holy Water for them, because companies was ready to invest in advertising into "The Bulletin" and that reason leads to a negative circulation spiral.

I think that “The Bulletin” was at the wrong place at wrong moment. They cover an article and that was the opportunity for the Hotel’s group to take away the responsibility from this media situation. “The Bulletin” had many problems after the cancellation of the subscription. Even if it looks like to be better now, they almost get into red ink to be able to share the news. Of course medias, in occidental countries, have a freedom of speech but everything is not good to be said.

### Reply

10.  **Maxime Delahaut** 3 Comments

**25/04/2012 • 01:35 (Edit)**

To recap what has previously been said, the two sides on the market are readers and advertisers: the more people reading The Bulletin, the more advertisers willing to pay for visibility. This is what we have seen during the class. However, what this study case adds to our knowledge is the fact that among sides we need to care about particular clicks. Indeed, the financial stability of The bulletin is at stake because the click that brings back the most advertising revenues is touched.

With respect to this, I think that it could be interesting to conduct studies about the cross elasticity between the two sides of a two-sided platform. Accordingly, this would permit to quantify the effect of a loss on one side on the other. For instance, a cross elasticity of 1 for The Bulletin would mean that a 5% loss of readers leads to a 5% loss of advertisers ‘revenue. Perhaps if this analysis had been carried at the click level by The Bulletin, it would have thought twice before publishing the story.

In the present case, a 5% loss of clients that are among The bulletin’s most profitable click; on the one hand reduce its subscription revenues by 5% and on the other hand reduce its advertising revenues by more than 5% (as we can guess that the cross elasticity between the click in question and the advertisers is larger than 1). We can therefore understand why The Bulletin’s financial stability is at stake.

Concerning press freedom, I would tend to say that The bulletin voluntarily restricted its freedom when building such a strong partnership with one of its most influential client: the Conrad Brussels hotel. If The Bulletin’s financial stability is at stake when one of its clients decides within its right to end up its partnership, it means that its client portfolio is not well balanced.

The lesson we can infer from this case is that two-sided platforms, before implementing a divide and conquer strategy, have to balance the portfolio of clients they have on each side so that to remain autonomous.

### Reply

o  **Paul Belleflamme** 294 Comments

**25/04/2012 • 07:07 (Edit)**

You point to an interesting avenue for future research: this story shows that it is often restrictive to assume that all agents in a particular group are identical, so that indirect network effects depend only on the size of the group and not on its composition. Here, as you explain very well, composition matters as some members of group generate more indirect network effects than others.

### Reply

11.  **Olivier Simons** 4 Comments

**24/04/2012 • 13:22 (Edit)**

Industrial Organization practitioners have rightly noticed it: two-sided platforms have to be carefully understood before assessing the impact of agents’ behavior on their profitability. The “classical” game theory framework stating that firms have to convince only customers to buy their products and to make a mark-up on them is no longer accurate regarding this kind

of businesses. These firms are actually facing at least two markets: an audience (that is to some extent customers too) and other customers that are willing to pay for being allowed to reach this audience. That is the reason why platforms are setting two different prices that generally evolve in a completely opposite way. In our case, as one side (the advertisers) has a huge willingness to pay for getting access to a large audience (luxury hotels' clients), it will be charged a lot while the other side will be, in some extent, subsidized to join this audience and make it growing. The subsidizing process often occurs through low prices (sometimes zero) or even through negative prices (the audience members are paid to consume). The goal is to enlarge as much as possible the audience in order to be able to charge higher prices on the other side. These strategies allow two-sided platforms to be profitable. In a nutshell, each decision taken for each side is very important because the interrelation between the 2 types of customers is very sensitive.

It is thus the platforms' own responsibility to rightly anticipate and to accurately combine the strategies they implement on each side of their activity to either make profit or attract some audience. In this way of thinking, it seems that, from a pure business point of view (cfr. *Infra*), "The Bulletin" has wrongly acted and has underestimated what will happen to its profitably consequently of the famous article about the United Arab Emirates' royal family. The impacts may obviously thus be worse than the "simple" loss of 5% of their total turnover! By losing a few customers on one side, "The Bulletin" has incurred the risk to lose a lot of clients on the other one, which has actually been imprisoning them into a vicious circle (or destructive (circulation) spiral as defined in the economic literature). Precisely, losing the audience of luxury hotels' clients has implied the loss of huge advertising revenues! The reason was that advertisers were much less inclined to pay if the circulation had less appeal, or precisely if three luxury hotels from Brussels didn't offer anymore the magazine to their clients. We can notice that this effect is even more marked as the audience is a wealthy one, like the Conrad's one. In turn, if there is less advertising, this is less attractive for the audience to read The Bulletin (or at least if prices are higher because of less subsidy possibilities and a lower waterbed effect). This vicious circle, or decreasing circulation, again worsens the revenues' sources from advertising for The Bulletin so that this latter may be hugely weakened, and that is what actually happened.

As we saw it, such behavior from hotels have a clear impact on "The Bulletin"'s profit. Thereby, it is worth to mention some perverse effects this kind of decision(s) can have on other factors which are not economic. By reporting the facts, the magazine has indeed nothing done more than, a priori, telling the truth. In return, they have lost audience and big clients which has made in the end their situation precarious.

May we thus conclude that the press freedom cannot be combined with the business requirements for two-sided platforms? Are these kind of businesses locked into their customer-relation such as they can no longer practice their job in a fair and truly way?

It seems that it might be the case! M. Stuyck has indeed said that "they were very good friends (the hotel management and the magazine) but news is news". It makes us think that "The Bulletin" had chosen the honest way by telling the truth at a risk, rather than the most profitable one that would also have deprived it of its press freedom. By choosing this way, they have been later in a very precarious situation such as they were no longer sure to stay profitable! Without revenues no organization is able to survive! This assertion leads us to the following statement and question:

The issue of "The Bulletin" may in the end become no more an economic one only focusing on the right strategies to implement on both sides, but an ethical one. Should these businesses prefer to survive by not always reporting the truth (losing their press freedom) to keep their revenues' sources, or should they keep their initial activity (reporting the news they want) never mind the opinions of their clients on the content?

By choosing the latter option, i.e. "I can't see how we could possibly not cover it. It's our job to tell people what's happening in Brussels" (M. Blyth), "The Bulletin" has taken risks and paid the consequences.

To conclude, we notice that this issue of two-sided platforms' strategies raises the question of the press freedom because we are talking about a magazine's decision that is impacting its relationship with its clients. However, it is worth mentioning

that this behavior, which is simply aiming at protecting and keeping its important customers, would not raise such problems in other business areas, such as for example the luxury hotels! For instance, we can see that Hilton Hotels value a lot their relations with the UAE's royal family, an important client. This is also why they broke the contract with "The Bulletin". The fact is that people usually worry less about such conducts. However, the issue is different when we take the press freedom into account because some value judgments enter the equation: press freedom vs. profit. Therefore, whilst many businesses favor their customer relationship without difficulties, Press businesses face more constraints to do it. We can thus wonder if some public intervention could remove this perverse effect of two-sided platforms by avoiding these latter to choose between honesty and financial sustainability.

### Reply

-  **Paul Belleflamme** 294 Comments  
**24/04/2012 • 13:43 (Edit)**

This "press freedom" issue is a complex one indeed. I'm happy to have asked your opinions about it.

### Reply

12.  **Maria Ryjoukhina** 3 Comments  
**24/04/2012 • 12:02 (Edit)**

I would like to analyze another reason why the loss of 5% of its sales could impact so badly the financial situation of the Bulletin. To make it simple, we could assume that the Bulletin covers a market with two main segments, and gets its revenues from subscription fees and from advertising.

The first segment consists in the hotels, which in turn provide this magazine to their clients, as part of the service. The clients of these hotels are probably more valuable for advertisers (a good example is the abovementioned royal family), who are therefore ready to pay more to get access to these readers of choice with greater income. Therefore, the Bulletin will get more revenues from advertisers than from subscription fees in this case. The second segment consists in the people that individually subscribe to this magazine. Therefore, the composition of this segment is probably more diverse, containing both clients who might interest advertisers and clients that won't attract them. These readers more price sensitive, and their decision of whether to subscribe can depend on the fee.

In order to reach the largest number of customers, the Bulletin could attract advertisers via the hotels, and then lower the subscription fee to attract individuals. I would say that the consumers are not better off directly because of the larger amount of ads, but indirectly because these ads allow lower subscription fees. This underlines why losing the 5% of sales from the hotels can cause a negative spiral: since the magazine can't provide the access to the best readers anymore, advertisers won't agree to pay the same price as before to place their ads. Then, the magazine would have to raise its fees to cover its costs, which could decrease the total number of readers, which would decrease the amount and willingness to pay of advertisers, etc...


All this seems to prove that although formally, press freedom exists, there is still an implicit rule refraining the media from publishing anything that could put their financial situation at stake by triggering this spiral. The magazines should make a trade-off between the risk of losing its place on the trading platform (the hotels), and the risk of losing readers by providing incomplete information.

### Reply

-  **Paul Belleflamme** 294 Comments  
**24/04/2012 • 12:14 (Edit)**

I totally subscribe to your point of view.

**Reply**

13.  **Mathieu Zen** 6 Comments  
**24/04/2012 • 08:19 (Edit)**


Platform: Le bulletin

Agents : advertisers and readers

The hotel decided to unsubscribe from the newspaper and cause other hotels in the same group to do the same. Because the newspaper lose some clients it becomes less attractive for the advertisers who will prefer post in another newspaper. That's why it could be a major economic problem for the press company. The solution for them: make this newspaper indispensable and irreplaceable for the readers by including unpublished data: weather global integration councils to local custom, personalized information,... If a sufficient number of customers requires this newspaper, the hotel would have no other choice to re-subscribe.

Freedom of the press is linked to the views of readers. If the reader or subscriber is not satisfied with what has been written about him, he will sanction the press by unsubscribing. Freedom of the press is limited since it depends on the goodwill of the reader. If the press decides to openly criticize some of its readers, it must provide a move of the profile of its readers. Newspaper is limited by its readers but also by its owners, the journalist can't write what he wants about his boss and the shareholders. In the same reasoning, he should also be careful not to irritate advertisers.

**Reply**

14.  **Séverine Duym** 4 Comments  
**23/04/2012 • 19:43 (Edit)**

This conundrum can be explained thanks to « the two-sided platform theory ». There is on one side the readers and on the other side the advertisers. The readers buy/read the newspapers firstly to be informed, then sometimes to see the ads of the companies. But, advertisers need newspapers to reach some specific groups of readers, so they have a high willingness to pay. As it was already mentioned, the hotels play a role of an intermediary which is really important as they allow the magazines to be read by a larger group of readers. Then, the magazines can use this intermediary (and this larger group of reader) as a « carrot » for the advertisers and make them pay a higher price.

Due to the analysis above, we first think that the platform (The Bulletin) has more market power on the advertisers. But, this article ([http://www.core.ucl.ac.be/services/psfiles/dp05/dp2005\\_84.pdf](http://www.core.ucl.ac.be/services/psfiles/dp05/dp2005_84.pdf)) shows there is also a reverse effect. When there is more than one newspaper, “the smaller of two competing newspapers is caught in a vicious circle; its circulation has less appeal for the advertisers, and it loses readers if the newspaper does not contain attractive advertising. A decreasing circulation again aggravates the problems of selling advertising space, so that finally the smaller newspaper will have to close down”. This explain the fear of the Bulletin. By losing 5% apparently, they face the risk to lose more...

Then, we could ask ourselves what is the press freedom ?

As it was already said, freedom has a price. And the bulletin chooses to be honest and free rather than to lie to its readers. On the one hand, we show it was a big risk (the risk to lose some market share and market power). On the other hand, it is a way to prove they tell the truth and to reinforce their brand image, which can demonstrate there could also have a positive circulation spiral. They will attract more customers who are really interested by real information, their market share will grow and their market power on advertisers too. Maybe The bulletin took the risk to tell this story only to obtain this positive effect and has lost the game...

[Rich people maybe prefer discretion about how they make money than honesty!]

**Reply**

- **Paul Belleflamme** 294 Comments  
**23/04/2012 • 19:47 (Edit)**



Insightful analysis, thanks.

**Reply**

15.  **Géraldine Mottard** 4 Comments

**23/04/2012 • 12:47 (Edit)**

We can analyse this situation with the theory of two-sided platforms. One side is represented by the readers while the other side is represented by the advertisers. The intermediary between the two is the Bulletin.

The advertisers benefit from the high number of readers and so from the high level of circulation of the newspaper. Inversely, the readers benefit from the high level of advertisers because there is more chance to have adverts of quality. We can see this situation as a competitive bottleneck: the advertisers can sell their ads to several magazines while the readers often read only one magazine. So, the Bulletin put higher prices on the multihoming side (the advertisers) and lower prices on the singlehoming side (the readers).

With the cancellation of the subscription of the Conrad hotel to the magazine, this last one lose a lot of readers because there is a lot of people passing in a hotel and potentially reading the Bulletin. Consequently, because of the fewer readers, there will be less incentive for advertisers to invest in this magazine and the Bulletin will make less profit. And with less attractive advertising, the magazine can lose readers and again make less profit. This can be seen as a circulation spiral.

By telling what happened in the Conrad hotel, the financial stability of the Bulletin is at stake. So, we can say that the press is not entirely free and that its freedom has a price.

**Reply**

o  **Paul Belleflamme** 294 Comments

**23/04/2012 • 13:11 (Edit)**

I like your conclusion!

**Reply**

16.  **Sencie** 3 Comments

**23/04/2012 • 10:03 (Edit)**

I don't think Derek Blyth is talking about the loss of 700 papers every two weeks related to the unsubscription of the three Conrad Hotel. The truth is that the hotel is a very important platform as many people are staying for a few days there. So let's imagine that if every customer stays for two days and they all read the paper, it will be read on average 4900 times in the Conrad hotel (as I think that The Bulletin is release every two weeks). This is a very important business for them as for one publication; the maximum view of it is seven times bigger. From those 4900 viewers, maybe only a few customers will indeed subscribe to the paper, but even if it is only a very little poor part of the customers, it would have cost a dime to the company of Derek Blyth.

So it seems reasonable that Derek Blyth is worried about the loss of this contract which offered to The Bulletin an important exposure for low costs. Indeed the cost to reach on customer is 1/7 of the cost of the paper.


But because of important contract, does the press have to avoid talking about its own consumers? I see here a tricky question. From one part, if the press try to please its major consumer, it's the end of it has they will not have any objectivity in their purpose. But if every consumer reacts like the Conrad hotel, the press world will become more and instable has contract will be do and undo at the rhythm where bad publications are written. But I can see some kind of equilibrium there. To simplify my argument I will only focus on two hotel (The Conrad and another one called HOTEL2) and two papers (The Bulletin and another one call Paper2). If Conrad breaks it contract with The Bulletin and HOTEL2 breaks it with Paper2, both actors will look for a new partner. So the solution is to make new contracts between HOTEL2 and The Bulletin, and



between Conrad and Paper2 (I assume here that the interests of the two hotels regarding the papers are the same).

So this is a very simple view of what could happen with lots of actors. And regarding this argument, it makes me think that the press freedom is quite secured under the assumption that the papers are not profit driven, but that they are looking for telling the truth, no matter the financial consequences.

### **Reply**

17.  **Watteau Jonathan** 5 Comments

**23/04/2012 • 09:21 (Edit)**

The bulletin has several platforms to distribute their magazines. But the relationship with the group Hilton (which holds the Conrad) was special. Indeed, those three hotels were subscribers to the magazine and offered it to their clients.

The hotels can be seen as a two-sided platform which subsidize the magazine and conquer the clients. Those clients are generally travelers that are also the target of The Bulletin. But we can ask "What do they gain by distributing it?". According to me, they want to offer a complete service to their well-off clients. And by offering The bulletin, they help them to discover Brussels, to be aware about the cultural event, information about the nightlife,... If the service is well developed, the clients will come back to the hotels of the Hilton group which are present all around the world.

When the hotels decided to stop de subscription, the financial damages were bigger than the loss of circulation. This is explained by the fact that advertisers have seen a possible decline in the future demand of the magazine. As it is not freely distribute in the hotels anymore, another newspaper will replace it. When it was free and available directly in the room, without going to a library, this was a big advantage against the other English speaking newspaper. Moreover, those competitors are worldwide known which is not the case of The Bulletin because he has no reason to be distributed in others country. So, when advertisers anticipate a reduction in the demand, they are less willing to pay much to be in the magazine because it will be less read. That has made the financial loss grater.

In this perspective, we can say that the press freedom is limited when you want to remain profitable. There were no legal restriction to publish this article but The Bulletin has indirectly challenged the service of the Conrad hotels. As they want to preserve the private life of their clients, they couldn't let this act unpunished.

In a second perspective, the magazine itself can be seen as a two-sided platform. They subsidize the readers by low prices and conquer the advertisers to make money. If the readers decrease, the advertisers decrease and it reduce the profitability of the magazine. Moreover, if the advertisers decrease, the readers will have less information about what happens in Brussels, so they will chose another newspaper. This is a vicious circle.

### **Reply**

o  **Paul Belleflamme** 294 Comments

**23/04/2012 • 09:24 (Edit)**

Good analysis!

### **Reply**

18.  **Amandine Seny** 4 Comments

**22/04/2012 • 16:10 (Edit)**

Concerning what the platform is, I think the magazine "The Bulletin" is the platform with on one side the readers, and on the other side the advertisers. As it is the advertisers who are looking for visibility (that they get via the readers of the magazine), they are the one with a high willingness to pay. However, "The Bulletin" is also attractive for readers because of the articles published in it. But I think it is a way for the magazine to make sure there will be readers (as readers won't read

a magazine containing only advertisement), and thus ensuring visibility for the advertisers who are then willing to pay a high price to put ads. The side on which the platform has the most market power is thus the advertisers. The prices will thus be high for them, while they will be lower for the readers.

In this case, the hotels (Conrad and the others) are an additional intermediary between the platform and the readers. The guests of the hotel are thus readers who don't pay anything to read the magazine (or they pay the price through their room bill, but not directly). But it might be important to note that there was a Bulletin in each hotel room. There is a new publication of the Bulletin twice a month, but usually, clients don't stay two weeks in such a hotel. There is thus more visibility through one magazine that stays in a hotel room (as various hotel guests have access to it) than there is through a magazine sent to somebody's home. Moreover, the clients of these hotels are wealthy. Access and visibility to these clients is thus, as quoted in the article of the New-York Times, very important for advertisers.

These elements may explain why the cancellations of the subscriptions of the hotels to "The Bulletin" (which represented only 5% of its circulation) have had such an important impact on its economic viability: the number of magazines sold has gone down by only 5%, but the number of effective readers has gone down by more (because in the hotels more than one person reads the magazine), and the number of wealthy readers has drastically gone down (as a big part of them were the guests of the hotels). This has had a bad impact on the willingness to pay of the advertisers, which were the side of the platform from which "The Bulletin" was getting the biggest part of its profit. The profits of the magazine have thus gone down by much more than only the 5% subscription fees that they didn't receive anymore from the hotels as advertisers have in their turn reduced their advertisements in the magazine.


I think that this story is a scandal, and should be a fear for press liberty. The role of "The Bulletin" was to write articles about what was going on in Brussels. The police raid was an important event that had been talked about in other newspapers. Why would "The Bulletin" not be allowed to do its work and publish this story? Even though it happened in the Conrad Hotel that is a client, and a long time partner with the magazine doesn't mean eyes have to be closed on bad stories happening there! As Blyth, the manager of the magazine, has said to the New-York Times, they have reported this story as they would do with any other story like this. And accusing "The Bulletin" of "unethical" publication due to this article is a shame for the Conrad Hotel when such a REALLY unethical story happens in your establishment!

### Reply

o  **Paul Belleflamme** 294 Comments  
**23/04/2012 • 09:00 (Edit)**

Excellent!

### Reply

19.  **Janowski Joachim** 4 Comments  
**22/04/2012 • 14:36 (Edit)**

We face to a « two-sided platform ». Indeed, the magazine and customers who are likely to make a subscription to it (such as hotels) want to attract the same customers: the non-residents who come to Belgium and foreigners who are interest by Belgian information. Moreover, a non-resident who comes to Belgium will remain in a Hotel and will be able to get informed about Belgian information in English language. This will be possible if Hotel made a subscription to the magazine. The Bulletin proposes an English magazine that is mainly read by the community of expatriates of the European Union's capital. We are vis-à-vis a strong correlation between numbers of readers and numbers of hotel subscriptions. More the request of the various hotels increase, more the profit increases for the magazine because Hotels make subscriptions to provide the magazine to their customers.

The utility of the readers is, positively or negatively, related to the size of Hotel's subscription demand revealing thereby the

existence of network effects between the media and the hotel industry from the viewpoint of the readership as well. It's important to note that inversely, the utility of the hotels depends as well on the size of demand in the former. It is clear that the larger the readership of a printed media is, the higher the willingness to pay of a hotel is.

So, a larger circulation attracts more clients, which in turn attracts more hotel subscription and again more readers. In contrast, the smaller of two competing newspapers is caught in a vicious circle; its circulation has less appeal for the hotels, and it loses readers. And a decreasing circulation again aggravates the problems of selling subscription, so that finally newspaper will have to close down.

In conclusion, there exists two-sided network effects between the printed media and hotel industries: the size of demand in the hotel influences the utility of the operators (editors and readers) in the press industry, and the size of demand in the press.

Related to the level of price, i think that the hotel and the magazine must be agree on their selling process. Indeed, the hotel will make subscriptions to this sort of magazine to propose a quality and a favourable environnement to the expatriates. This quality could be include in the price of the stay or the hotel can propose a minibar system, which means that if expatriates take a magazine to their room, they pay a bigger price than in the library because you have the comfort and you don't need to move to have your magazine.

About freedom of press, I think the press is free to publish what they want but they must take account of the readers and main customers who have a main impact on them. As we could note in the article, other magazines and newspapers spoke about this problem but they didn't have any problems with their customers.

The magazines which have dependence with a quite precise sector shouldn't speak negatively about them. Indeed, they know that it could be extremely dangerous for their business. Personally, I think that we have a freedom of expression limited to our larger customers.


### **Reply**

o  **Paul Belleflamme** 294 Comments

**23/04/2012 • 09:03 (Edit)**

Thanks for your pragmatic answers.

### **Reply**

20.  **Falisse Estelle** 4 Comments

**22/04/2012 • 11:03 (Edit)**


It is here a perfect case of a two-sided platform. The advertisers form one platform and the magazine's subscribers compose the other one. In this case, it is important to highlight the fact that the subscriber is not only one person like usually but also many of them since the magazines are put in some hotel rooms where a lot of people stop by. Newspapers are a special type of product since readers buy the product to consume the characteristics of the magazine and not the good itself. That is why advertising is so important; it is a part of the characteristics. The more advertisements, the better are the characteristics. It incents readers to buy the magazine, which incent advertisers to advertise more. This element can be determinant or not for the survive of the magazine, it will depend on the intensity of readers preferences for ads; if high people like ads a lot and will want to buy magazine with lots of ads, if low it will be the contrary. It is an element, which is hard to predict. The intensity of the ad-attraction might also have an impact on the situation. This event can be seen as a circulation spiral, each actor as an impact on the other.

In term of scale of readership loss, the impact of 3 hotels unsubscribing from The Bulletin is not that much (only 5%) but it is more the impact that it will have for the magazine in term of economic consequences that we should be worried about. It will probably exactly do what was said earlier, the number of readers would decrease, which will lead the magazine to be less

attractive and thus its ad-attraction intensity will decrease to zero. And the magazine will probably disappear if we see in a long time future.

We say press freedom but we perfectly know it is often not respected. Well, in this case I think it probably was. Hilton and The Bulletin were friends for a really time and in spite of this; The Bulletin didn't ask Hilton advice before publishing such a polemical subject. According to me it means The Bulletin totally assume its opinion, no matter how costly it can be. It is such a brave act.

### Reply

21.  **ZHAO Hanqing** 4 Comments  
**22/04/2012 • 00:15 (Edit)**

First part

In this causality dilemma, one side stands the reader, most likely includes outsiders, and some citizen who feels the urge to read about this kind of topics, the other side are the advertisers. Since it is a two-sided market, one side's size is a decisive factor for the other side's size, as the agent of the platform, the magazine needs both side to bloom, which also implies the fact that should one side withers, the other side will soon follow the lead.

Readers are likely split into two groups: those who buy the magazine themselves, and those who don't, and whereelse is a better place to read free magazine than the hotel? A 5% drop in the total volume are likely means more than triple the amount loss in the total views, no wonder it is fatal.

As the loss on reader side is devastating, the advertiser side will sure decay in this multihoming game, as they will move to other magazines.

Second part

So the Belgian police raid one family who abuses its own servants, while justice is served and the good story went public, the hotel canceled their subscriptions as a retaliation of tarnishing their reputation?

I think there exists no short of irony in this story of press freedom.

As the editor of the magazine said, "news is news."

The hotel replies, "business is business."

Mencius said, "I like fish and I like bear's paw, but if I have to choose between them, I will let go of the fish and take the bear's paw. I like life and I like Righteousness. But if I have to choose between them I will let go of life and take Righteousness."

And that, as they say, is that.

### Reply

- o  **Paul Belleflamme** 294 Comments  
**23/04/2012 • 09:09 (Edit)**

The last part of your comment gives food for thoughts for all of us! Thanks.

### Reply

22.  **Henriette Beck** 4 Comments  
**20/04/2012 • 10:21 (Edit)**

In the outlined case, the conundrum to me is given by the fact that two two-sided platforms interact. As identified, there are four entities that play a role: the readers (the expatriates), the hotel, the magazine (Bulletin) and the advertisers.

The readers can read the magazine if provided by the hotel and the advertisers are interested in publishing their ads in the magazine if many hotels and hence, many readers can be reached. Thus, I agree with the aforementioned comments that the hotel as well as the magazine serves as a two-sided platform:

the readers  $\longleftrightarrow$  the hotel  $\longleftrightarrow$  the magazine  $\leftarrow$  the advertisers.

Therefore, the reaction of the hotel has somehow larger consequences because it is coupled with the impact on the readers, which in turn influences the interests of advertisers. The impact is even stronger if the hotel is a two-sided single-homing platform because in this case losing the hotel as a distributor would entail to loose all readers at same time. In case of multi-homing, losing the hotel has a minor impact because the magazine could refer to other platforms.

It can be assumed that the magazine uses several platforms for distribution but what is critical in the given case is when the hotel cancelled its subscription of the magazine, "two other hotels from the same group soon followed suit". Hence, the hotel's reaction has an influence on further actions of the rest of the group, which is definitely a lever supporting the "circulation spiral".

With regard to the press freedom I think that such interdependencies of different entities and their diverging interests play a role and may even limit the degree of press freedom.

### Reply

o  **Paul Belleflamme** 294 Comments

**23/04/2012 • 09:10 (Edit)**

Very good summary.

### Reply

23.  **Cindy Hoyez** 4 Comments

**19/04/2012 • 07:02 (Edit)**

At first glance I identify hotels as multihoming platforms (in the sense that the expatriate are not limited to one hotel. They can choose another one after staying at one hotel) and magazines and expatriates as the two-sides of the platform.

The first step is to check that the three necessary conditions are there in this case. The first one the presence of distinct groups of customers that are fulfilled. The second condition is the presence of cross-side or inter-group externalities or of indirect network effect. According to me, the latter is there as more expatriates in the hotels induce that more publishers desire to put their magazines in those hotels. And by this way, the expatriates benefit from a large set of magazines. The last condition concerns the role of intermediary. I think the hotels can facilitate the coordination between expatriates and magazines more efficiently the bilateral relationships between the members of the groups. Indeed, on the one hand, it could be difficult for expatriate to take out a subscription to a magazine as they travel. On the other hand, it could be difficult for publishers to advertise their magazines to expatriates as they move.

Then I think it is interesting to highlight which type of price is applicable in this case. I believe the hotels are going to use the membership fees (the price of the rooms) if the magazines are available for free in the rooms. But in the case that hotels, thank to their own subscription, are able to order more magazines on request of some expatriates for personal usage, we can imagine hotels are going to charge an usage fees: when an expatriates ask the hotel to order a specific magazine for his/her own usage, he/she is going to pay something but it should be lower than the price of this magazine in a library.

My interpretation about the conundrum was the following: those hotels which cancel their subscription decrease the number platforms where magazines and expatriates can "meet" each other. The demand of magazines is going to decrease which means less advertisers interested to put ads in those magazines and by this way, the publishers are going to get trapped in

a vicious circle. Moreover other hotels can decide to follow the move and the situation is going to get worse.

Finally, a short word about the press freedom and its price. The definition of the press freedom is the following: "Freedom of the press or freedom of the media is the freedom of communication and expression through vehicles including various electronic media and published materials"(Wikipédia). I think that, as the magazines are dependant of hotels (the platform), they are not free to communicate on what they want. They have to pay attention on what they publish in order to avoid the kind of story depicted in the article above. The price of this press freedom is the costs caused by the information disclosure. The publishers has to take into account those costs to keep their magazines. As publisher are a prisoner of their interests, can we talk about press freedom?

### Reply

-  **Paul Belleflamme** 294 Comments

**19/04/2012 • 07:50 (Edit)**

This is an interesting perspective, quite different from the one given in the previous comment. We seem to face here a multi-sided platform situation.

### Reply

24.  **David Charlier** 4 Comments

**17/04/2012 • 15:42 (Edit)**

The Bulletin is a typical two-sided platform. Indeed, two different actors play a complementary role while the platform is the referee.

On one hand, advertisers want the magazine to have broad customer base. The more people read the magazine, the more people see the ads. On the other hand, customers are interested in the magazine if they find what they want in the best quantity (the content they are looking for and the ads they want to see). This can be compared as a relative virtuous circle : the more people read the magazine, the more advertisers want to invest in it and the more people will be happy to find the ad they are looking for.

But what about prices? That becomes the interesting part because here two forces occur and play an opposite role.

From the customers' point of view, the more ads they find in the magazine (relatively balanced with the content), the more they will be willing to pay for it. From the advertisers' point of view, the more people read the magazine the more they will be willing to pay for it. As a result, those two opposite forces must be balanced by the magazine: fixing either a small price for customers to attract more advertisers, either a mall price for advertisers to attract more customers.

From this theory of the two-sided platforms, the case becomes easier to understand. This minor event only reduces the number of customers but can really be the start of a vicious circle : as the number of customers decreases, less advertisers will invest in the magazine and thus less people will read it, which will decrease more the number of advertisers, etc. This vicious circle can be very powerful, as the example of MSN : when people moved from MSN to Facebook, the company lost a lot of advertisers, which finally reduced more the number of users. And that is why The Bulletin worried so much about this small event. Fortunately, this event finally did not take too much magnitude and the company recovered.

The question of the press freedom still remains. Indeed, this case highlights its cost. Information can cause externalities to the different parties involved and cause very tough damages.

The debate is thus open about what should legitimately be published and what should not, regarding the disproportionate externalities it can causes for the different parties...

### Reply

- **Paul Belleflamme** 294 Comments





**18/04/2012 • 08:26 (Edit)**

Good analysis! But there are still some other elements to add. Let us wait for the next comments.

**Reply**

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