

Gänßle, Sophia; Budzinski, Oliver

Working Paper

The economics of influencers and social media stardom

Ilmenau Economics Discussion Papers, No. 178

Provided in Cooperation with:

Ilmenau University of Technology, Institute of Economics

Suggested Citation: Gänßle, Sophia; Budzinski, Oliver (2023) : The economics of influencers and social media stardom, Ilmenau Economics Discussion Papers, No. 178, Technische Universität Ilmenau, Institut für Volkswirtschaftslehre, Ilmenau

This Version is available at:

<https://hdl.handle.net/10419/273060>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Ilmenau University of Technology

Institute of Economics



Ilmenau Economics Discussion Papers, Vol. 28, No. 178

The Economics of Influencers and Social Media Stardom

Sophia Gaenssle & Oliver Budzinski

June 2023

Institute of Economics
Ehrenbergstraße 29
Ernst-Abbe-Zentrum
D-98693 Ilmenau
Phone 03677/69-4030
Fax 03677/69-4203

ISSN 0949-3859

<https://www.tu-ilmenau.de/iedp>

The Economics of Influencers and Social Media Stardom

Sophia Gaenssle^{1#} & Oliver Budzinski^{2}*

Abstract: This chapter provides an overview of the economics of influencers and social media stardom. It provides the state-of-research regarding success factors, revenue and payment models, social media platforms and ecosystems, and welfare effects. It describes the role of social media content providers within the media industries and explores the differences and similarities of this new innovative element in media markets compared to its more traditional counterparts (traditional stars and traditional media industries).

Keywords: social media, superstars, influencer, platforms, stardom, content producers, YouTube, Instagram, TikTok, gatekeepers

JEL-Codes: L82, Z10, L13, L15, L86, D43, D83, F23, M21, D91, L26

^{1#} Assistant Professor of Creative Industries and Digitalization, Erasmus School of History, Culture and Communication, Erasmus University Rotterdam, Netherlands, email: gaenssle@eshcc.eur.nl.

^{2*} Professor of Economic Theory, Institute of Economics, Ilmenau University of Technology, Germany, Email: oliver.budzinski@tu-ilmenau.de.

1. Introduction to Social Media Influencers

Stars of social media, known as *social media influencers (SMI)* (Enke & Borchers, 2022; Jin, Muqaddam, & Ryu, 2019; Vrontis, Makrides, Christofi, & Thrassou, 2021) generate and share various forms of content (texts, pictures, or videos) on popular platforms such as Instagram, Twitter, YouTube, TikTok, and more. They gain fame through their uploads and activity, thus, creating and maintaining their own audiences (Gaenssle & Budzinski, 2021). In today's digital landscape, they possess far reaching influence and ability to shape trends regarding their millions of followers. For instance, the highest paid YouTuber in 2022 with 54 million USD is *MrBeast* reaching 88.7 million followers (Brown, 2022). Their global reach allows them to connect to audiences worldwide and have considerable impact on popular culture and societal conversations (Marwick, 2016). As a result, SMI play a crucial role in shaping consumption habits, engagement, and content perception on social media. With the sheer reach of these stars across various social media platforms, SMI have gained a central role in modern marketing strategies. In some cases, SMI replace traditional celebrity endorsers (Gräve, 2017). Empirical evidence supports marketing decisions, finding high consumer trust in social media content (Shareef, Kapoor, Mukerji, Dwivedi, & Dwivedi, 2020). However, the “influencing characteristic” has more than a marketing dimension. When looking at traditional influencers (i.e., politicians, stars or celebrities, educational staff, etc.), it becomes clear that they also act as role models, particularly for younger audiences (Hoeghele, Schmidt, & Torgler, 2014). Similarly, SMI wield influence over their followers on a social and cultural level (Gaenssle & Budzinski, 2021) – irrespective of whether this is their goal or a mere side-effect of their popularity. This chapter sheds light on the SMI phenomenon, including modern economic theory and cultural dimensions in a welfare analysis.

The article is structured as follows. Section 2 distinguishes different types of SMI and gives an overview of revenue models (i.e., income sources). Section 3 discusses the liaison with legacy media, platform economics, and user generated content. Eventually, Section 4 analyzes the economic value and welfare effects of influencers. In most countries, the traditional media industry is highly regulated, whereas online content still escapes many regulations, despite several new initiatives (EU Digital Services Act, etc.). This raises questions if and how influencers and their broad socio-economic reach should be regulated for social welfare.

2. Analyzing Social Media Stardom

2.1 Economics of Superstars and Types of Influencers

What is the superstar phenomenon in economics, and what kind of influencers can be differentiated?

The superstar phenomenon's scientific consideration is not a digital age development. Since the 1980s, there has been literature dealing with the hierarchical development in markets – the phenomenon of a few successful figures who dominate their environment, attract much attention, and generate superstar income. The over-proportional superstar income was first analyzed theoretically in three seminal papers: (i) Rosen (1981) considers slight differences in talent, translating into immense differences in income. (ii) Following Rosen's work, MacDonald (1988) developed a dynamic model of "rising superstars" addressing the development of how to become a superstar from one period to the next. (iii) Adler (1985) adds aspects of network effects to the theoretical framework. His work shows that even among artists with similar talent, one might snowball into superstardom (due to network effects) while the other does not. Within the following decades, researchers studied the phenomenon empirically (for an overview, see Budzinski & Gaenssle, 2020). Few recent empirical studies address superstars in social media (Gaenssle, 2021; Gaenssle & Budzinski, 2021; Jung & Nüesch, 2019). While the conditions and circumstances in the digital environment have changed considerably (compared to the early 1980s), some core factors of the superstar phenom remain unaffected (Budzinski & Gaenssle, 2020; Gaenssle & Budzinski, 2021). Fame in social media is still hierarchical, with a few top influencers gaining disproportionate attention.

A possible factor of differentiation between types of SMI is the scope of their work. Table 1 gives an overview (of types a, b, c, d). The influencer can be a commercial or non-commercial content provider. The stereotypical case of SMI is a commercial provider with business content (b); selling either own products and services or third-party products and services (promotion and marketing). However, there are also commercial SMI providing content with social and/or cultural objectives (a). For example, artists or entertainers publish content on social media platforms. They promote and sell their own work (commercial interest), but the content has a cultural or social scope. In addition to commercial SMI, non-commercial providers do not have commercial interests when providing content. Some SMI use social media solely for social, educational, or political purposes (c). They have no business interest primarily within the social media ecosystem; however, they can still be prevalent and influential. Lastly, non-commercial providers offer content with a commercial objective, i.e., reviewing products and services, but without monetization.

Table 1 Overview types of influencers

Provider Type	Commercial	Non-commercial
Channel Objective		
Social-cultural	(a) Marketing/distribution of cultural goods or entertainment, e.g., artists selling their art Examples: artistic pictures/photos; comedy/animation/etc. videos	(c) Political, social, and/or scientific education without monetization Examples: Non-monetized videos; blogs, texts, and pictures that are accessible without monetary payment
Business-marketing	(b) Selling own or third-party goods or services (marketing of products) Examples: makeup products; sportswear/equipment	(d) Non-commercial recommendations of products or services without monetary payment Examples: reviews of technical equipment (without payment); recommendation content on social media

2.2 Revenue Models and Income Sources

How do influencers generate income on social media?

There are different revenue models to generate income via social media platforms. The revenue models depend heavily on the platform's system and organization. Since platforms are ever-changing, we provide a general overview and recent examples as follows (Gaenssle, 2021):

Types of platform immanent payments:

- (i) Share of advertising revenue: SMI accept ads in between (before or after) their content; ads are placed by the platform; SMI are paid per view or click – the more ads are consumed, the better the payment. Example: Beauty videos of @nikkietutorials on *YouTube*. The makeup artist gets paid per monetized video and ad consumption.
- (ii) Direct donations (tips): It is possible to directly send money (in-game currency but also USD or EUR) to SMI (i.e., tip them). Examples: *Twitch* streamer @Ninja received one of the biggest recorded (and anonymous) donations (100,000 USD) while playing *Fortnite* (McIntyre, 2023).
- (iii) A payment barrier to access content: SMI can establish a paywall, for instance, a monthly flat rate (all you can eat) system or pay-per-view (à la carte) system. Example: Tech enthusiast @dankpod on *Patreon* gives subscriber options ranging from 1.50 to 11 EUR per month to watch his videos (the latter buys credits at the end of each video).

Types of external payments:

- (iv) Own sponsored content or brands: SMI own a business or sell and promote their own products. A baker, for example, sells baking equipment, and makeup artists their own makeup products. This differs from a licensing deal since SMI build and produce the brand themselves. Example: Fitness Instagram star Kayla Itsines (@kayla_itsines) build her fitness empire *SWEAT* (@Sweat).
- (v) Commission and affiliated links: SMI embed affiliate links or use discount codes to get sales commissions. Example: Possible on various platforms, e.g., Amazon links and third-party sales.
- (vi) Ad financed (or sponsored) content: This can start very small with product placements and free samples. SMI include products in their content and promote them. Examples: Product placement on Instagram.

SMI can combine revenue models. It is, for instance, possible to embed product placement in a monetized YouTube video or use affiliate links on your Instagram-profile which is connected to an OnlyFans-account with a paywall for further content.

3. Differentiating Social Media Influencers from Traditional Markets and Media

3.1 The Social Media (Influencers') Platform System

How does the social media platform system work and what is the role of SMI?

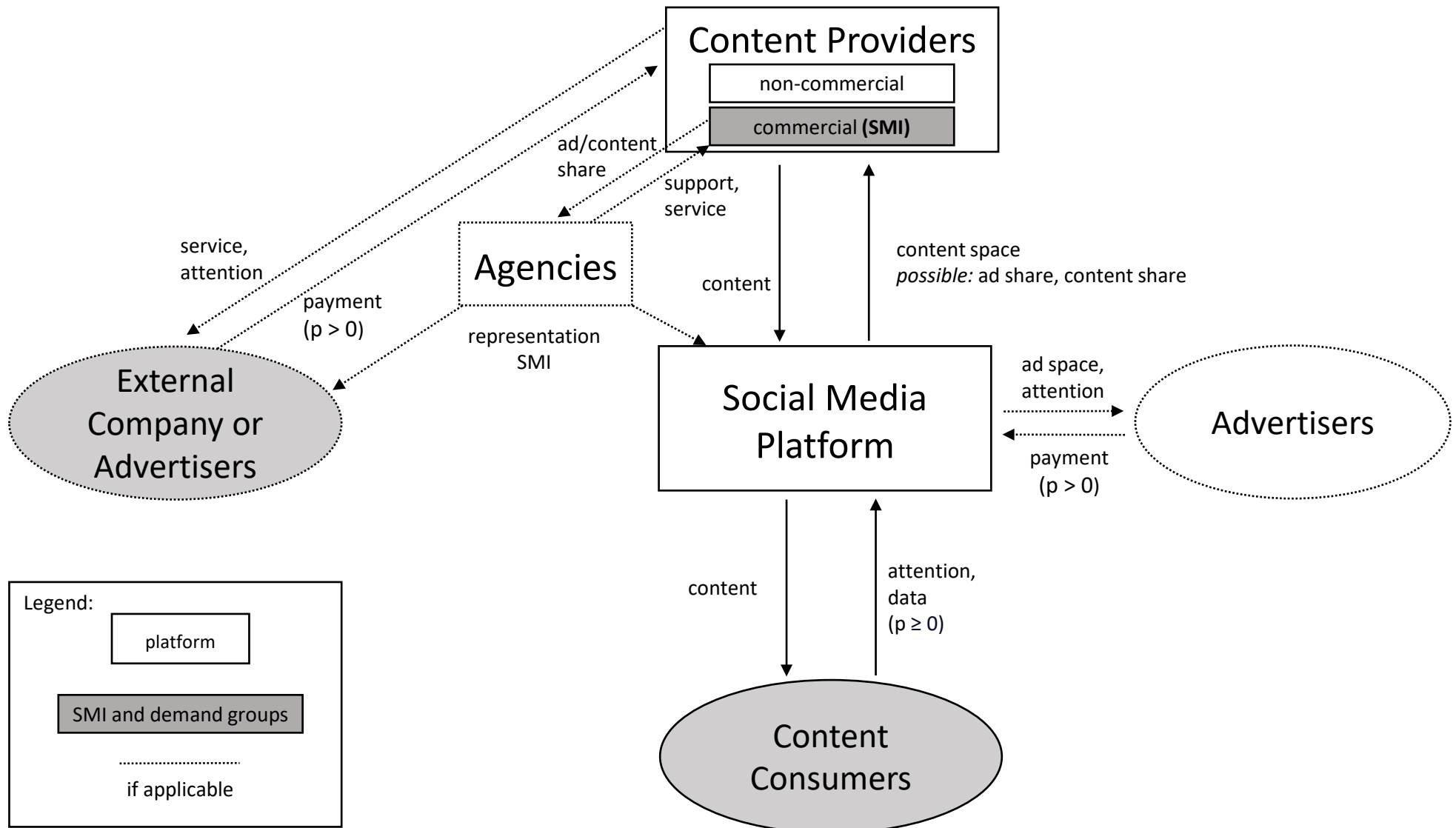
Figure 1 gives an exemplary overview of the platform system. It is generalized to illustrate the interaction between market participants. SMI are often active on various platforms, for instance, on YouTube, Instagram, and TikTok. The whole social media ecosystem (including intersections with legacy media) is discussed in Section 3.4.

In the center of Figure 1 stands the social media platform. Modern social media platforms are, in an economic sense, multi-sided markets or *platforms* (Armstrong, 2006; Evans & Schmalensee, 2007; Rochet & Tirole, 2003, 2006), i.e., they serve as an intermediary between different groups.³ The social media platform connects content providers and consumers, for instance, YouTube creators and their subscribers. Consumers pay with attention (viewing ads), personalized data, and/or (depending on the platform) a monetary price; in return, they receive social media content. This content is published by content providers receiving content space and publicity via the platform. With platform immanent

³ Three relevant characteristics of platforms are the case for social media platforms: They combine (i) two (or more) distinctive demand groups: content provider, content consumer, and advertisers. These are connected through (ii) indirect network effects (e.g., the number of content consumers positively influences the demand of advertisers) and internalize (iii) relevant transaction costs (i.e., the coordination without the platform would not (easily) be possible) (Budzinski & Kuchinke, 2020).

payments (e.g., on YouTube, OnlyFans, Patreon; see Section 2.2 (i-iii)), providers also receive a share for ads (per view) or content (per view or subscription). In addition, social media platforms interact with advertising companies (Figure 1 on the right) who want to place their ads within social media apps and pages to reach consumers. They pay a positive price to promote their products and services.

Figure 1 SMI platform system



SMI take the role of commercial content providers within the system. Economists differentiate between the economic roles of being (a) content provider and (b) content consumer, i.e., when users upload content, they act as producers/suppliers, when they watch or download content, they act as consumers. The digital environment enables a quick change of role (i.e., one second, you post a picture, and the next, you scroll through the timeline). A distinction can be made between providers of *commercial* (inter alia, SMI) and *non-commercial* content (analog to services such as eBay, the differentiation between private households selling individual items and commercial suppliers offering their goods). Similarly, in the realm of social media, there exist commercial content providers who produce content tailored to their target audience, as well as non-commercial providers who may post content intended for a limited audience of friends and family.

The remuneration received by social media influencers (SMI) depends on the revenue model (see Section 2.2), which may involve direct payment by the platform itself and/or indirect payment from a second demand group. In cases where SMI receive direct compensation, they are typically awarded a share of the revenue generated by content or advertisements, thus catering primarily to their target audience of content consumers. Conversely, if SMI receive indirect/external payment, they may be serving a second demand group such as advertisers or their own companies/brands. Therefore, SMI can be described as platforms themselves, serving a multi-sided market. SMI opposing two demand groups (advertisers and content consumers) may face pressure to adjust contents according to the liking of both parties, while preferences can deviate. Several scholars have investigated the extent and nature of tensions to gain a comprehensive understanding of the relation between followers and advertising partners of SMI (inter alia, Breves et al., 2019; Cunningham & Craig, 2019; Leung et al., 2022; Wies et al., 2023).

Agencies can be characterized as managers of SMI or as intermediaries who facilitate the relationships between SMI and their business partners (Cunningham & Craig, 2019). These managing agencies are sometimes referred to as multichannel networks (MCN), particularly in relation to YouTube. These agencies connect SMI among each other (beneficial cross-referencing) and build connection to advertising and business partners. Therefore, it can be beneficial (or even necessary for long-term success) to be part of such a network. As the size of agencies grows, their bargaining power increases, leading to incentives to utilize this power and establish themselves as gatekeepers (Gaenssle & Budzinski, 2021). SMI would need to face these gatekeepers, become part of their network, and overcome this entry barrier to become successful in the market (Section 4.1 discusses the role of gatekeepers).

3.2 Differentiating Social Media Influencers from Traditional Content Producers

How do SMI differ from traditional content producers?

Since SMI regularly produce new types of creative content and (typically) monetize it on social media platforms, they can also be considered entrepreneurs (Kolo, 2019). As entrepreneurs, they generate digital content based on their creativity. With increasing professionalization over the last decades, SMI regularly employ creative teams and work with agencies (MCNs) (see 3.1). In contrast to content producers in legacy media, there are no traditional gatekeepers who manage audience access on social media (Budzinski & Gaenssle, 2020; Gräve, 2017). This does not mean, however, that there are no new gatekeepers within the social media ecosystem, such as algorithms managed by the social media platform (see Section 4.1). However, previous gatekeepers such as editors or film/music studios technically limited access to a mass audience, i.e., gaining attention through mass media channels. Technical barriers to entry have decreased massively with social media; it is possible to create content digitally (at a much lower cost, e.g., with HD cameras) and publish it to a (potentially) global audience. However, the main task of traditional gatekeepers was generating *audience attention* and promoting the content/creator. With increasing information and content offers, audience attention becomes even more scarce in the digital era. While social media content providers do not depend on traditional gatekeepers to “discover” their talents, they still need to build their audience (Gaenssle, 2021). As such, it is indeed much easier to become famous on social media (as often claimed) from a technical point of view but gaining consumer attention and audience building is still challenging. Overall, technical barriers decreased for creative creators, but attention barriers still exist – and may even increase in a world of information overload.

3.3 Differentiating Social Media Influencers from Traditional Stars

How do SMI differ from stars of traditional media markets?

The lines between stars of legacy media stars and social media stars are becoming increasingly blurred. On the one hand, movie, music, and sports stars are active on Instagram, TikTok, or Twitter. Football star *Cristiano Ronaldo* runs one of the most popular Instagram accounts (@cristiano) with 574 million followers (April 2023). Actresses like *Reese Witherspoon* (@reesewitherspoon) or *Jennifer Aniston* (@jenniferaniston) post on Instagram on a regular basis and communicate with their fans. On the other hand, models, musicians, and comedians get discovered on social media and land successful contracts in legacy media outlets. Supermodels like *Lameka Fox* or *Yoon Young Bae* were discovered on Instagram (Simao, 2020). TikTok Comedian *Hayley Morris*' book (@hayleygeorgiamorris) reached the *Sunday Times Bestseller* list in 2023. The best-known example, however, is music star *Justin Bieber* who was discovered via YouTube. The intersection between legacy media and social media will be analyzed in Section 3.4.

This section will focus on stars whose fame is native to social media (Marwick, 2026). This means that they generated their own audience by content uploads on social media platforms and reached popularity within the social media ecosystem before entering legacy media markets. The literature on SMI often refers to perceived *authenticity* as one of them (Audrezet, Kerviler, & Guidry Moulard, 2020; Burgess & Green, 2018; Marwick, 2016). Three fundamental aspects seem to drive the authentic appearance of SMI (Gaenssle & Budzinski, 2021): (i) “one-of-us” appearance as an ordinary person, (ii) accessibility and star-fan interaction, (iii) fan-star similarity and identification.

- (i) SMI can also be referred to as “do-it-yourself (DIY) stars”. They create content, manage uploads, and build an online audience. While this corresponds to the Rosen-type (Rosen, 1981) of self-made superstar, i.e., fame out of their own power rather than fabricated by the media (Franck & Nüesch, 2007), this assumption contradicts the idea of SMI as an everyday person. Genuinely famous SMI typically invest a lot of time and resources and often spend years to get to the top.
- (ii) Within the digital environment, the cost of communication decreased considerably. While it was possible to send fan letters in pre-digital time, commenting on a star’s post is much easier nowadays. Also, stars can quickly reach their audience, answer questions, and use emojis as feedback. However, as in traditional markets, managing communication becomes more challenging with a growing fan base and superstar status. Therefore, accessibility also depends on the SMIs’ popularity and fame.
- (iii) The perception of authenticity may also relate to similarities in age, fashion, and interests. While young audiences perceive SMI as authentic, their grandparents would probably come to a different conclusion watching the same content. Those who grew up in the 1970s may still perceive the stars from back then as being more authentic and relatable.

Moreover, Gaenssle & Budzinski (2021) identify two more aspects considerably deviating from the legacy media: (iii) algorithm management and (iv) upload strategies. The two refer to the behavioral scope of SMI.

- (iv) One of the most crucial tasks in the social media ecosystem is managing search and recommendation algorithms. Most platforms push successful content that is liked and shared by consumers. SMI need to adjust uploads (e.g., hashtags, thumbnails, titles, and tags) according to platform conditions and for consumers to find. The more people talk about it, the easier it is to find, and the stronger it is pushed by algorithms. This eventually leads to snowball effects of self-propelling success (i.e., network effects) à la Adler (1985). Understanding the platform’s system and strategically using algorithms to place content is necessary. The popularity of content plays a vital role for consumers who prefer content that others also like (Jung & Nüesch, 2019).

- (v) SMI possess autonomy over their content creation and publishing without external influence (i.e., no traditional gatekeepers handle it for them). However, they are accountable for the success of their content and scheduling efficacy. They need to optimize upload frequencies and provide enough content to keep the audience's attention afloat. Managing their own publication frequency is a unique SMI feature. Traditional stars and creative creators commonly did not have to power to do so. It is also a challenge to continuously create new content and put it online. Moreover, empirical evidence shows that providing too much content (i.e., spamming your audience or risking quality losses trading-off with quantity increases) can also adversely affect the success (Budzinski & Gaenssle, 2020).

Summing up, SMI who want to stand out among the crowd need to self-reliantly (i) reach audience attention through content creations, (ii) build a growing fan base, and (iii) maintain the growth of the audience. These features are unique to social media and complement traditional superstar mechanisms.

3.4 Social Media Ecosystem and Competition Dynamics: A new Industry?

How do SMI liaise with legacy media and how does this affect neighboring media industries?

Social media is sometimes described to be driven by intrinsic motivation, engagement, and interactivity (Burgess & Green, 2018). "Creators have harnessed these [social media] platforms to generate significantly different content, separate from the century-long model of intellectual property control and exploitation in the legacy content industries" (Cunningham & Craig, 2019, p. 4). Add to this the technological differences following the digitization of all levels of the supply chain and the question arises whether SMIs and/or the platforms form a new industry, which can and should be viewed to be distinct from the legacy media industries. From an economic perspective, an industry comprises horizontally all suppliers who experience competitive pressure from each other and vertically all supply chain stages that contribute to the overall good. Within an industry, goods may be heterogeneous, and several geographic or product-related markets may be covered. Statistical bureaus and authorities have developed various industry classifications for the purpose of aggregating data; however, these standards are often not driven by economic effects and are very persistent over time. Thus, we do not refer to such normed industry classification here.

With respect to a *horizontal delineation*, visible differences in technology and contents do not suffice to generate a new industry. Instead, the crucial question is whether the needs and preferences that the goods satisfy differ from the existing industries, i.e., no sufficient competitive effects between the traditional and the new suppliers exist. Empirical evidence shows that there are relevant (and complex) competitive effects between audio-visual services such as Netflix (on-demand streaming services), YouTube (social media platform), and TV (linear broadcasting service) (Budzinski et al. 2021). Despite second-screen phenomena and remarkable differences between generations, consumers view the different offerings to compete for their attention both regarding entertainment and more serious information purposes and

actively choose between them. This clearly indicates that suppliers of audio-visual content belong to the same heterogeneous industry irrespective whether they are broadcasting linear programs of legacy media produced content (traditional television), whether they offer libraries of on-demand content that mirrors traditional content in length and shape but provides innovative themes, methods, and topics (streaming services), or whether they offer libraries of on-demand content that is innovative in length and shape (social media platforms). Abstracting from persistence and habituation effects of (very) older generations, these services and their content producers compete for an overlapping audience and their attention.

With respect to a *vertical industry delineation*, the preceding sections already show that there are relevant differences between SMI with “their” supply chains and traditional stars embedded in “their” production structures. Notwithstanding, there are also relevant similarities, on the phenomenon but especially on the effects level. The romantic view of the early days that intrinsically motivated everyday people are non-commercially offering content for everyone must be revised: today’s SMI and social media platform world is populated by highly commercial and highly professional content producers – and the monetization of content (what Cunningham and Craig call exploitation of (intellectual) property) is a (if not *the*) major driving-force.

As such, the differences are more innovations within the industry than the establishment of a new industry – especially since many of the traditional players are big in the business of managing and steering the new content producers through their multi-channel consulting service networks (Gaenssle & Budzinski, 2021). From a technological point of view, a mix between business models (e.g., advertising on Netflix, or interactive features and chats on online-TV) are possible – and likely upcoming. One of the more remarkable changes in the industry is the trend towards ecosystem structures replacing more strictly vertical supply chains both in social media and in the competing streaming services.

4. Economic Value and Welfare Effects of Influencers

4.1 Social Media Influencers, Gatekeepers, and their Welfare “Influence”

What are the (changing) roles of gatekeepers in the social media market and what is the value of SMI?

Social media platforms allow for more direct access to the audience by offering virtually everyone to upload their content at low costs and without in-depth editorial scrutiny and control (but see also section 4.2). This allowed social media content providers to come up and experiment with millions of new content ideas – and many of them would never have passed traditional gatekeepers like editorial boards of television channels, etc. Thus, a huge wave of innovation was created content-wise and while many ideas failed to convince a relevant audience size, many SMS provide content in areas that differ from

traditional media content and sometimes have contributed to pioneering these content areas. Examples include content formats like unboxing (videos of SMS unpacking goods and trying them out), everyday lifestyle videos (teenagers experimenting with make-up and/or giving advice), or gaming (videos of SMS playing video games) that match the preferences of a huge audience. Since the typical content types of traditional media remain present – sometimes in new styles and formats (e.g., comedy and political satire videos) – the diversity of content within and across content categories has increased which represents a positive welfare effect. Similarly, new competitive pressure on settled (and often highly-concentrated) old media industries and “their” stars is uprising.

The quantity expansion due to the (comparatively to the pre-digitization age) low costs of producing and uploading leads to information overload: nobody has an accurate overview of the contents within any field or category as the hourly new uploads alone exceed what viewers can recognize let alone watch. Consequently, gatekeeper power emerges where contents are pre-selected for the audience: mostly by algorithmic search and recommendation systems (see for in-depth analysis: Budzinski, Gaenssle, & Lindstädt-Dreusicke, 2022). Only those social media content providers who make it through the algorithms and get a spot among top search and recommendation results are perceived by the audience and get a shot at audience building (see section 3.2). Algorithm management like through so-called “collabs” (so-to-say lending their reach to others) or “reactions” (connecting to hot topics) helps content providers to receive attention but there is no path or strategy that guarantees entering the attention of the audience. From a welfare perspective, the (i) individualization and the (ii) data-based preference-orientation of the algorithmic search and recommendation rankings represent an advantage as it (i) allows more offers to reach the audience compared to a one-ranking-fits-all-users system and it (ii) tends to offer the contents more prominently than the users actually want (Budzinski et al., 2022).

Notwithstanding these positive effects, there are also some relevant concerns – apart from user data privacy issues which are located more on the level of the platforms and less on the level of the SMS. A preference-focused, individualized search and recommendation ranking presents content to users that the algorithm considers to be most likely what they want. This may lead to consumption bubbles (Budzinski et al., 2022) i.e., consumers always receive more of the same and never get confronted with alternative content. On the one hand, this may exactly be what users want, but on the other hand, taste-building and -development through getting confronted with unexpected and different content (and finding new content that they like) decreases. For society as a whole, this may promote fragmentation of society – in a cultural sense when we address entertainment content and in a political sense when we focus on news content. The latter also facilitates media bias since recipients who prefer specifically biased news will get more (and more radical variants) of the same and will, in tendency, lose the confrontation with contrasting news.⁴

⁴ Note, however, that the algorithm also provides pluralistic news if this is what the user wants (as estimated by the algorithm). Thus, the extend of the phenomenon is controversially discussed in the literature and it may be

Furthermore, there may be biases in the input of the algorithms and the algorithms themselves. If advertising plays an important role (see Section 2.2 on revenue models), commercial media bias in the sense of “don’t be critical with your sponsors” may happen both already on the content provider level, i.e. by the SMS themselves, and during the selection by the algorithms. Moreover, some studies show tendencies of platform algorithms to promote specific content over others, irrespective of consumer preferences. The necessity for SMS to manage the algorithms (see Section 2.3) may then backfire on the contents which get adapted to this bias to have a better chance for success.⁵

Another concern goes along with the high importance of advertising revenues for many (types of) SMS. The welfare effects of advertising are generally ambiguous: discovering and learning about products as a positive welfare effect trades off with the persuasion of buying goods that do not match the preferences and may lead to post-consumption cognitive dissonance (inter alia, Bagwell, 2007). SMS content often contains product placement and types of hidden advertising, which may mislead the predominantly (very) young audience into unwanted consumption and financial overstretch. The relevance of this issue strongly differs across formats (while unboxing and gaming are hardly imaginable without an advertising effect of the underlying products, comedy, and satire formats or how-to-genres may be significantly less prone to hidden advertising) and platforms.

Eventually, while probably every generation’s new forms of stars and entertainment have met with the older generations’ call for this cultural decay, studies are emerging that show negative externalities from specific types of SMS content on, for instance, educational efforts and learning behavior. Especially, TikTok and the trend towards extremely short videos may systematically train short attention spans which contrast competencies that are required by the labor market. On the other hand, if consumers demand new content with increasing frequency (because they get bored quickly and/or quickly abandon longer content), then this may be profitable for the media industries who can produce and sell more units arguably on lower costs per unit. So far, there is no research on the net effects that accurately weighs the countervailing effects.

4.2 (Media) Regulation and Rules for Marketing and Distribution

What regulations affect the digital space and SMI?

While traditional media channels have been quite comprehensively regulated in most countries, the internet escaped media regulation for a long time and, thus, social media content providers were able to develop their business on a comparatively free marketplace. Recently, however, attempts to regulate social media are becoming widespread. In authoritarian countries, this often is related to suppressing the

more relevant for further radicalising already one-sided users than for biasing the majority (Gentzkow and Shapiro, 2011; Schnellenbach, 2017; Zollo et al., 2015).

⁵ Another typical concern is self-preferencing (Bougette, Budzinski, & Marty, 2022), which may affect SMS in the future as well if vertical integration might cover the content production market stage.

circulation of free speech and opinions, but sometimes also to maintain and secure cultural hegemony of the powerful part of society (for instance, in multi-ethnic societies). In more democratic countries, the regulatory approach more often seeks to balance the frustration of the negative effects with the preservation of the beneficial effects. Usually, the new regulations address the social media platforms and not (directly) the content providers.⁶ Still, regulating the business of social media platforms also affects the business of SMI.

In the European Union, the twin regulations Digital Services Act (DSA) and Digital Markets Act (DMA) were implemented in 2022. While the DMA seeks to prevent certain powerful platform providers to abuse this power against businesses and end users, the DSA intends to better protect consumers online by establishing a transparency and accountability framework for online services, for instance, regarding the moderation of user-generated content and the information distortions caused by algorithm-based ranking services.⁷ The DMA may be helpful for SMI and content providers in general as far as it requires the regulated platform service providers to be transparent about various types of relevant business data. Business users on some (non-social-media) marketplaces were confronted in the past by platforms keeping data about their sales and their customers to the (benefit of) the platform. Otherwise, the DMA mostly relates to other anticompetitive conduct that does not – at least of today – directly relate to SMS. The DSA assigns more responsibility to social media platforms to moderate the content on its platforms, particularly with respect to hate, violence, and other harmful content. While this does imply that the freedom to upload content for SMS gets restricted, the measures of the DSA are focused on issues that hardly affect the most popular formats and contents.

More effects may follow from the DSA approach on algorithmic search and recommendation systems. The regulation stipulates that platforms must inform their users about the functionality of a ranking as well as its main parameters in an easily comprehensible manner. Furthermore, the platform provider must allow users to adjust the relative importance of these main parameters for their individual rankings. Thus, the DSA demands more transparency about how the algorithm ranks recommended content and empowers users to influence these parameters for the recommendation rankings they receive. These stipulations should have a relevant influence on the task of algorithm management that is paramount for SMS in terms of audience building and maintenance (see section 3.2). The transparency requirements imply that all content providers will know more about how the algorithm works which improves algorithm management for everyone but erodes the advantage of those who anticipated the system best so far. A new variable is an option for self-adjustment of parameters by the audience: how many users

⁶ Like all content producers, those on social media platforms fall under general regulations about advertising transparency, youth protection, etc. Since these regulations are typically within national jurisdiction, enforcement on international platforms is a recurrent topic of legal sciences.

⁷ See for a discussion of the DMA, inter alia, Budzinski & Mendelsohn (2022), and for the DSA, inter alia, Budzinski and Karg (2022). The following paragraphs draw on these sources. The DSA seeks to provide a European regulatory framework where so far a kaleidoscope of national regulations experienced difficulties in enforcement and effectiveness (see preceding footnote).

will actually engage in this? And how will it change the working of the algorithms? This may offer a new dimension of algorithm management.

The DSA additionally requires “very large” (i.e., with at least 45 million active users per month in the EU) platforms to offer to users at least one option for its ranking services that do not rely on personalized user data. Thus, users will receive at least one out of the following three options in addition to the algorithmic ranking: (i) an editorial choice ranking (resembling the pre-digital media times with powerful editorial boards as gatekeepers), (ii) a pure popularity ranking (without adjustment to the individual preferences of the user in question), or (iii) a random ranking.⁸ Since (iii) quickly leads to useless rankings and (i) requires expensive manpower, (ii) may be the most likely option. If many users actually choose this option, then this will considerably reinforce superstar effects in social media markets since now the same most popular mainstream content will be recommended to everyone (who chose this option) without deviation. At the same time, it is likely to have a decreasing effect on diversity. How many users will choose the mandatory non-personalized option remains to be seen.

5. Conclusion

The times they are a-changin’?

Social media stardom and platforms at first sight look like a completely new phenomenon with its significant innovations in technologies and contents leading to the reasonable question whether a new industry is emerging. A deeper analysis of the modern structures of social media and its creators, businesses, and platforms (as maybe opposed to the romantic beginner years) reveals that indeed there are new features and new economic phenomena and effects. However, not everything is new or different. Behind the veil of the new, effects and patterns (and players) of traditional industries are persisting, partly in new clothes, partly as they always were. Distinguishing what is *truly* new from what is well-known but in *new disguise* and from what is *as it always was* is important for a differentiated understanding and view on social media and SMIs. Table 2 summarizes the findings of such analyses reported in the preceding sections.

⁸ Or platform providers may innovate and offer something unexpected.

Table 2: Social Media vs. Traditional Stardom

(I) Unchanged	(II) Partly Different	(III) Novel
Talent (2.1)	Network effects <i>(stronger)</i> (2.1)	Payment/Revenue Systems (2.2, 3.1)
Market Concentration (2.1)	Role of Gatekeepers <i>(no complete omission of gatekeepers, upcoming new ones)</i> (3.2, 3.3, 4.1)	Algorithm Management (3.3)
Industry (3.4)	Specific Investments and Audience Building <i>(more self-reliant, within the stars influence)</i> (3.2)	Upload Strategies (3.3)
Perceived Authenticity: “Only” Ordinary People (3.3)	Perceived Authenticity: Accessibility and Star-Fan Interaction <i>(lower cost, higher frequency)</i> (3.3)	

Source: Modified from Gaenssle & Budzinski (2021: 97). See there for the aspects that are only sketched in this chapter

For the media industry – more precisely for the audio-visual content media industry – the emergence of SMIs and social media networks means the entry of radically-innovative competitors that compete for their audience – co-evolving with another new entry: the on-demand streaming services. Thus, the media industry is becoming richer and more heterogeneous, which allows more consumers to find what they really want but, of course, challenges old business models and creates pressure to innovate and/or adapt. At the time of writing, dynamics in this market are high and intensive with legacy media in full swing to respond to the double challenge of social media platforms and on-demand streaming services. This includes a wave of – especially vertical – integration (Stöhr et al. 2020) as well as the parallel experimentation with new concepts and the mixture and convergence of existing formats: advertising-based elements in Netflix, paid-for content on YouTube, new mixtures of advertising and contents, etc. It is likely that the (audio-visual) media industry will keep oscillating between innovation, convergence, and (more-and-more) consolidation in the anticipatable future, thus offering ongoing need for research. At the same time, regulation is tightened and calls for limiting commerciality and advertising influence on all types of media is increasing – as are concerns that the currently high competition intensity may tip into an ecosystem dominated by one or few big players (section 4). The role of both legacy media and SMIs will be further shaped by their competitive interaction, offering both incentives to converge

(i.e., conquering the others' market segments) and differentiate (i.e., looking for and creating new niches). Altogether, this indicates high dynamics and ongoing change *within* the media industry – but not so much the emergence of a new (proto-)industry. Fundamentally, the same entertainment needs and preferences of the consumers are served – be it by *Ryan's World* (YouTube), be it by *Drive-to-Survive* (Netflix) or be it *The Office* (NBC) as a television show.

References

- Adler, M. (1985). Stardom and Talent. *The American Economic Review*, 75(1), 208–212.
- Armstrong, M. (2006). Competition in two-sided markets. *The RAND Journal of Economics*, 37(3), 668–691.
- Audrezet, A., Kerviler, G. de, & Guidry Moulard, J. (2020). Authenticity under threat: When social media influencers need to go beyond self-presentation. *Journal of Business Research*, 117, 557–569. <https://doi.org/10.1016/j.jbusres.2018.07.008>
- Bagwell, K. (2007). The Economic Analysis of Advertising. In R. Schmalensee (Ed.), *Handbooks in economics: Vol. 10. Handbook of Industrial Organization* (pp. 1701–1844). Amsterdam: Elsevier.
- Bougette, P., Budzinski, O., & Marty, F. (2022). Self-Preferencing and Competitive Damages: A Focus on Exploitative Abuses. *The Antitrust Bulletin*, 67(2), 190–207. <https://doi.org/10.1177/0003603X221082757>
- Breves, P. L., Liebers, N., Abt, M., & Kunze, A. (2019). The perceived fit between Instagram influencers and the endorsed brand: How influencer–brand fit affects source credibility and persuasive effectiveness. *Journal of Advertising Research*, 59(4), 440–454.
- Brown, A. (2022). Forbes: Highest paid YouTube stars 2021. Retrieved from <https://www.forbes.com/sites/abrambrown/2022/01/14/the-highest-paid-youtube-stars-mrbeast-jake-paul-and-markiplier-score-massive-paydays/>
- Budzinski, O., & Gaenssle, S. (2020). The Economics of Social Media (Super-)Stars: An Empirical Investigation of Stardom and Success on YouTube. *Journal of Media Economics*, 31(3-4), 75–95. <https://doi.org/10.1080/08997764.2020.1849228>
- Budzinski, O., Gaenssle, S. & Lindstädt-Dreusicke, N. (2021). The battle of YouTube, TV and Netflix: an empirical analysis of competition in audiovisual media markets. *SN Business & Economics*, 1(9). <https://doi.org/10.1007/s43546-021-00122-0>
- Budzinski, O., Gaenssle, S., & Lindstädt-Dreusicke, N. (2022). Data (R)Evolution –The Economics of Algorithmic Search and Recommender Services. In S. Baumann (Ed.), *Handbook of Digital Business Ecosystems* (349-366). Cheltenham: Elgar. <https://doi.org/10.4337/9781839107191.00031>
- Budzinski, O., & Karg, M. (2022). Algorithmic Search and Recommender Systems in the Digital Services Act. *CPI TechREG Chronicle*, forthcoming.

- Budzinski, O., & Kuchinke, B. A. (2020). Industrial organization of media markets and competition policy. In B. von Rimscha (Ed.), *Handbook management and economics of communication*. DeGruyter.
- Budzinski, O., & Mendelsohn, J. (2022). Regulating Big Tech: From Competition Policy to Sector Regulation? *ORDO*, Vol. 71, forthcoming.
- Burgess, J., & Green, J. (2018). *Youtube: Online Video and Participatory Culture. Digital Media and Society*. Newark: Polity Press.
- Cunningham, S., & Craig, D. R. (2019). *Social media entertainment: The new intersection of Hollywood and Silicon Valley*. University Press
- Enke, N., & Borchers, N. S. (2022). Social Media Influencers in Strategic Communication: A Conceptual Framework for Strategic Social Media Influencer Communication. In N. S. Borchers (Ed.), *Social media influencers in strategic communication*. New York, London: Routledge Taylor & Francis Group.
- Evans, D. S. & Schmalensee, R. (2007). Industrial organization of markets with two-sided platforms. *Competition Policy International* 3(1). 151–179.
- Franck, E., & Nüesch, S. (2007). Avoiding ‘StarWars’ – Celebrity Creation as Media Strategy. *KYKLOS*, 60(2), 211–230.
- Gaenssle, S. (2021). Attention Economics of Instagram Stars: #Instafame and Sex Sells? *Ilmenau Discussion Papers*, 27(150), 1–23.
- Gaenssle, S., & Budzinski, O. (2021). Stars in social media: new light through old windows? *Journal of Media Business Studies*, 18(2), 79–105. <https://doi.org/10.1080/16522354.2020.1738694>
- Gentzkow, M., & Shapiro, J. M. (2011). Ideological Segregation Online and Offline *The Quarterly Journal of Economics*, 126(4), 1799–1839. <https://doi.org/10.1093/qje/qjr044>
- Gräve, J.-F. (2017). Exploring the Perception of Influencers Vs. Traditional Celebrities. In Association for Computing Machinery (Ed.), *Proceedings of the 8th International Conference on Social Media & Society - #SMSociety17* (pp. 1–5). New York, New York, USA: ACM Press. <https://doi.org/10.1145/3097286.3097322>
- Hoeghele, D., Schmidt, S. L., & Torgler, B. (2014). Superstars as Drivers of Organizational Identification: Empirical Findings from Professional Soccer. *Psychology & Marketing*, 31(9), 736–757. <https://doi.org/10.1002/mar.20731>
- Jin, S. V., Muqaddam, A., & Ryu, E. (2019). Instafamous and social media influencer marketing. *Marketing Intelligence & Planning*, 37(5), 567–579. <https://doi.org/10.1108/MIP-09-2018-0375>
- Jung, C., & Nüesch, S. (2019). The more others care, the more you share? – Social contagion as a stardom trigger of social media superstars. *Applied Economics*, 51(9), 881–888. <https://doi.org/10.1080/00036846.2018.1497849>

- Kolo, C. (2019). Social Media Celebrities as Digital Media Entrepreneurs: capturing an Emergent Phenomenon. *Journal of Creative Industries and Cultural Studies*, 4, 16–37.
<https://doi.org/10.56140/JOCIS-v4-1>
- Kolo, C., & Haumer, F. (2018). Social media celebrities as influencers in brand communication: An empirical study on influencer content, its advertising relevance and audience expectations. *Journal of Digital & Social Media Marketing*, 6(3).
- Leung, F.F., Gu, F.F. & Palmatier, R.W. (2022). Online influencer marketing. *Journal of the Academy of Marketing Science*. 50(2), 226–251. <https://doi.org/10.1007/s11747-021-00829-4>
- MacDonald, G. M. (1988). The Economics of Rising Stars. *American Economic Review*, 78(1), 155–166.
- Marwick, A. E. (2016). You May Know Me from YouTube: (Micro-)Celebrity in Social Media. In P. D. Marshall & S. Redmond (Eds.), *A companion to celebrity* (pp. 333–350). Chichester West Sussex UK, Malden MA: Wiley Blackwell.
- McIntyre, M. (2023). The 10 Biggest Twitch Donations of All Time, *Gaming Gorilla*,
<https://gaminggorilla.com/biggest-twitch-donations/>
- Rochet, J. & Tirole, J. (2003). Platform competition in two-sided markets. *Journal of the European Economic Association*, 1(4). 990–1029.
- Rochet, J. & Tirole, J. (2006). Two-sided markets: A progress report. *The RAND Journal of Economics*, 37(3). 645–667.
- Rosen, S. (1981). The Economics of Superstars. *The American Economic Review*, 71(5), 845–858.
- Schnellenbach, J. (2017). On the behavioral political economy of regulating fake news. *ORDO*, 68(1), 159–178. <https://doi.org/10.1515/ordo-2018-0008>
- Shareef, M. A., Kapoor, K. K., Mukerji, B., Dwivedi, R., & Dwivedi, Y. K. (2020). Group behavior in social media: Antecedents of initial trust formation. *Computers in Human Behavior*, 105, 106225.
<https://doi.org/10.1016/j.chb.2019.106225>
- Simao, K. (2020). 10 Supermodels Who Were Discovered on Instagram. *The Talko*,
<https://www.thetalko.com/models-found-over-social-media/>.
- Stöhr, A., Noskova, V., Kunz-Kaltenhäuser, P., Gaenssle, S. & Buzdinski, O. (2020). Happily Ever After? - Vertical and Horizontal Mergers in the U.S. Media Industry. *World Competition*, 43(1). 135-161.
- Vrontis, D., Makrides, A., Christofi, M., & Thrassou, A. (2021). Social media influencer marketing: A systematic review, integrative framework and future research agenda. *International Journal of Consumer Studies*, 45(4), 617–644. <https://doi.org/10.1111/ijcs.12647>

Wies, S., Bleier, A., & Edeling, A. (2023). Finding Goldilocks Influencers: How Follower Count Drives Social Media Engagement. *Journal of Marketing*, 87(3), 383–405. <https://doi.org/10.1177/00222429221125131>

Zollo, F., Bessi, A., Del Vicario, M., Scala, A., Caldarelli, G., Shekhtman, L., Quattrociocchi, W. (2015). *Debunking in a World of Tribes*. arXiv. <https://doi.org/10.48550/arXiv.1510.04267>

Recent Discussion Papers (more <https://www.tu-ilmeneau.de/iedp>)

- Oliver Budzinski & Annika Stöhr: Energieversorgungssicherheit als Gemeinwohl: Auswirkungen des Instrumentes Ministererlaubnis, Mai 2023
- Michael Stützer: Entrepreneurship Culture: Aggregate Trait or Collective Programming of the Mind?, April 2023
- Oliver Budzinski, Arne Feddersen & Philipp Kunz-Kaltenhäuser: Zwischen Wettbewerbsorganisation und Wettbewerbsverzerrungen - Regelsetzungen durch euroäische Fußballverbände, Februar 2023
- Oliver Budzinski: (Sports) Economics Upside Down? - A Comment on the Advocate General Opinion in European Super League versus UEFA/FIFA, February 2023
- Simon Bruhn & Thomas Grebel: Allocative Efficiency, Plant Dynamics, and Regional Productivity: Evidence from Germany, February 2023
- Oliver Budzinski, Sophia Gaenssle & Daniel Weimar: Disentangling Individual Biases in Jury Voting: An Empirical Analysis of Voting Behavior in the Eurovision Song Contest, January 2023
- Philipp Kunz-Kaltenhäuser, Sophia Gaenssle, Oliver Budzinski: Differences in the Voting Patterns of Experts, Peers, and Fans - Analyzing the NFL's All-Star Team Selections, January 2023
- Thomas Grebel, Rohidul Islam: Endogenous Cap Reduction in Emission Trading Systems, December 2022
- Oliver Budzinski & Juliane Mendelsohn: Regulating Big Tech: From Competition Policy to Sector Regulation? (Updated October 2022 with the Final DMA), October 2022
- Björn A. Kuchinke, Jürgen Rösch: Die Rolle des öffentlich-rechtlichen Rundfunks im Zeitalter von TikTok: Ökonomische Anmerkungen, September 2022
- Oliver Budzinski & Arne Feddersen: Should Organizing Premier-Level European Football Be a Monopoly? And Who Should Run It? - An Economists' Perspective, August 2022
- Oliver Budzinski, Arne Feddersen & Philipp Kunz-Kaltenhäuser: Demand for TV Broadcasts of UEFA Champions League Games in Danish Television – The Impact of Uncertainty of Outcome, Stardom, and Local Heroes, August 2022
- Andreas Schöne & Philipp Kunz-Kaltenhäuser: Track Access Charges in the European Union Railroad Sector: A Consideration of Company Organization and Institutional Quality, July 2022