

Opinion Trumps Facts: How entrepreneurial entrants shape the business of political news

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Entrepreneurship can be a powerful force for progress. Startups increase product variety (e.g., Kirzner, 2015), lower prices (e.g., Porter, 1980), introduce new business models (e.g., Teece, 2010), and commercialize new innovations (e.g., Schumpeter, 1911). Entrepreneurs often disrupt industries by serving unmet needs not addressed by the incumbents, either because incumbents lack technological capabilities, are too focused on existing customers, or have weak incentives to innovate (Christensen, 1997). Prior literature has highlighted that when entrepreneurs address unmet needs, they can sometimes create significant externalities with unintended consequences for customers, the supply chain, and the natural environment (Baumol, 1990; Castellaneta et al., 2020). Such externalities are particularly consequential in industries providing products that are foundational for society, such as education, healthcare and media.

The media, for instance, is tasked with providing citizens with information to make significant economic, political, and social decisions. In most democracies, for-profit companies supply this information alongside non-profits and government-supported organizations. These businesses must make strategic choices in response to competition and entry while continuing to provide this socially consequential product. News organizations serve broad audiences, offering a mix of content ranging from investigative reports to opinions and editorials to sports and business.

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Over the last 30 years, entry barriers have declined in the news industry. The digitization of news (the shift from print to online) and the rise of social media as a global distribution and discovery channel have created bountiful opportunities for media entrepreneurs like Vox or Breitbart, small digital-first news outlets, to compete with storied news organizations like the Washington Post and The Wall Street Journal. Some commentators have lauded this democratization of media as a welcome challenge to the traditional “gatekeepers¹,” ushering in new voices and perspectives that bring in underserved audiences. Others argue that the declining barriers to entry have resulted in lower quality information. These phenomena have arguably led to decreased trust in media and increased political polarization².

We investigate the drivers of these trends by analyzing entrepreneurial entry and the response of incumbents in the political news business. A key variable determining the structure of news organizations is distribution costs; historically, these included printing and delivering newspapers. When distribution costs are high, news organizations bundle different kinds of content, including facts about politics, business, sports, and varying opinions across the ideological spectrum. The significant economies of scale in the news business led to the dominance of sizeable national newspaper chains and a vibrant collection of local newspapers with broad topical coverage targeting geographically bounded markets.

Technological changes, namely the digitization of news and the increasing role of social media, have dramatically lowered the minimum efficient scale for news organizations. How should this transition influence business models and market structure in the news business? On one hand, it created lower barriers to entry and flooded the media landscape with new entrants. Unlike the ‘general interest’ newspapers of an earlier era, the modern media entrepreneur has a strategic choice. What kind of news product can be produced at the lowest cost and attract the highest demand?

Popular news categories such as politics, business, and sports content generally come in two varieties: facts and opinion. Facts are expensive. The process of researching and report-

¹<https://www.theguardian.com/media/2016/jul/12/how-technology-disrupted-the-truth>

²<https://www.brookings.edu/articles/misinformation-is-eroding-the-publics-confidence-in-democracy/>

ing news is labor-intensive and takes time. Political news is often coupled with commentary on trending topics to provide readers with a point of view and a context within which to interpret the facts. Producing opinions is less costly than generating facts, but it relies on facts to be reported in the first instance. This dynamic creates a complementary relationship between the production of facts and opinion.

Startups are often resource-constrained, and given the underlying economics of the news business, they should be less likely to invest in generating facts—instead, favoring opinion. Legacy news organizations thus face an interesting choice. They can either increase the level of opinion of their news stories over time if consumers prefer opinion and engage with it more intensively. Alternatively, incumbents might be unable, due to inertia, or unwilling, due to fears about cannibalizing their print editions and reputations, to respond to the threat posed by new entrants. Incumbents could also ‘double-down’ on fact production to differentiate themselves from their opinionated and fact-free competitors. How this strategic interaction between entrants and incumbents unfolds has broad implications for business and society and depends on two key factors. Is there truly a significant unmet need for opinionated news? Will these needs be met not only by new entrants but also by incumbents shifting their content strategies? If yes, facts will be overwhelmed by opinion. This dynamic could reduce the quality of information available to citizens and undermine the crucial role of media in democratic societies.

We study how these competitive dynamics unfold through a large empirical study of the political news business; we demonstrate how new entrants’ strategies and incumbents’ responses can create these unintended consequences. Using data from *NewsAPI.ai*, we analyze over 5 million digital political news articles produced by 1246 U.S.-based media organizations from 2014-2021. Each article is timestamped and tagged with its corresponding event, allowing us to measure the time-varying level of competition *within* each event. To measure product variety, we train a neural network model³ to predict the level of opinionation of all

³To generate labels for our training dataset, we took a random sample of 1000 news articles and asked human evaluators to rate on a scale of 1 to 5 “the extent to which the author is expressing their own opinion

articles in our dataset from the BERT embeddings of the article text. Since we are interested in comparing entrants and incumbents, we identify each firm’s founding year in our dataset by triangulating several sources.⁴ Summary statistics are presented in Table 1.

Table 1: Summary Statistics at the Article level

	Count	Mean	St.Dev.	Min	Max
Opinion	5374775	0.402	0.251	0.092	0.935
Entrant (< 10 years old)	5374775	0.112	0.315	0.000	1.000
Competition	5374775	40.668	113.293	0.000	2564.000
Competition from Entrants	5374775	5.156	15.864	0.000	511.000
Competition from Incumbents	5374775	35.513	98.621	0.000	2056.000
Article Year	5374775	2017.139	2.127	2014.000	2021.000
Number of Events	5374775	0.414	0.205	0.001	1.715
Observations	5374775				

Our analysis reveals several new and important insights. Our first finding is that younger firms produce significantly more opinionated news than incumbents. In particular, we find that a typical article produced by entrants (firms less than ten years old at the time of publication) is 6.7% more opinionated on average, even after controlling for events and firm size. Second, we find evidence that within an event, as competition increases (defined as the number of articles already covering the event not written by the focal firm), both incumbents and entrants are increasingly likely to produce more opinionated articles. When we use the number of new events reported on at $t - 1$ to instrument for the competition within an event at time t , we find evidence that the level of opinion increases faster with competition for incumbent firms compared to entrants. Furthermore, when we distinguish between competition from incumbents and competition from entrants, we find evidence that predominantly entrants drive incumbents to produce more opinion. We present these results in Table 2 and Figure 1.

in this article”. We collected, on average, ten scores per article, which we then de-meaned for each evaluator to account for response bias. The model is based on the infrastructure developed by (Masclans et al., 2024).

⁴We first used the ChatGPT4.0 API to identify firm founding years. A dedicated RA then manually validated these using the firms’ official websites, LinkedIn profiles, Crunchbase, and the Wayback Machine.

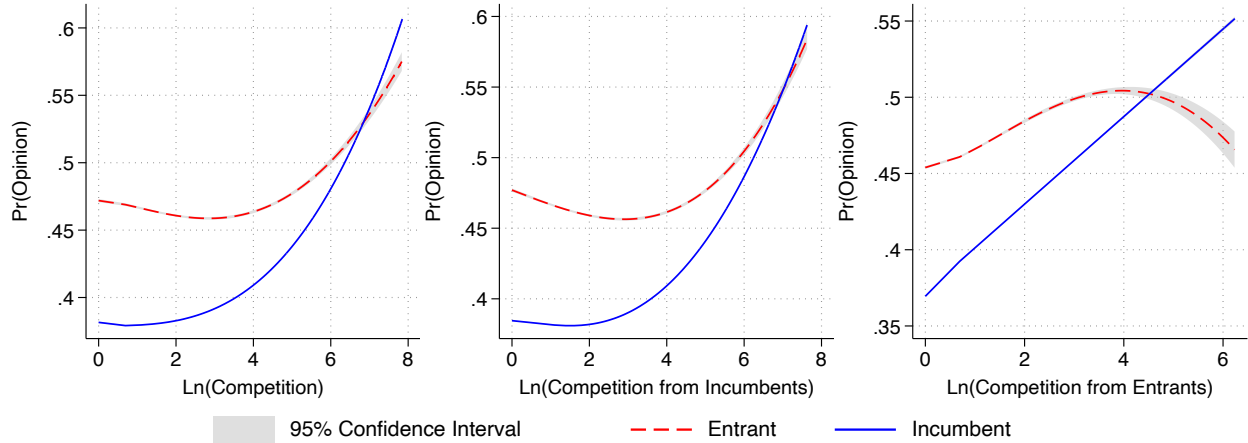
Table 2: Entrants are more likely to produce opinionated news

	(1)
	Opinion
Entrant (< 10 years old)	0.026** (0.011)
Ln(Annual Article Count)	-0.007** (0.003)
Constant	0.459*** (0.024)
Event FE	Yes
Observations	5015982
Adj R-squared	0.558

* p<.1, ** p<.05, *** p<.01

Standard errors in all models are clustered at the event and firm levels.

Figure 1: The effect of competition on the opinionation of news



Notes: This figure is produced using the *spfitci* package in stata, which calculates the prediction for *Opinion* from an estimation of a fractional polynomial of $\ln(\text{Competition})$ and plots the resulting curve along with the confidence interval of the mean.

Our findings offer three distinct contributions. First, we explain why entrepreneurial entry can have unintended consequences. Second, we offer a business strategy perspective on why entrants in political news specialize in opinionated content. Finally, we develop an article-based measure of their content to offer a granular look at the entry strategies of new firms in the media business.

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